Southern Arc
MINERALS INC.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## FOR THE THREE MONTHS ENDED
## SEPTEMBER 30, 2013

*(Unaudited - Expressed in Canadian dollars)*

## NOTICE OF NO AUDITOR REVIEW OF THESE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the "Company") for the three months ended September 30, 2013, have been prepared by management and are the responsibility of the Company's management and have not been reviewed by an auditor.

**SOUTHERN ARC MINERALS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | | September 30, 2013 | | June 30, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | $ | 4,926,705 | $ | 12,866,306 |
| Receivables | | 33,075 | | 16,233 |
| Prepaid expenses | | 87,730 | | 76,648 |
| Assets held for sale (Note 12) | | 3,585,229 | | 3,664,305 |
| | | 8,632,739 | | 16,623,492 |
| **Investment in associates** (Note 3) | | 7,385,428 | | - |
| **Deposit** (Note 4) | | - | | 865,000 |
| **Property, plant and equipment** (Note 5) | | 143,553 | | 181,246 |
| **Exploration properties** (Note 6) | | 102,068 | | 102,068 |
| **Loans receivable** (Note 6) | | 411,400 | | 420,480 |
| **Total Assets** | **$** | **16,675,188** | **$** | **18,192,286** |
| **LIABILITIES AND EQUITY** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | 478,184 | $ | 549,727 |
| Accounts payable and accrued liabilities (Note 12) | | 8,168 | | 13,403 |
| | | 486,352 | | 563,130 |
| **Equity** | | | | |
| Capital stock (Note 7) | | 74,891,487 | | 74,891,487 |
| Treasury stock (Note 7) | | (1,170,000) | | (1,170,000) |
| Share-based payment reserve (Note 7) | | 11,869,306 | | 11,841,937 |
| Deficit | | (67,381,354) | | (65,932,857) |
| Capital and reserve attributable to shareholders of Southern Arc Minerals Inc. | | 18,209,439 | | 19,630,567 |
| Non-controlling interest | | (2,020,603) | | (2,001,411) |
| Total equity | | 16,188,836 | | 17,629,156 |
| **Total liabilities and equity** | **$** | **16,675,188** | **$** | **18,192,286** |

Nature and continuance of operations (Note 1)
Events subsequent to the reporting period (Note 13)

Approved by the Board of Directors and authorized for issue on November 26, 2013:

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

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

**SOUTHERN ARC MINERALS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

| For the three months ended | September 30, 2013 | September 30, 2012 |
|---|---|---|
| **EXPENSES** | | |
| Office and miscellaneous (Note 10) | $ 233,474 | $ 259,914 |
| Share-based compensation (Notes 7 and 9) | 27,369 | 93,491 |
| Management fees (Note 9) | 219,300 | 216,000 |
| Professional fees | 71,035 | 47,977 |
| Foreign exchange loss | 61,476 | 128,524 |
| Travel | 11,538 | - |
| Investor relations | 34,947 | 14,282 |
| Rent | 27,300 | 23,401 |
| Transfer agent and filing fees | 4,418 | 15,271 |
| Exploration property write-down (Note 5) | 555,309 | - |
| Depreciation | 6,200 | 7,434 |
| **Loss before other items** | **$ (1,252,366)** | **$ (806,294)** |
| **OTHER ITEMS** | | |
| Interest income | 31,594 | 56,327 |
| Loss on investment in associates (Note 3) | (221,830) | - |
| Loss on disposition of equipment | 2,672 | - |
| Impairment of equipment | - | (7,086) |
| Re-measurement of assets held for sale (Note 12) | (77,819) | - |
| | (265,383) | 49,241 |
| **Net and comprehensive loss for the year** | **$ (1,517,749)** | **$ (757,053)** |
| **Comprehensive loss attributable to:** | | |
| Shareholders of Southern Arc Minerals Inc. | $ (1,448,497) | $ (733,069) |
| Non-controlling interests | (69,252) | (23,984) |
| **Net and comprehensive loss for the period** | **$ (1,517,749)** | **$ (757,053)** |
| **Basic and diluted loss per share** | **$ (0.01)** | **$ (0.01)** |
| **Weighted average number of shares outstanding** | 109,214,510 | 109,214,510 |

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

**SOUTHERN ARC MINERALS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

| For the three months ended | September 30, 2013 | September 30, 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net and comprehensive loss for the period | $ (1,517,749) | $ (757,053) |
| Items not affecting cash: | | |
| Share-based compensation | 27,369 | 93,491 |
| Depreciation | 6,200 | 7,434 |
| General exploration | 4,134 | - |
| Exploration property write-down | 555,309 | - |
| Loss on investment in associate | 221,830 | - |
| Re-measurement of assets held for sale | 77,189 | - |
| Impairment on investment in associates | - | 7,086 |
| Gain on disposition of equipment | (2,672) | - |
| Foreign exchange gain | 61,476 | (128,524) |
| Changes in non-cash working capital items: | | |
| Receivables | (16,842) | 1,871 |
| Prepaid expenses | (11,082) | 9,141 |
| Accounts payable and accrued liabilities | (62,963) | 323,676 |
| Net cash used in operating activities | $ (657,801) | $ (442,878) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment in exploration properties | (555,309) | (1,563,999) |
| Purchases of investment in associates | (6,742,258) | - |
| Proceed from disposition of equipment | 18,107 | - |
| Net cash used in investing activities | (7,279,460) | (1,563,999) |
| Effect of exchange rate changes on cash | (2,340) | 128,918 |
| **Change in cash during the period** | **(7,939,601)** | **(1,877,959)** |
| Cash, beginning of the period | 12,866,306 | 22,441,567 |
| **Cash, end of the period** | **$ 4,926,705** | **$ 20,563,608** |

**Supplemental disclosure with respect to cash flows** (Note 8)

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

**SOUTHERN ARC MINERALS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

| | Attributable to shareholders of Southern Arc Minerals Inc. | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital Stock | Treasury Stock | Share-based Payment Reserve | Deficit | Total | Non-controlling Interest | Total Equity |
| **Balance at June 30, 2013** | **$ 74,891,487** | **$ (1,170,000)** | **$ 11,841,937** | **$ (65,932,857)** | **$ 19,630,567** | **$ (2,001,411)** | **$ 17,629,156** |
| Comprehensive loss for the period | - | - | - | (1,448,497) | (1,448,497) | (69,252) | (1,517,749) |
| Share-based compensation | - | - | 27,369 | - | 27,369 | - | 27,369 |
| Change in non-controlling interest | - | - | - | - | - | 50,060 | 50,060 |
| | - | - | 27,369 | (1,448,497) | (1,421,128) | (19,192) | (1,440,320) |
| **Balance at September 30, 2013** | **$ 74,891,487** | **$ (1,170,000)** | **$ 11,869,306** | **$ (67,381,354)** | **$ 18,209,439** | **$ (2,020,603)** | **$ 16,188,836** |
| **Balance at June 30, 2012** | **$ 74,891,487** | **$ (1,170,000)** | **$ 11,498,915** | **$ (26,255,249)** | **$ 58,965,153** | **$ 354,923** | **$ 59,320,076** |
| Comprehensive loss for the period | - | - | - | (733,069) | (733,069) | (23,984) | (757,053) |
| Share-based compensation | - | - | 93,491 | - | 93,491 | - | 93,491 |
| Change in non-controlling interest | - | - | - | - | - | (17,306) | (17,306) |
| | - | - | 93,491 | (733,069) | (639,578) | (41,290) | (680,868) |
| **Balance at September 30, 2012** | **$ 74,891,487** | **$ (1,170,000)** | **$ 11,592,406** | **$ (26,988,318)** | **$ 58,325,575** | **$ 313,633** | **$ 58,639,208** |

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Southern Arc Minerals Inc. ("Southern Arc" or "the Company") was incorporated in British Columbia, Canada on August 19, 2004. The Company is a natural resource company engaged in the acquisition and exploration of resource properties. To date, the Company has not generated revenues from operations and is considered to be in the exploration stage. The Company's head office is located at Suite 1680 - 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6.

The Company is in the process of exploring and developing its exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration properties 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 consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. Based on current plans, budgeted capital expenditures, and cash requirements, the Company has sufficient cash to finance its planned activities for the 12 months from the date of approval of the financial statements. However, the Company recognizes that planned expenditures may change as new information and opportunities become available and, as a result, it may be required to obtain additional financing. While the Company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future. These consolidated 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 business.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

The Company has used the accounting policies and methods of computation consistent with those used in the annual consolidated financial statements for the year ended June 30, 2013.

These condensed consolidated interim financial statements were approved for issuance by the Company's Board of Directors on November 26, 2013.

### Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments in associates** (continued)

The Company's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Company and its associates are recognised in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognised in the income statement.

**New standards, amendments and interpretations issued**

The accounting policies followed by the Company are consistent with those of the previous financial year except for certain new standards, interpretations and amendments to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that took effect as of January 1, 2013 and were adopted by the Company effective July 1, 2013, following the Company's June 30, 2013 fiscal year-end.

- IFRS 10 - Consolidated Financial Statements. In May 2011, the IASB issued IFRS 10, which replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

- IFRS 11 - Joint Arrangement. In May 2011, the IASB issued IFRS 11, which replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

- IFRS 12 - Disclosure of interest in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

- IFRS 13 - Fair Value Measurement. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

(Expressed in Canadian dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, amendments and interpretations issued** (continued)

- IAS 1 - Presentation of Financial Statements. IAS 1 has been amended to change the disclosure of items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The Company has determined that the amendments to IAS 1 will not have an impact on its consolidated interim financial statements.

## 3. INVESTMENT IN ASSOCIATES

**Eagle Hill Exploration Corporation**

On August 14, 2013, the Company invested $7,324,050 (inclusive of the $865,000 deposit paid in June 2013) to acquire 97,654,000 units of Eagle Hill Exploration Corporation ("Eagle Hill") by way of private placement at a price of $0.075 per unit. Each unit comprises one common share of Eagle Hill and one half share purchase warrant, with each whole warrant entitling the holder to acquire a further common share of Eagle Hill at a price of $0.10 per share for a period of four years. Eagle Hill is a mineral exploration company focused on advancing the Windfall Lake Gold Project located in the Abitibi Gold Belt in Quebec, Canada. Eagle Hill is listed on the TSX Venture Exchange ("EAG") and on the OTCQX International Exchange ("EHECF").

As at September 30, 2013, the Company holds a 26.14% equity interest in Eagle Hill, which is accounted for using the equity method, and the Company adjusts its associate's financial results where appropriate to give effect to uniform accounting policies. Summarized financial information for Eagle Hill is as follows:

| | | September 30, 2013 |
|---|---|---|
| Revenues from August 15, 2013 to September 30, 2013 | $ | - |
| Net losses from August 15, 2013 to September 30, 2013 | | (221,830) |
| Assets | | 30,330,764 |
| Liabilities | $ | (4,392,425) |

The carrying value of Eagle Hill is as follows:

| | | September 30, 2013 |
|---|---|---|
| Cost of investment in Eagle Hill on August 14, 2013 | | |
| Purchase of 97,654,000 units of Eagle Hill | $ | 7,324,050 |
| Acquisition-related costs | | 283,208 |
| The Company's share of net losses of Eagle Hill | | (221,830) |
| Cost of the Company's investment in Eagle Hill at September 30, 2013 | $ | 7,385,428 |

The quoted market value of the Company's investment in Eagle Hill at September 30, 2013, was $11,718,480 based on the closing share price.

**Nickel Oil and Gas Corp.**

At December 31, 2011, the Company concluded that the decline in the value of its equity investment in Nickel Oil & Gas Corp. ("Nickel"), due to continued low natural gas prices, was other than temporary. Therefore, the Company wrote the remaining value of the investment down to $nil and recorded an impairment loss of $305,582 during the year ended June 30, 2012. As at September 30, 2013 and June 30, 2013, the Company held 15.3 million Nickel shares (37.6% of Nickel's outstanding shares) with a carrying value of $nil (June 30, 2012: $nil).

(Expressed in Canadian dollars)

## 4. DEPOSIT

During the year ended June 30, 2013, the Company advanced $865,000 to Eagle Hill in the form of a promissory note (the "Deposit") repayable by June 26, 2014 with an annual interest rate of 8%. On August 15, 2013, the Company invested $7,324,050 (inclusive of the $865,000 deposit paid in June 2013) to acquire 97,654,000 units of Eagle Hill by way of private placement at a price of $0.075 per unit.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Telephone Equipment | Vehicles | Furniture | Computer | Field Equipment | Leasehold Improvement | Total |
|---|---|---|---|---|---|---|---|
| **Costs** | | | | | | | |
| Balance, June 30, 2012 | $ 26,278 | $ 122,664 | $ 32,939 | $ 107,307 | $ 148,919 | $ 34,716 | $ 472,823 |
| Additions | - | - | - | 2,445 | - | - | 2,445 |
| Reclassified as assets held for sale | - | - | - | (12,220) | (7,873) | - | (20,093) |
| Impairment | (26,278) | - | (6,482) | (13,336) | (13,091) | (34,716) | (93,903) |
| Balance, June 30, 2013 | - | 122,664 | 26,457 | 84,196 | 127,955 | - | 361,272 |
| Additions | - | - | - | - | - | - | - |
| Dispositions | - | (28,495) | - | (1,776) | - | - | (30,271) |
| **Balance, September 30, 2013** | **$ -** | **$ 94,169** | **$ 26,457** | **$ 82,420** | **$ 127,955** | **$ -** | **$ 331, 001** |
| **Accumulated depreciation** | | | | | | | |
| Balance, June 30, 2012 | $ (19,192) | $ (22,241) | $ (8,942) | $ (33,030) | $ (40,868) | $ (3,760) | $ (128,033) |
| Depreciation for the year | - | (30,657) | (4,761) | (20,430) | (31,215) | (2,313) | (89,376) |
| Reclassified to assets held for sale | - | - | - | 7,085 | 5,033 | - | 12,118 |
| Impairment | 19,192 | - | - | - | - | 6,073 | 25,265 |
| Balance, June 30, 2013 | - | (52,898) | (13,703) | (46,375) | (67,050) | - | (180,026) |
| Depreciation for the period | - | (6,896) | (1,654) | (5,260) | (7,997) | - | (21,807) |
| Recapture from dispositions | - | 12,888 | - | 1,497 | - | - | 14,385 |
| **Balance, September 30, 2013** | **$ -** | **$ (46,906)** | **$ (15,357)** | **$ (50,138)** | **$ (75,047)** | **$ -** | **$ (187,448)** |
| **Net carrying value** | | | | | | | |
| Balance, June 30, 2013 | $ - | $ 69,766 | $ 12,754 | $ 37,821 | $ 60,905 | $ - | $ 181,246 |
| **Balance, September 30, 2013** | **$ -** | **$ 47,263** | **$ 11,100** | **$ 32,282** | **$ 52,908** | **$ -** | **$ 143,553** |

During the three months ended September 30, 2013, $15,607 (2012: $19,182) was capitalized to exploration properties.

During the year ended June 30, 2013, computers and field equipment with a net book value of $7,975 were reclassified as assets held for sale.

(Expressed in Canadian dollars)

## 6. EXPLORATION PROPERTIES

| | West Lombok Property, Indonesia | Sumbawa Properties, Indonesia | Total |
|---|---|---|---|
| **Balance, June 30, 2012** | **$ 29,702,681** | **$ 7,727,943** | **$ 37,430,624** |
| Deferred exploration costs incurred during the year: | | | |
| Assaying, surveying and analysis | - | 16,814 | 16,814 |
| Camp construction and other | 1,632,357 | 15,263 | 1,647,620 |
| Drilling | 1,288,717 | 198,785 | 1,487,502 |
| Geological and other consulting | 1,044,485 | 147,519 | 1,192,004 |
| Labour | 1,134,881 | 319,634 | 1,454,515 |
| Total deferred exploration costs | 5,100,440 | 698,015 | 5,798,455 |
| Transfer between subsidiaries | 183,691 | (183,691) | - |
| Deposit for Taliwang transaction | - | (105,120) | (105,120) |
| Exploration property write-down | (34,986,812) | (1,192,789) | (36,179,601) |
| Reclassified as assets held for sale (Note 12) | - | (3,551,210) | (3,551,210) |
| Re-measurement of assets held for sale (Note 12) | - | (3,291,080) | (3,291,080) |
| **Balance, June 30, 2013** | **$ -** | **$ 102,068** | **$ 102,068** |
| Deferred exploration costs incurred during the period: | | | |
| Camp construction and other | 94,689 | - | 94,689 |
| Drilling | 61,887 | - | 61,887 |
| Geological and other consulting | 106,279 | - | 106,279 |
| Labour | 276,750 | 15,704 | 292,454 |
| Total deferred exploration costs | 539,605 | 15,704 | 555,309 |
| Exploration property write-down | (539,605) | (15,704) | (553,309) |
| **Balance, September 30, 2013** | **$ -** | **$ 102,068** | **$ 102,068** |

### Lombok and Taliwang properties

During 2005, the Company acquired its original interests in the Lombok and Taliwang properties by paying $81,572 and issuing 11,500,000 common shares (valued at $862,500) to Sunda Mining Corporation ("Sunda") and by paying $180,000 and issuing 1,000,000 common shares (valued at $125,000) to Indotan Inc. ("Indotan"). The Company also granted a 0.5% net smelter royalty ("NSR") to individuals related to Sunda and a 2% NSR to Indotan on the Taliwang property, and a 0.5% NSR to individuals related to Sunda and a 1% NSR to Indotan on approximately 8% of the current Lombok property, which excludes Block 1 described below.

In August 2005, the Company entered into an agreement with PT Newmont Nusa Tenggara ("Newmont") regarding a property ("Block 1") that now forms the western portion of the Company's West Lombok property (including the Selodong, Mencanggah and Pelangan prospects) and is included in the mining business license ("IUP"). The acquisition was completed through a relinquishment by Newmont of the Block 1 area. The terms of the agreement include granting Newmont a 2% NSR on any mineral production from the Block 1 area and a right of first refusal should the Company wish to introduce a new partner into a development within the area originally covered by Block 1. The Company has the right to repurchase this 2% NSR for US$1 million at any time.

In December 2009, the Company acquired the right to the name Indotan Inc. as well as control over two Singapore companies by issuing 3,500,000 common shares with a value of $2,415,000. The acquisition of the Singapore companies was accounted for using the purchase method and the purchase price of $2,415,000 was allocated to exploration properties. Related to this transaction, the Company received an option to acquire 1,500,000 of these shares at a price of $0.90 per common share during the year ended June 30, 2011. The Company assigned 200,000 of

**6. EXPLORATION PROPERTIES** (continued)

these $0.90 options to a director of the Company as share-based compensation. In June 2011 the Company exercised the remaining 1,300,000 options and currently holds these shares.

During the year ended June 30, 2011, the Company established new 85%-owned Indonesian subsidiaries (PT. Indotan Lombok Barat Bangkit and PT. Indotan Sumbawa Barat) to hold its West Lombok and Taliwang properties, respectively. A 5% carried interest in these companies was owned by the Company's Indonesian joint venture partner, PT Puri Permata Mega ("PT PPM") and a 10% carried interest is owned by the respective local governments.

The Company has advanced loans receivable of $514,250 (US$500,000) (June 30, 2013: $525,600 (US$500,000)) on an unsecured basis and without interest to the Indonesian subsidiary companies as capital contributions on behalf of the Indonesian shareholders, and these funds are to be repaid to the Company from future revenues of the subsidiaries. Of these amounts, $102,850 (US$100,000) (June 30, 2013: $105,120) are classified as assets held for sale (Note 12).

On May 17, 2012, Southern Arc announced that it had increased its interest in the West Lombok and Taliwang projects from 85% to 90% through the acquisition of additional shares in PT Indotan Lombok Barat Bangkit, and PT Indotan Sumbawa Barat from Southern Arc's Indonesian partner, PT PPM. In consideration for transferring its 5% interest in both companies, Southern Arc paid US$1,500,000 and issued 2,250,000 Southern Arc shares at market value of $742,500 to PT PPM. These 5% share acquisitions have been accounted for as acquisition costs of exploration properties.

In December 2012, the Company agreed to sell its 90% interest in the Taliwang project in exchange for US$500,000 and 15 million shares of the acquiring company, Coke Resources Limited ("Coke") for a total estimated transaction value of $3.6 million (A$3 million plus US$500,000). Subsequently, during the quarter ended June 30, 2013, the transaction was renegotiated to change the purchaser to an individual buyer related to Coke and to change the purchase price to a cash payment of US$3.5 million, of which US$100,000 has been received as a non-refundable deposit. As a result of the expected value upon completion of this sale, during the year ended June 30, 2013 the Company recognized a $3,291,080 impairment provision against its book value of the Taliwang property and reclassified its estimated fair value of $3,551,210 as assets held for sale.

During the three-month period ended June 30, 2013, the Company conducted a review of the value of its West Lombok property and determined that its value had been impaired. As a result, the Company wrote down the property value to $nil and recorded an impairment provision of $34,986,812 and a mineral property write-down of this amount during the year ended June 30, 2013.

**East Elang property**

The Company acquired the East Elang property by way of a mining licenses ("KP") that was granted to the Company by the Sumbawa Regency in 2006. The KP was subsequently transitioned into IUP in December 2009.

In October 2010, the Company entered into an option and joint venture agreement with Vale International S.A. ("Vale"), a wholly-owned subsidiary of Vale S.A., regarding the East Elang property. To exercise its option at the East Elang property, Vale had to fully fund the advancement of East Elang, through to and including the completion of a bankable feasibility study, at no cost to the Company as follows:

a) Phase 1 – Vale will fund US$1,200,000 of exploration expenditures within one year from the date the Company receives an exploration activities permit from the Ministry of Forestry for that property. Vale can then elect to proceed to;

b) Phase 2 minimum program – Vale will fund at least US$2,500,000 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 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.

(Expressed in Canadian dollars)

## 6. EXPLORATION PROPERTIES (continued)

If Vale completes a bankable feasibility study within the permitted time frame, Vale will be entitled to receive a 75% interest in the Company's subsidiary PT. Selatan Arc Minerals ("PT SAM"), which holds the IUP for East Elang.

The East Elang property is held by the Company's wholly-owned Indonesian subsidiary, PT SAM. Funds advanced to PT SAM by Vale are recorded as cash and as accounts payable and accrued liabilities in the Company's accounts until such time as the funds are expended on approved exploration activities. As at September 30, 2013, PT SAM held US$77,308 (June 30, 2013: US$93,022) of funds advanced by Vale as cash.

## 7. CAPITAL STOCK AND RESERVES

| | Number of Common Shares | Capital Stock | Number of Treasury Shares | Treasury Stock | Share-based Payment Reserve |
|---|---|---|---|---|---|
| Authorised – an unlimited number of common shares without par value | | | | | |
| Balance as at June 30, 2012 | 109,214,510 | $ 74,891,48 | (1,300,000) | $ (1,170,000) | $ 11,498,915 |
| Share-based compensation | - | - | - | - | 343,022 |
| Balance as at June 30, 2013 | 109,214,510 | 74,891,48 | (1,300,000) | (1,170,000) | 11,841,937 |
| Share-based compensation | - | - | - | - | 27,369 |
| **Balance as at September 30, 2013** | **109,241,510** | **$ 74,891,48** | **(1,300,000)** | **$ (1,170,000)** | **$ 11,869,306** |

### Share options

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange ("TSX-V"). 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 shares on the date of grant. The share options granted are exercisable for a period of up to 10 years. A summary of the Company's outstanding share options granted is presented in the following table.

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at June 30, 2012 (remaining contractual life is 3.05 years) | 9,080,000 | $ 0.82 |
| Granted | 850,000 | 0.25 |
| Cancelled | (150,000) | 0.80 |
| Forfeited | (490,000) | 0.86 |
| Outstanding at June 30, 2013 (remaining contractual life is 2.03 years) | 9,290,000 | 0.76 |
| Forfeited | (25,000) | 0.90 |
| Outstanding at September 30, 2013 (remaining contractual life is 1.77 years) | 9,265,000 | 0.76 |
| Number of options currently exercisable | 8,723,750 | $ 0.79 |

During the period ended September 30, 2013, the Company recorded share-based compensation of $27,369 (2012: $93,791) fair valued using the Black-Scholes option pricing model, as a result of the vesting of options granted in previous period. These amounts were recorded as share-based payment reserve on the statement of financial position.

(Expressed in Canadian dollars)

## 7. CAPITAL STOCK AND RESERVES (continued)

**Share options** (continued)

No options were granted during the three-month period ended September 30, 2013. The weighted average fair value of the options granted during the period ended September 30, 2012 was $0.20 per option.

Option pricing models require the input of subjective assumptions including the expected price volatility and expected option life. Management has calculated expected price volatility using data from the historical share prices of the Company. Changes in underlying assumptions can materially affect the fair value estimates.

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

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Risk-free interest rate | N/A | 1.18% |
| Expected life of options | N/A | 5 years |
| Annualized volatility | N/A | 123.18% |
| Forfeiture rate | N/A | 0.00% |
| Dividend rate | N/A | 0.00% |

At September 30, 2013, the Company had share purchase options outstanding enabling holders to acquire common shares as follows:

| | Number of Shares | Exercise Price | Expiry Date |
|---|---|---|---|
| **Options** | 300,000 | $ 0.25 | November 23, 2013 |
| | 100,000 | $ 0.40 | November 23, 2013 |
| | 350,000 | $ 0.80 | November 23, 2013 |
| | 3,050,000 | $ 0.40 | September 16, 2014 |
| | 2,650,000 | $ 0.80 | July 19, 2015 |
| | 400,000 | $ 2.00 | January 18, 2016 |
| | 300,000 | $ 1.85 | February 11, 2016 |
| | 300,000 | $ 1.70 | June 22, 2016 |
| | 200,000 | $ 1.71 | July 11, 2016 |
| | 200,000 | $ 1.11 | August 17, 2016 |
| | 865,000 | $ 0.90 | November 14, 2016 |
| | 300,000 | $ 0.25 | July 18, 2017 |
| | 250,000 | $ 0.25 | May 10, 2018 |
| | 9,265,000 | | |

**Warrants**

At September 30, 2013 and June 30, 2013, the Company had no share purchase warrants outstanding.

## 8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions during the year:

- At September 30, 2013, the Company included in accounts payable $nil (September 30, 2012: $1,302,334) of exploration expenditures.
- During the three months ended September 30, 2013, the Company received $31,594 (2012: $56,327) of interest income from operating activities.

(Expressed in Canadian dollars)

## 9. RELATED PARTY TRANSACTIONS

### Key management and personnel compensation

Key management personnel include the Directors and other officers of the Company. Key management compensation consists of the following:

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Management fees | $ 219,300 | $ 216,000 |
| Consulting fees | $ 73,300 | $ 97,405 |
| Drilling services | $ 61,931 | $ 131,938 |
| Share-based compensation | $ 16,630 | $ 90,158 |

During the period ended September 30, 2013, the Company paid $219,300 (2012: $216,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. This fee is inclusive of administrative, finance, accounting, investor relations and management consulting fees, as well as certain office expenses.

During the year end June 30, 2011, the Company entered into a contract with a company controlled by a director and officer of the Company for drilling services at the Company's West Lombok property. This contract was awarded under a competitive bidding process and all charges under the contract are considered to be at market rates. During the period ended September 30, 2013, the Company paid a total of $73,300 (2012: $131,938) for drilling services pursuant to the contract.

The above transactions occurred in the normal course of operations and are recorded at the consideration established and agreed to by the related parties.

## 10. OFFICE AND MISCELLANEOUS EXPENSES

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Administrative | $ | 43,083 | $ | 47,472 |
| Consulting | | 23,428 | | - |
| Office expense | | 152,129 | | 189,717 |
| Insurance | | 11,856 | | 14,603 |
| Interest and bank charges | | 2,978 | | 8,122 |
| | $ | 233,474 | $ | 259,914 |

## 11. FINANCIAL INSTRUMENTS

The nature of the Company's operations exposes the Company to credit risk, liquidity risk and market risk, which may have a material effect on cash flows, operations and comprehensive income.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

***Credit risk*** is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets. The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Receivables are amounts receivable from the Canadian federal government for the refundable HST amounts. The credit risk on these amounts is minimal.

(Expressed in Canadian dollars)

## 11. FINANCIAL INSTRUMENTS (continued)

***Liquidity risk*** is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1.

***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. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

***Foreign exchange risk*** **-** The Company's largest non-monetary assets are its exploration interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and risks associated with legal and political issues in a developing-country environment. The Company minimizes cash and monetary assets or liabilities in Indonesia.

At September 30, 2013, the Company had US$354,629 (approximately CDN$364,735) and Indonesian Rupiah ("Rph") 44,795,682 (approximately CDN$3,987) in cash and US$385,543 (approximately CDN$396,530) and Rph 120,183,808 (approximately CDN$10,696) in accounts payable and accrued liabilities. As at September 30, 2013, US$ amounts were converted at a rate of US$0.9722 to CDN$1 and Rph amounts were converted at a rate of Rph 11,236 to CDN$1.

At June 30, 2013, the Company had US$303,817 (approximately CDN$319,373) and Rph 356,087,367 (approximately CDN$37,745) in cash and US$430,344 (approximately CDN$452,377) and Rph 120,419,406 (approximately CDN$12,764) in accounts payable and accrued liabilities. As at June 30, 2013, US$ amounts were converted at a rate of US$0.9513 to CDN$1 and Rph amounts were converted at a rate of Rph 9,434 to CDN$1.

**Fair value**

IFRS requires disclosure about fair market value measurements for financial instruments and liquidity risk using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

- 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.

The fair value of the Company's financial instruments is recognized at fair value on a recurring basis. Financial instruments measured at fair value on September 30, 2013 and June 30, 2013 are summarized in levels of fair value hierarchy as follows:

| September 30, 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Assets | | | |
| Cash | $ 4,926,705 | $ - | $ - |
| June 30, 2013 | | | |
| Assets | | | |
| Cash | $ 12,866,306 | $ - | $ - |

The fair value of the Company's Level 1 financial instruments is approximated by their carrying value as at September 30, 2013 and June 30, 2013 due to their short-term nature.

(Expressed in Canadian dollars)

## 12. ASSETS HELD FOR SALE

The assets related to the Taliwang project have been presented as held for sale following the Company's announcement to sell its 90% interest in the Taliwang project in exchange for US$3.5 million, of which US$100,000 has been received as a non-refundable deposit. The transaction is expected to be completed by late 2013.

Assets of Taliwang project classified as held for sale are as follows:

| | September 30, 2013 | June 30, 2013 |
|---|---|---|
| Exploration properties | $ 3,475,660 | $ 3,551,210 |
| Property, plant and equipment | 6,719 | 7,975 |
| Loans receivable | 102,850 | 105,120 |
| Total | $ 3,585,229 | $ 3,664,305 |

Liabilities of Taliwang project classified as held for sale are as follows:

| | September 30, 2013 | June 30, 2013 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 8,168 | $ 13,403 |
| Total | $ 8,168 | $ 13,403 |

## 13. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Subsequent to the three months ended September 30, 2013, the Company granted 500,000 share options to a director and an officer of the Company, exercisable at $0.10 per share and expiring five years after the date of grant.