



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED  
DECEMBER 31, 2014 AND 2013**

*(Unaudited – Expressed in Canadian dollars)*

**NOTICE TO READER**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three and six months ended December 31, 2014, 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**  
(Unaudited - Expressed in Canadian dollars)

<b>As at</b>	<b>December 31,</b>	<b>June 30,</b>
	<b>2014</b>	<b>2014</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 573,296	\$ 1,643,966
Receivables	876,842	13,601
Prepaid expenses	30,560	31,086
Assets held for sale (Note 10)	-	1,188,021
	1,480,698	2,876,674
<b>Investment in associates</b> (Note 3)	6,036,934	6,258,639
<b>Deposit</b>	20,354	18,731
<b>Property, plant and equipment</b> (Note 4)	27,695	58,736
<b>Exploration properties</b> (Note 5)	102,068	102,068
<b>Loans receivable</b> (Note 5)	116,010	108,831
<b>Total assets</b>	<b>\$ 7,783,759</b>	<b>\$ 9,423,679</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 325,900	\$ 282,729
Accounts payable and accrued liabilities (Note 10)	-	112,118
<b>Total liabilities</b>	325,900	394,847
<b>Shareholders' equity</b>		
Capital stock (Note 6)	74,891,487	74,891,487
Treasury stock (Note 6)	(1,170,000)	(1,170,000)
Share-based payment reserve (Note 6)	11,939,560	11,922,405
Deficit	(75,927,765)	(74,448,441)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	9,733,282	11,195,451
Non-controlling interest	(2,275,423)	(2,166,619)
<b>Total shareholders' equity</b>	7,457,859	9,028,832
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,783,759</b>	<b>\$ 9,423,679</b>

Nature and continuance of operations (Note 1)  
Subsequent event (Note 11)

Approved by the Board of Directors and authorized for issue on February 26, 2015:

**On behalf of the Board of Directors**

“*John G. Proust*” Director

“*David Stone*” Director

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

**SOUTHERN ARC MINERALS INC.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian dollars)

	<b>Three months ended December 31, 2014</b>	Three months ended December 31, 2013	<b>Six months ended December 31, 2014</b>	Six months ended December 31, 2013
<b>Expenses</b>				
Depreciation (Note 5)	\$ 3,914	\$ 9,291	\$ 6,090	\$ 15,491
Consulting	96,480	40,524	148,862	63,952
Office and miscellaneous (Note 9)	83,898	93,085	190,275	303,131
Share-based compensation (Note 6 and 8)	6,777	(12,476)	17,154	14,893
Management fees (Note 8)	227,700	296,700	455,400	516,000
Exploration expenses (Note 5)	164,136	454,339	423,324	1,009,648
Foreign exchange loss (gain)	(20,185)	(54,335)	(60,493)	7,141
Investor relations	1,392	17,536	8,144	52,483
Professional fees	79,416	121,483	92,841	192,518
Rent	28,353	22,784	56,247	50,084
Transfer agent and filing fees	35,079	44,017	36,384	48,435
Travel	17,862	30,737	25,821	42,275
<b>Loss before other items</b>	<b>(724,822)</b>	<b>(1,063,685)</b>	<b>(1,400,049)</b>	<b>(2,316,051)</b>
<b>Other items</b>				
Interest income	2,309	12,202	5,576	43,796
Loss on equity investment (Note 3)	(96,816)	(372,118)	(221,705)	(593,948)
Gain on disposition of equipment	-	(91)	-	2,581
Re-measurement of assets held for sale (Note 10)	174,015	(1,811,277)	91,382	(1,889,096)
	79,508	(2,171,284)	(124,747)	(2,436,667)
<b>Net and comprehensive loss for the period</b>	<b>\$ (645,314)</b>	<b>\$ (3,234,969)</b>	<b>\$ (1,524,796)</b>	<b>\$ (4,752,718)</b>
<b>Comprehensive loss attributable to:</b>				
Shareholders of Southern Arc Minerals Inc.	\$ (626,356)	\$ (3,187,365)	\$ (1,479,324)	\$ (4,635,862)
Non-controlling interests	(18,958)	(47,604)	(45,472)	(116,856)
	<b>\$ (645,314)</b>	<b>\$ (3,234,969)</b>	<b>\$ (1,524,796)</b>	<b>\$ (4,752,718)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of shares outstanding</b>	109,214,508	109,214,509	109,214,510	109,214,510

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

**SOUTHERN ARC MINERALS INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited - Expressed in Canadian dollars)

For the six months ended	<b>December 31, 2014</b>	December 31, 2013
<b>Cash flows from operating activities:</b>		
Comprehensive loss for the period	\$ (1,524,796)	\$ (4,752,718)
Items not affecting cash:		
Depreciation	6,090	15,491
Share-based compensation	17,155	14,893
Exploration property write-off	423,324	1,009,648
Loss on equity investment	221,705	593,948
Remeasurement of held for sale assets	(91,382)	1,889,096
Gain on disposition of equipment	-	(2,581)
Foreign exchange loss (gain)	(60,493)	7,141
Changes in non-cash working capital items:		
Receivables	(10,005)	(33,383)
Prepaid expense	526	17,648
Accounts payable and accrued liabilities	36,429	(130,568)
Net cash used in operating activities	(981,447)	(1,371,385)
<b>Cash flows from investing activities:</b>		
Investment in exploration properties	(398,373)	(874,781)
Purchase of investment in associates	-	(6,742,258)
Proceeds received from asset held for sale	319,860	-
Proceeds (acquisition) of property, plant and equipment	-	19,677
Net cash used in investing activities	(78,513)	(7,597,362)
Effect of exchange rate changes on cash	(10,710)	(29,835)
<b>Change in cash during the period</b>	<b>(1,070,670)</b>	<b>(8,998,582)</b>
Cash, beginning of the period	1,643,966	12,866,306
<b>Cash, end of the period</b>	<b>\$ 573,296</b>	<b>\$ 3,867,724</b>

Supplemental disclosure with respect to cash flows (Note 7)

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

**SOUTHERN ARC MINERALS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited - 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
<b>Balance, June 30, 2014</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,922,405</b>	<b>\$ (74,448,441)</b>	<b>\$ 11,195,451</b>	<b>\$ (2,166,619)</b>	<b>\$ 9,028,832</b>
Comprehensive loss for the period	-	-	-	(1,479,324)	(1,479,324)	(45,472)	(1,524,796)
Share-based compensation	-	-	17,155	-	17,155	-	17,155
Change in non-controlling interest	-	-	-	-	-	(63,332)	(63,332)
	-	-	17,155	(1,479,324)	(1,462,169)	(108,804)	(1,570,973)
<b>Balance, December 31, 2014</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,939,560</b>	<b>\$ (75,927,765)</b>	<b>\$ 9,733,282</b>	<b>\$ (2,275,423)</b>	<b>\$ 7,457,859</b>
<b>Balance, June 30, 2013</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,841,937</b>	<b>\$ (65,932,857)</b>	<b>\$ 19,630,567</b>	<b>\$ (2,001,411)</b>	<b>\$ 17,629,156</b>
Comprehensive loss for the period	-	-	-	(4,635,862)	(4,635,862)	(116,856)	(4,752,718)
Share-based compensation	-	-	14,893	-	14,893	-	14,893
Change in non-controlling interest	-	-	-	-	-	(20,291)	(20,291)
	-	-	14,893	(4,635,862)	(4,620,969)	(137,147)	(4,758,116)
<b>Balance, December 31, 2013</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,856,830</b>	<b>\$ (70,568,719)</b>	<b>\$ 15,009,598</b>	<b>\$ (2,138,558)</b>	<b>\$ 12,871,040</b>

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

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

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#### **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 evaluating 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 twelve months from the date of approval of the consolidated 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 material uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. These condensed consolidated interim 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, 2014, 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, 2014.

These condensed consolidated interim financial statements were approved for issuance by the Company’s Board of Directors on February 26, 2015.

##### **Principles of consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and:

- i) its wholly-owned Canadian subsidiary West Indonesia Mining Holdings Inc.;
- ii) its wholly-owned Singapore subsidiaries: Indotan Lombok Pte. Ltd., East Indonesia Mining Pte. Ltd. and Southern Sunda Mining Pte. Ltd.;
- iii) its wholly-owned Indonesian subsidiary PT. Selatan Arc Minerals;
- iv) its wholly-owned Japanese subsidiary Southern Arc Minerals Japan KK;
- v) its 90%-owned Indonesian subsidiaries: PT. Indotan Lombok Barat Bangkit; and
- vi) its 70%-owned Indonesian subsidiary PT. Selatan Bengkulu Minerals.

Significant intercompany balances and transactions have been eliminated upon consolidation.

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **New standards, amendments and interpretations implemented**

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 IFRIC that took effect as of January 1, 2014 and were adopted by the Company effective July 1, 2014, following the Company's June 30, 2014 fiscal year-end.

- IAS 32 - Financial Instruments: Presentation. The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The Company concluded that the adoption of this standard did not have a material impact on its consolidated financial statements.
- IAS 36 - Impairment of Assets. The amendments to IAS 36 outline the additional disclosures that will be required with regards to the recoverable amount of impaired assets. The Company concluded that the application of this IAS did not have any material impact on the disclosures for the current or prior years, but may affect the disclosures of future transactions or arrangements.
- International Financial Reporting Interpretations Committee Interpretation (IFRIC) 21 - Levies. This interpretation clarifies the accounting treatment for a liability to pay a levy, where a levy is an outflow of economic benefits imposed by governments on entities in accordance with legislation. The Company concluded that the application of this IFRIC did not have any material impact on its consolidated financial statements.

### **New accounting standards and pronouncements issued**

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its consolidated financial statements.

Effective January 1, 2018:

- IFRS 9 - Financial Instruments. This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, derecognition of financial assets and financial liabilities.

## **3. INVESTMENT IN ASSOCIATES**

### **Eagle Hill Exploration Corporation**

On August 14, 2013, the Company invested \$7,324,050 (inclusive of an \$865,000 deposit paid in June 2013) to acquire 4,882,700 units of Eagle Hill Exploration Corporation ("Eagle Hill") by way of private placement at a price of \$1.50 per unit. Each unit comprises one common share of Eagle Hill and one half share purchase warrant, with each whole warrant entitling the Company to acquire a further common share of Eagle Hill at a price of \$2.00 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").



**SOUTHERN ARC MINERALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**3. INVESTMENT IN ASSOCIATES (continued)****Eagle Hill Exploration Corporation (continued)**

On April 8, 2014, the Company invested an additional \$526,316 in Eagle Hill by purchasing 375,940 units at \$1.40 per unit as part of Eagle Hill's flow-through unit offering. Each unit consists of one common share of Eagle Hill and one share purchase warrant where each warrant entitles the Company to acquire one share of Eagle Hill at a price of \$2.00 until April 8, 2016.

On May 9, 2014, the Company purchased an additional 1,000,000 units at \$1.00 per unit for an investment of \$1,000,000. Each unit consists of one common share of Eagle Hill and one share purchase warrant where each warrant entitles the Company to acquire one share of Eagle Hill at a price of \$1.60 until May 8, 2016.

At the period ended December 31, 2014, the Company held a 26.25% (6,258,639 common shares) equity interest in Eagle Hill, which is accounted for using the equity method, and 3,817,289 warrants entitling the Company to acquire an additional 3,817,289 shares of Eagle Hill. Summarized financial information for Eagle Hill is as follows:

	<b>December 31, 2014</b>
Revenue from July 1, 2014 to December 31, 2014	\$ -
Net losses from July 1, 2014 to December 31, 2014	844,589
Assets	37,023,818
Liabilities	(4,121,719)

	<b>December 31, 2014</b>		<b>June 30, 2014</b>	
Balance - beginning of the period	\$	6,258,639	\$	-
Acquisition of investment		-		8,850,366
Acquisition-related costs		-		283,208
Share of loss for the period		(221,705)		(903,215)
Write-down on equity investment		-		(1,971,720)
Balance - end of the period	\$	6,036,934	\$	6,258,639

Although Eagle Hill is accounted for as an equity investment by the Company, it is subject to evaluation of significant and prolonged declines in value. The quoted market value of the Company's investment in Eagle Hill at June 30, 2014 was \$6,258,639 based on the publicly traded closing share price of Eagle Hill at \$1.00. As such, the Company recorded a write-down of \$1,971,720 on June 30, 2014 and will carry its investment in Eagle Hill at market value until such time that the market price rises above the Company's approximate current investment cost. At that time, the Company will determine whether a recovery can be related objectively to an event occurring after the impairment was recognized and only then will the Company record a recovery of the impairment in Eagle Hill in the Statement of Comprehensive Loss. During the three and six months ended December 31, 2014, the Company has not realized any additional impairment from temporary market declines in Eagle Hill's share price.

Subsequent to December 31, 2014, Eagle Hill approved a net consolidation of its issued share capital on the basis of one new common share for twenty old common shares. As such, all of the Company's comparative figures on its investment in Eagle Hill's number of shares and warrants have been restated to reflect the twenty for one net share consolidation.

**SOUTHERN ARC MINERALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**3. INVESTMENT IN ASSOCIATES (continued)****Eagle Hill Exploration Corporation (continued)**

	<b>Number of shares held prior to net consolidation</b>	<b>Number of shares held subsequent to net consolidation</b>
August 14, 2013	97,654,000	4,882,700
April 8, 2014	7,518,797	375,939
May 9, 2014	20,000,000	1,000,000
	125,172,797	6,258,639

**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 June 30, 2014 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, 2013 and June 30, 2012: \$nil).

**SOUTHERN ARC MINERALS INC.**
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**4. PROPERTY, PLANT AND EQUIPMENT**

	Vehicles	Furniture	Computer	Field equipment	Total
<b>Costs</b>					
Balance, June 30, 2013	\$ 122,664	\$ 26,457	\$ 84,196	\$ 127,955	\$ 361,272
Dispositions	(57,007)	(25,546)	(26,537)	(1,944)	(111,034)
<b>Balance, June 30, 2014</b>	<b>\$ 65,657</b>	<b>\$ 911</b>	<b>\$ 57,659</b>	<b>\$ 126,011</b>	<b>\$ 250,238</b>
Additions	-	-	-	-	-
<b>Balance, December 31, 2014</b>	<b>\$ 65,657</b>	<b>\$ 911</b>	<b>\$ 57,659</b>	<b>\$ 126,011</b>	<b>\$ 250,238</b>
<b>Accumulated depreciation</b>					
Balance, June 30, 2013	(52,898)	(13,703)	(46,375)	(67,050)	(180,026)
Depreciation for the year	(17,375)	(5,339)	(14,191)	(30,538)	(67,443)
Recapture from dispositions	24,662	18,213	13,092	-	55,967
<b>Balance, June 30, 2014</b>	<b>\$ (45,611)</b>	<b>\$ (829)</b>	<b>\$ (47,474)</b>	<b>\$ (97,588)</b>	<b>\$ (191,502)</b>
Depreciation for the period	(8,208)	(82)	(7,193)	(15,558)	(31,041)
<b>Balance, December 31, 2014</b>	<b>\$ (53,819)</b>	<b>\$ (911)</b>	<b>\$ (54,667)</b>	<b>\$ (113,146)</b>	<b>\$ (222,543)</b>
<b>Net carrying value</b>					
Balance, June 30, 2014	\$ 20,046	\$ 82	\$ 10,185	\$ 28,423	\$ 58,736
<b>Balance, December 31, 2014</b>	<b>\$ 11,838</b>	<b>\$ -</b>	<b>\$ 2,992</b>	<b>\$ 12,865</b>	<b>\$ 27,695</b>

During the three and six months ended December 31, 2014, \$11,391 and \$24,951 respectively of depreciation (December 31, 2013: \$10,654 and \$26,261) was capitalized to exploration properties.

**5. EXPLORATION PROPERTIES**

	Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Total
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>
Deferred exploration costs incurred during the year:			
Camp construction and other	272,577	99,913	372,490
Geological and other consulting	331,395	15,200	346,595
Labour	732,862	12,365	745,227
Total deferred exploration costs	1,336,834	127,478	1,464,312
Exploration property write-down	(1,336,834)	(127,478)	(1,464,312)
<b>Balance, June 30, 2014</b>	<b>-</b>	<b>102,068</b>	<b>102,068</b>
General exploration costs incurred during the period:			
Camp construction and other	95,916	-	95,916
Geological and other consulting	127,843	-	127,843
Labour	199,565	-	199,565
Total general exploration costs	423,324	-	423,324
Exploration cost write-down	(423,324)	-	(423,324)
<b>Balance, December 31, 2014</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

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#### **5. EXPLORATION PROPERTIES (continued)**

##### **West Lombok property**

The Company holds a 90% interest in the West Lombok property located on Lombok Island, Indonesia. During the year 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 for the year ended June 30, 2013 and 2014.

For the three and six months ended December 31, 2014, the Company wrote down an additional \$164,136 and \$423,324 respectively of exploration costs relating to the West Lombok property that were incurred during the period (December 31, 2013: \$454,339 and \$896,251 respectively).

##### **Taliwang property**

On July 15, 2014, the Company amended the sale agreement and closed the sale of its interest in the Taliwang project. Pursuant to the terms of the final agreement, the Company sold its 90% share of the Indonesian company that owns the Taliwang project to the Purchaser. The Purchaser paid US\$1,000,000 and granted a 5% net smelter royalty (“NSR”) to Southern Arc. The Purchaser has the option to buy back 3% of the NSR by paying the Company US\$3,000,000. The Purchaser is required to make additional payments to the Company to fulfill the agreed purchase price of US\$1.6 million. The Purchaser will pay the Company 40% of gross revenue generated from the Taliwang project, after payment of the Southern Arc NSR, until the aggregate amount of such payments equals US\$750,000. For the three and six months ended December 31, 2014, the Company had no write-down relating to the Taliwang property (December 31, 2013: \$nil and \$113,397 respectively).

In early December the Purchaser achieved first gold production at Taliwang. Local miners have been organized into a cooperative to mine and supply ore to the first of potentially several 50 tonne-per-day CIL processing plants. With gold production underway and strong Government and local support for the mining venture, Southern Arc may receive royalties and further payment toward the purchase price in 2015.

##### **East Elang property**

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 in the East Elang property, Vale has 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 the East Elang 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 two 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 four 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 seven years of commencing Phase 2.

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 exploration permit (“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 December 31, 2014, PT SAM held US\$3,249 (June 30, 2014: US\$17,738) of funds advanced by Vale.

**SOUTHERN ARC MINERALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**6. CAPITAL STOCK AND RESERVES**

	Number of Common Shares	Capital Stock	Number of Treasury Shares	Treasury Stock	Share-based Payment Reserve
Authorized - an unlimited number of common shares without par value					
Balance as at June 30, 2013	109,214,510	\$ 74,891,487	(1,300,000)	\$ (1,170,000)	\$ 11,841,937
Share-based compensation	-	-	-	-	80,468
Balance as at June 30, 2014	109,214,510	74,891,487	(1,300,000)	(1,170,000)	11,922,405
Share-based compensation	-	-	-	-	17,155
<b>Balance as at December 31, 2014</b>	<b>109,214,510</b>	<b>\$ 74,891,487</b>	<b>(1,300,000)</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,939,560</b>

**Share options**

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange. 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, 2013 (remaining contractual life is 2.03 years)	9,290,000	\$ 0.76
Granted	760,000	0.10
Expired	(768,750)	0.54
Forfeited	(6,250)	0.90
Outstanding at June 30, 2014 (remaining contractual life is 1.34 years)	9,275,000	0.79
Expired	(3,590,000)	0.40
Outstanding at December 31, 2014 (remaining contractual life is 1.53 years)	5,685,000	\$ 0.84
Number of options exercisable at December 31, 2014	5,177,500	\$ 0.91

During the period ended December 31, 2014, the Company recorded share-based compensation of \$17,155 (\$14,893: December 31, 2013) fair valued using the Black-Scholes option pricing model, as a result of the vesting of options granted. These amounts were recorded as share-based payment reserve on the statement of financial position.

The Company did not issue any options during the period ended December 31, 2014. During the year ended June 30, 2014, the Company granted 500,000 and 260,000 options for a total of 760,000 options at a weighted average fair value of \$0.06. The weighted average fair value of the options granted during the year ended June 30, 2013 was \$0.18 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.

**SOUTHERN ARC MINERALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**6. CAPITAL STOCK AND RESERVES (continued)****Share options (continued)**

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

	<b>2015</b>	<b>2014</b>
Risk-free interest rate	N/A	1.47%
Expected life of options	N/A	5 years
Annualized volatility	N/A	115.49%
Share price	N/A	\$0.08
Forfeiture rate	N/A	0.00%
Dividend rate	N/A	0.00%

At December 31, 2014, the Company had the following share options outstanding:

	Number of Options	Exercise Price	Expiry Date
<b>Options</b>	2,650,000	\$ 0.80	July 19, 2015
	160,000	\$ 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
	565,000	\$ 0.90	November 14, 2016
	300,000	\$ 0.25	July 18, 2017
	250,000	\$ 0.25	May 10, 2018
	500,000	\$ 0.10	November 7, 2018
	260,000	\$ 0.10	March 3, 2019
	<b>5,685,000</b>		

**Warrants**

At December 31, 2014 and June 30, 2014, the Company had no share purchase warrants outstanding.

**7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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

- At December 31, 2014, the Company included in accounts payable \$28,519 (December 31, 2013: \$122,462) of exploration expenditures.
- During the three and six month period ended December 31, 2014, the Company received \$2,295 and \$5,532 respectively (December 31, 2013: \$12,159 and \$43,681 respectively) of interest income from operating activities.
- During the period ended December 31, 2014, the Company paid \$nil (December 31, 2013: \$nil) of income taxes.

**SOUTHERN ARC MINERALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**8. 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:

	Three months ended December 31, 2014	Three months ended December 31, 2013	Six months ended December 31, 2014	Six months ended December 31, 2013
Management fees	\$ 227,700	\$ 296,700	\$ 455,400	\$ 516,000
Consulting services (exploration)	\$ 74,297	\$ 64,259	\$ 129,664	\$ 137,559
Geological services	\$ -	\$ 45,770	\$ -	\$ 107,701
Share-based compensation	\$ 481	\$ (23,122)	\$ 7,884	\$ (8,493)

During the three and six month ended December 31, 2014, the Company paid \$227,700 and \$455,400 (three and six months ended December 2013: \$296,700 and \$516,000 respectively) 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 ended June 30, 2011, the Company entered into a contract with a company controlled by a director and officer of the Company for drilling and geological 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 three and six months ended December 31, 2014, the Company paid a total of \$nil and \$nil respectively (three and six months ended December 31, 2013: \$45,770 and \$107,701 respectively) for geological 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.

**9. OFFICE AND MISCELLANEOUS EXPENSES**

	Three months ended December 31, 2014	Three months ended December 31, 2013	Six months ended December 31, 2014	Six months ended December 31, 2013
Administrative	\$ 8,681	\$ 26,570	\$ 24,343	\$ 69,653
Office expenses	57,246	50,384	130,916	200,972
Insurance	12,572	11,141	25,476	22,997
Interest and bank charges	1,990	1,951	3,789	4,929
Telephone	2,565	2,824	4,519	3,977
Meals and entertainment	844	215	1,232	603
	\$ 83,898	\$ 93,085	\$ 190,275	\$ 303,131

**SOUTHERN ARC MINERALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended December 31, 2014 and 2013

(Expressed in Canadian dollars)

**10. ASSETS HELD FOR SALE**

At June 30, 2014, the assets relating to the Taliwang property have been presented as held for sale following the Company's announcement to sell its 90% interest in the Taliwang property. On July 15, 2014, the Company had amended the sale agreement and closed the sale of its interest in the Taliwang property. As a result of the amended sale agreement, the Company recorded an additional remeasurement of \$91,382 on assets held for sale.

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

	<b>December 31, 2014</b>		<b>June 30, 2014</b>
Exploration properties	\$ -	\$	1,078,309
Property, plant and equipment	-		2,952
Loans receivable	-		106,760
<b>Total</b>	<b>\$ -</b>	<b>\$</b>	<b>1,188,021</b>

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

	<b>December 31, 2014</b>		<b>June 30, 2014</b>
Accounts payable and accrued liabilities	\$ -	\$	112,118
<b>Total</b>	<b>\$ -</b>	<b>\$</b>	<b>112,118</b>

**11. SUBSEQUENT EVENT**

Subsequent to the period ended December 31, 2014, 150,000 and 200,000 share options with an exercise price of \$1.11 and \$0.10 respectively were cancelled by the Company.