



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
MARCH 31, 2014**

*(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 nine months ended March 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**  
(Expressed in Canadian dollars)

<b>As at</b>	<b>March 31, 2014</b>	<b>June 30, 2013</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 3,822,535	\$ 12,866,306
Receivables	39,584	16,233
Prepaid expenses	44,639	76,648
Assets held for sale (Note 12)	1,172,696	3,664,305
	5,079,454	16,623,492
<b>Investment in associates</b> (Note 3)	6,876,063	-
<b>Deposit</b> (Note 4)	-	865,000
<b>Property, plant and equipment</b> (Note 5)	74,471	181,246
<b>Exploration properties</b> (Note 6)	102,068	102,068
<b>Loans receivable</b> (Note 6)	442,120	420,480
<b>Total assets</b>	<b>\$ 12,574,176</b>	<b>\$ 18,192,286</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 386,661	\$ 549,727
Accounts payable and accrued liabilities (Note 12)	113,055	13,403
<b>Total liabilities</b>	499,716	563,130
<b>Shareholders' equity</b>		
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)	11,907,445	11,841,937
Deficit	(71,304,219)	(65,932,857)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	14,324,713	19,630,567
Non-controlling interest	(2,250,253)	(2,001,411)
<b>Total shareholders' equity</b>	12,074,460	17,629,156
<b>Total liabilities and shareholders' equity</b>	<b>\$ 12,574,176</b>	<b>\$ 18,192,286</b>

Nature and continuance of operations (Note 1)  
Subsequent event (Note 13)

Approved by the Board of Directors and authorized for issue on May 29, 2014:

**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**

(Expressed in Canadian dollars)

	<b>Three months ended March 31, 2014</b>	Three months ended March 31, 2013	<b>Nine months ended March 31, 2014</b>	Nine months ended March 31, 2013
<b>Expenses</b>				
Office and miscellaneous (Note 10)	\$ 127,656	\$ 163,565	\$ 494,739	\$ 595,455
Share-based compensation (Note 7)	50,615	65,707	65,508	294,060
Management fees (Note 9)	249,135	202,500	765,135	622,000
Professional fees	32,089	66,696	224,607	236,203
Foreign exchange gain	(179,626)	(70,666)	(172,485)	(6,718)
Travel	46,483	17,248	88,758	40,749
Investor relations	10,293	22,496	62,776	58,025
Rent	20,427	23,006	70,511	73,707
Transfer agent and filing fees	21,850	15,376	70,285	56,283
Exploration property write-off (Note 6)	252,228	-	1,261,876	4,541,048
General exploration	-	52,651	-	52,651
Depreciation	7,103	7,597	22,594	22,432
<b>Loss before other items</b>	<b>\$ (638,253)</b>	<b>\$ (566,176)</b>	<b>\$ (2,954,304)</b>	<b>\$ (6,585,895)</b>
<b>Other items</b>				
Interest income	9,765	38,548	53,561	135,782
Loss on equity investment (Note 3)	(137,247)	-	(731,195)	-
Gain on disposition of equipment	377	-	2,958	-
Impairment of equipment	-	-	-	(7,086)
Re-measurement of assets held for sale (Note 12)	-	-	(1,889,096)	-
	(127,105)	38,548	(2,563,772)	128,696
<b>Net and comprehensive loss for the period</b>	<b>(765,358)</b>	<b>(527,628)</b>	<b>(5,518,076)</b>	<b>(6,457,199)</b>
<b>Comprehensive loss attributable to:</b>				
Shareholders of Southern Arc Minerals Inc.	\$ (735,500)	\$ (511,523)	\$ (5,371,362)	\$ (6,397,208)
Non-controlling interests	(29,858)	(16,105)	(146,714)	(59,991)
	<b>\$ (765,358)</b>	<b>\$ (527,628)</b>	<b>\$ (5,518,076)</b>	<b>\$ (6,457,199)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.05)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of shares outstanding</b>	109,214,510	109,214,510	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**  
(Expressed in Canadian dollars)

	<b>Nine months ended March 31, 2014</b>	Nine months ended March 31, 2013
<b>Cash flows from operating activities</b>		
Comprehensive loss for the period	\$ (5,518,076)	\$ (6,457,199)
Items not affecting cash:		
Share-based compensation	65,508	294,060
Depreciation	22,594	22,432
Exploration property write-off	1,261,876	4,541,049
Loss on equity investment	731,195	-
Gain on disposition of equipment	(2,958)	-
Impairment of equipment	-	7,086
Re-measurement of assets held for sale	1,889,096	-
Foreign exchange gain	(172,485)	(6,718)
Changes in non-cash working capital items:		
Receivables	(44,991)	5,775
Prepaid expense	32,009	52,717
Accounts payable and accrued liabilities	(63,414)	540,721
<b>Net cash used in operating activities</b>	<b>(1,799,646)</b>	<b>(1,000,077)</b>
<b>Cash flows from investing activities</b>		
Expenditures in exploration properties	(1,127,009)	(5,586,044)
Proceeds received from asset held for sale	667,800	-
Purchase of investment in associates	(6,742,258)	-
Proceeds from disposal (acquisition) of property, plant and equipment	19,677	(2,445)
<b>Net cash used in operating activities</b>	<b>(7,181,790)</b>	<b>(5,588,489)</b>
Effect of exchange rate changes on cash	(62,336)	1,621
<b>Change in cash during the period</b>	<b>(9,043,771)</b>	<b>(6,586,945)</b>
Cash, beginning of the period	12,866,306	22,441,567
<b>Cash, end of the period</b>	<b>\$ 3,822,535</b>	<b>\$ 15,854,622</b>

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

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

(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, 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	-	-	-	(5,371,362)	(5,371,362)	(146,714)	(5,518,076)
Share-based compensation	-	-	65,508	-	65,508	-	65,508
Change in non-controlling interest	-	-	-	-	-	(102,128)	(102,128)
	-	-	65,508	(5,371,362)	(5,305,854)	(248,842)	(5,554,696)
<b>Balance, March 31, 2014</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,907,445</b>	<b>\$ (71,304,219)</b>	<b>\$ 14,324,713</b>	<b>\$ (2,250,253)</b>	<b>\$ 12,074,460</b>
<b>Balance, June 30, 2012</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,498,915</b>	<b>\$ (26,255,249)</b>	<b>\$ 58,965,153</b>	<b>\$ 354,923</b>	<b>\$ 59,320,076</b>
Comprehensive loss for the period	-	-	-	(6,397,208)	(6,397,208)	(59,991)	(6,457,199)
Share-based compensation	-	-	294,060	-	294,060	-	294,060
Change in non-controlling interest	-	-	-	-	-	(6,847)	(6,847)
	-	-	294,060	(6,397,208)	(6,103,148)	(66,838)	(6,169,986)
<b>Balance, March 31, 2013</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,792,975</b>	<b>\$ (32,652,457)</b>	<b>\$ 52,862,005</b>	<b>\$ 288,085</b>	<b>\$ 53,150,090</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

March 31, 2014

(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 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 twelve 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 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, 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 May 29, 2014.

##### **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.

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2014

(Expressed in Canadian dollars)

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## **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.



## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2014

(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 Other Comprehensive Income 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").

At the period ended March 31, 2014, the Company held a 24.90% (97,654,000 common shares) equity interest in Eagle Hill, which is accounted for using the equity method. The Company also evaluates its investment in Eagle Hill by assessing its fair value using its publically quoted stock price. Summarized financial information for Eagle Hill is as follows:

	<b>March 31, 2014</b>
Revenue from August 15, 2013 to March 31, 2014	\$ -
Net loss from August 15, 2013 to March 31, 2014	(2,936,104)
Assets	32,757,516
Liabilities	\$ (4,176,597)

	<b>March 31, 2014</b>	<b>June 30, 2013</b>
Balance - Beginning of the year	\$ -	\$ -
Acquisition of investment	7,324,050	-
Acquisition-related costs	283,208	-
Share of loss for the period	(731,195)	-
	\$ 6,876,063	\$ -

The quoted market value of the Company's investment in Eagle Hill at March 31, 2014 was \$6,835,780 based on the closing share price of \$0.07.

### 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 March 31, 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 (March 31, 2013 and June 30, 2012: \$nil).

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2014

(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 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 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
<b>Costs</b>							
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	-	(57,007)	(25,546)	(26,537)	(1,943)	-	(111,033)
<b>Balance, March 31, 2014</b>	<b>\$ -</b>	<b>\$ 65,657</b>	<b>\$ 911</b>	<b>\$ 57,659</b>	<b>\$ 126,012</b>	<b>\$ -</b>	<b>\$ 250,239</b>
<b>Accumulated depreciation</b>							
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 as 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	-	(12,771)	(3,308)	(9,679)	(22,664)	-	(48,422)
Recapture from dispositions	-	24,161	16,239	12,280	-	-	52,680
<b>Balance, March 31, 2014</b>	<b>\$ -</b>	<b>\$ (41,508)</b>	<b>\$ (772)</b>	<b>\$ (43,774)</b>	<b>\$ (89,714)</b>	<b>\$ -</b>	<b>\$ (175,768)</b>
<b>Net carrying value</b>							
Balance, June 30, 2013	\$ -	\$ 69,766	\$ 12,754	\$ 37,821	\$ 60,905	\$ -	\$ 181,246
<b>Balance, March 31, 2014</b>	<b>\$ -</b>	<b>\$ 24,149</b>	<b>\$ 139</b>	<b>\$ 13,885</b>	<b>\$ 36,298</b>	<b>\$ -</b>	<b>\$ 74,471</b>

During the three and nine months ended March 31, 2014, \$nil and \$25,828, respectively (2012: \$16,514 and \$35,696), was capitalized to exploration properties.

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2014

(Expressed in Canadian dollars)

**6. EXPLORATION PROPERTIES**

	Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Total
<b>Balance, June 30, 2012</b>	<b>\$ 29,702,681</b>	<b>\$ 7,727,943</b>	<b>\$ 37,430,624</b>
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
<b>Total deferred exploration costs</b>	<b>5,100,440</b>	<b>698,015</b>	<b>5,798,455</b>
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)
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>
Exploration costs incurred during the period:			
Camp construction and other	258,609	-	258,609
Geological and other consulting	501,886	-	501,886
Labour	381,233	120,148	501,381
<b>Total deferred exploration costs</b>	<b>\$ 1,141,728</b>	<b>\$ 120,148</b>	<b>\$ 1,261,876</b>
Exploration property write-down	(1,141,728)	(120,148)	(1,261,876)
<b>Balance, March 31, 2014</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>

**West Lombok and Taliwang properties**

The Company holds a 90% interest in two exploration stage projects (West Lombok and Taliwang) located on the Lombok and Sumbawa Islands, Indonesia, respectively. The Company has completed a total of approximately 56,506 metres of drilling to date on the properties.

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 and recorded an impairment of \$34,986,812 for the year ended June 30, 2013. For the nine months ended March 31, 2014, the Company wrote down \$1,141,728 of exploration costs relating to the West Lombok property that were incurred during the period.

In December 2012, the Company agreed to sell its 90% interest in the Taliwang project. This transaction was renegotiated on August 31, 2013 whereby the purchaser, a prominent Indonesian business man (the "Purchaser"), agreed to purchase the Taliwang project for a cash payment of US\$3.5 million, of which US\$100,000 was 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 the carrying value of the Taliwang property and reclassified its estimated fair value of \$3,551,210 as assets held for sale.

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2014

(Expressed in Canadian dollars)

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

##### **West Lombok and Taliwang properties** (continued)

The transaction was again revised in February 2014 to change the purchase price to a cash payment of US\$1.6 million and the granting of a 5% net smelter royalty to Southern Arc. The Purchaser has the option to buy back 3% of the net smelter royalty by paying Southern Arc US\$3,000,000. As a result of the change in purchase price, the Company recorded an impairment provision of \$1,889,096 against the assets held for sale. For the nine months ended March 31, 2014, the Company wrote down \$120,148 of exploration costs relating to Taliwang property that were incurred during the period. The Purchaser has made payments totalling US\$700,000.

The Company has advanced loans receivable of \$552,650 (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 this amount, \$110,530 (US\$100,000) (June 30, 2013: \$105,120) is classified as assets held for sale (Note 12).

##### **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 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.

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 March 31, 2014, PT SAM held US\$25,409 (June 30, 2013: US\$93,022) of funds advanced by Vale as cash.

On the East Elang property, 60.3% of the area is designated primary forest, 34.2% is designated production forest and 5.5% has no forestry classification. The Indonesian government has imposed a moratorium on exploration and mining activities in areas designated as primary forest, and has extended the moratorium to May 2015. While the property is considered highly prospective due to its location and results from aerial surveys, exploration of this property has been deferred pending reclassification of the property's forestry status and receipt of the appropriate permits. Unless such reclassification is granted or the moratorium lifted, the Company cannot commence any significant exploration activities on the property. Southern Arc has requested reclassification of the property and has applied to the Regency and central authorities for suspension (back-dated from the commencement of the forestry moratorium in May 2011) of the IUP until the reclassification process has been completed, to ensure Southern Arc and Vale have adequate time to evaluate the property once exploration commences.

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**7. 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, 2012	109,214,510	\$ 74,891,487	(1,300,000)	\$ (1,170,000)	\$ 11,498,915
Share-based compensation	-	-	-	-	343,022
Balance as at June 30, 2013	109,214,510	74,891,487	(1,300,000)	(1,170,000)	11,841,937
Share-based compensation	-	-	-	-	65,508
<b>Balance as at March 31, 2014</b>	<b>109,214,510</b>	<b>\$ 74,891,487</b>	<b>(1,300,000)</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,907,445</b>

**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
Granted	760,000	0.10
Expired	(700,000)	0.53
Cancelled	(56,250)	0.90
Forfeited	(18,750)	0.90
Outstanding at March 31, 2014 (remaining contractual life is 1.68 years)	9,275,000	\$ 0.73
Number of options exercisable at March 31, 2014	8,252,500	\$ 0.80

During the period ended March 31, 2014, the Company recorded share-based compensation of \$65,508 (2013: \$228,353) fair valued using the Black-Scholes Option Pricing Model, as a result of the vesting of options granted in the previous period. These amounts were recorded as share-based payment reserve on the statement of financial position.

During the nine-month period ended March 31, 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 previous period ended March 31, 2013 was \$0.20 per option.

## SOUTHERN ARC MINERALS INC.

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#### 7. CAPITAL STOCK AND RESERVES (continued)

##### Share options (continued)

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:

	March 31, 2014	March 31, 2013
Risk-free interest rate	1.34% – 1.53%	1.18%
Expected life of options	5 years	5 years
Annualized volatility	108.58% – 119.08%	123.18%
Forfeiture rate	0.00%	0.00%
Dividend rate	0.00%	0.00%

At March 31, 2014, the Company had share purchase options outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	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
	500,000	\$ 0.10	November 7, 2018
	260,000	\$ 0.10	March 3, 2019
	9,275,000		

Subsequent to the period end, the Company's Directors agreed to re-price 7,935,000 stock options. See Subsequent Events below.

##### Warrants

At March 31, 2014 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 March 31, 2014, the Company included in accounts payable \$106,360 (March 31, 2013: \$191,928) of exploration expenditures.
- During the nine months ended March 31, 2014, the Company received \$53,561 (March 31, 2013: \$135,782) of interest income from operating activities.

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**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:

	<b>Three months</b>	Three months	<b>Nine months</b>	Nine months ended
	<b>ended March 31,</b>	ended March 31,	<b>ended March 31,</b>	March 31, 2013
	<b>2014</b>	2013	<b>2014</b>	
Management fees	\$ 236,100	\$ 205,000	\$ 752,100	\$ 720,142
Consulting services	\$ 50,242	\$ 65,750	\$ 187,801	\$ 204,172
Geological services	\$ 6,018	\$ 620,293	\$ 113,719	\$ 986,038
Share-based compensation	\$ 19,214	\$ 42,424	\$ 10,721	\$ 249,478

During the nine months ended March 31, 2014, the Company paid \$752,100 (2013: \$720,142) 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 March 31, 2014, the Company paid a total of \$113,719 (2013: \$986,038) 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**

	<b>Three months</b>	Three months	<b>Nine months</b>	Nine months ended
	<b>ended March 31,</b>	ended March 31,	<b>ended March 31,</b>	March 31, 2013
	<b>2014</b>	2013	<b>2014</b>	
Administrative	\$ 28,619	\$ 35,547	\$ 98,272	\$ 107,312
Consulting	18,729	-	82,681	-
Office expenses	67,481	105,076	273,033	432,388
Insurance	10,993	14,603	33,990	32,050
Interest and bank charges	1,834	8,339	6,763	23,705
	\$ 127,656	\$ 163,565	\$ 494,739	\$ 595,455

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 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.

**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 March 31, 2014, the Company had US\$594,732 (approximately CDN\$657,357), Japanese Yen ("Yen") 702,464 (approximately CDN\$7,587) and Indonesian Rupiah ("Rph") 11,985,645 (approximately CDN\$1,043) in cash, and US\$425,307 (approximately CDN\$470,092), Yen 95,500 (approximately CDN\$1,031) and Rph 130,800,440 (approximately CDN\$11,380) in accounts payable and accrued liabilities. As at March 31, 2014, US\$ amounts were converted at a rate of US\$0.9047 to CDN\$1, Yen 0.0108 to CDN\$1, and Rph amounts were converted at a rate of Rph 11,494 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.



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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2014

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**11. FINANCIAL INSTRUMENTS (continued)****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 Company's financial instruments are recognized at fair value on a recurring basis. Financial instruments measured at fair value on March 31, 2014 and June 30, 2013 are summarized in levels of fair value hierarchy as follows:

March 31, 2014	Level 1	Level 2	Level 3
Assets			
Cash	\$ 3,822,535	\$ -	\$ -
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 March 31, 2014 and June 30, 2013 due to their short-term nature.

**12. ASSETS HELD FOR SALE**

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.

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

	March 31, 2014	June 30, 2013
Exploration properties	\$ 1,057,959	\$ 3,551,210
Property, plant and equipment	4,207	7,975
Loans receivable	110,530	105,120
Total	\$ 1,172,696	\$ 3,664,305

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

	March 31, 2014	June 30, 2013
Accounts payable and accrued liabilities	\$ 113,055	\$ 13,403
Total	\$ 113,055	\$ 13,403

## **SOUTHERN ARC MINERALS INC.**

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

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#### **13. SUBSEQUENT EVENTS**

On April 1, 2014, the Company's Board of Directors agreed to re-price 7,935,000 incentive stock options issued to certain directors, officers, employees and consultants of the Company. The options were originally granted with exercise prices ranging from \$0.25 to \$2.00, and the Company will reduce the exercise price to \$0.10. Except for the amendment of the exercise price, all original terms of the options will remain in effect. The Company has received approval from the TSX Venture Exchange for the re-pricing. The Company intends to obtain disinterested shareholder approval for the amendment to the exercise price of the stock options granted to insiders at the Company's 2014 annual general meeting. Insiders may not exercise options at the new price until such approval is obtained.

On April 8, 2014, the Company purchased 7,518,797 million units of Eagle Hill at a price of \$0.07 per unit for \$526,316. Each unit consists of one common share ("a Share") and one share purchase warrant (a "Warrant") of Eagle Hill. Each Warrant entitles the Company to acquire one Share at a price of \$0.10 until April 8, 2016.

On May 9, 2014, the Company purchased 20,000,000 units of Eagle Hill at a price of \$0.05 for an investment of \$1,000,000. Each unit consists of one common share (a "Share") and one share purchase warrant (a "Warrant") of Eagle Hill. Each Warrant entitles the Company to acquire one Share of Eagle Hill at a price of \$0.08 until May 8, 2016.

The Company now holds 125,172,797 shares and 76,345,797 warrants of Eagle Hill representing 26.72% of Eagle Hill's issued and outstanding shares and 31.67% on a fully diluted basis.