



**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2013 AND 2012**

*(Expressed in Canadian dollars)*

**Independent Auditor's Report**

**To the Shareholders of  
Southern Arc Minerals Inc.**

We have audited the accompanying consolidated financial statements of Southern Arc Minerals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2013 and June 30, 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Southern Arc Minerals Inc. and its subsidiaries as at June 30, 2013 and June 30, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***"MacKay LLP"***

**Chartered Accountants  
Vancouver, British Columbia  
October 28, 2013**

**SOUTHERN ARC MINERALS INC.**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	June 30, 2013	June 30, 2012
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 12,866,306	\$ 22,441,567
Receivables	16,233	40,701
Prepaid expenses	76,648	117,280
Assets held for sale (Note 15)	3,664,305	-
	16,623,492	22,599,548
<b>Deposit</b> (Note 4)	865,000	-
<b>Property, plant and equipment</b> (Note 5)	181,246	344,790
<b>Exploration properties</b> (Note 6)	102,068	37,430,624
<b>Loans receivable</b> (Note 6)	420,480	509,550
<b>Total Assets</b>	<b>\$ 18,192,286</b>	<b>\$ 60,884,512</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 549,727	\$ 1,564,436
Accounts payable and accrued liabilities (Note 15)	13,403	-
	563,130	1,564,436
<b>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)	11,841,937	11,498,915
Deficit	(65,932,857)	(26,255,249)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	19,630,567	58,965,153
Non-controlling interest	(2,001,411)	354,923
Total equity	17,629,156	59,320,076
<b>Total Liabilities and Equity</b>	<b>\$ 18,192,286</b>	<b>\$ 60,884,512</b>

Nature and continuance of operations (Note 1)

Events subsequent to the reporting period (Note 16)

Approved by the Board of Directors and authorized for issue on October 28, 2013:

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"John Proust" Director "David Stone" Director

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

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

(Expressed in Canadian dollars)

For the years ended	June 30, 2013	June 30, 2012
<b>EXPENSES</b>		
Office and miscellaneous (Note 10)	\$ 674,278	\$ 1,613,100
Share-based compensation (Notes 7 and 9)	343,022	1,037,887
Management fees (Note 9)	824,500	614,000
Professional fees	391,581	553,324
Foreign exchange gain	(81,647)	(354,697)
Travel	86,391	188,260
Investor relations	67,993	184,318
Rent	101,007	103,665
Transfer agent and filing fees	57,637	87,820
Consulting fees	-	73,259
General exploration	104,118	-
Property, plant and equipment write-down	51,443	-
Exploration property write-down (Note 6)	36,179,601	-
Depreciation	29,850	29,006
<b>Loss before other items</b>	<b>(38,829,774)</b>	<b>(4,129,942)</b>
<b>OTHER ITEMS</b>		
Interest income	175,684	278,209
Loss on equity investment (Note 3)	-	(52,289)
Impairment on other investments	-	(102,807)
Impairment on equity investment (Note 3)	-	(305,582)
Remeasurement of assets held for sale (Note 15)	(3,291,080)	-
	(3,115,396)	(182,469)
<b>Net and comprehensive loss for the year</b>	<b>\$ (41,945,170)</b>	<b>\$ (4,312,411)</b>
<b>Comprehensive loss attributable to:</b>		
Shareholders of Southern Arc Minerals Inc.	\$ (39,677,608)	\$ (4,189,085)
Non-controlling interests	(2,267,562)	(123,326)
<b>Net and comprehensive loss for the year</b>	<b>\$ (41,945,170)</b>	<b>\$ (4,312,411)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.38)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of shares outstanding</b>	<b>109,214,510</b>	<b>107,056,976</b>

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

**SOUTHERN ARC MINERALS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)

For the years ended	June 30, 2013	June 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net and comprehensive loss for the year	\$ (41,945,170)	\$ (4,312,411)
Items not affecting cash:		
Share-based compensation	343,022	1,037,887
Depreciation	29,850	29,006
Exploration property write-down	36,179,601	-
Loss on equity investment	-	52,289
Remeasurement of held for sale assets	3,291,080	-
Impairment on equity investment	-	305,582
Property, plant and equipment write down	51,443	-
Foreign exchange gain	(81,647)	(354,697)
Changes in non-cash working capital items:		
Receivables	24,468	114,827
Prepaid expenses	40,632	(22,464)
Accounts payable and accrued liabilities	492,617	(305,783)
Net cash used in operating activities	(1,574,104)	(3,455,764)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in exploration properties	(7,093,371)	(12,847,509)
Deposit (Notes 4, 16)	(865,000)	-
Acquisition of property, plant and equipment	(2,445)	(205,090)
Exploration advances prepayment	-	(31,886)
Net cash used in investing activities	(7,960,816)	(13,084,485)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Expenditure related to issuance of shares	-	(2,501)
Net cash used by financing activities	-	(2,501)
Effect of exchange rate changes on cash	(40,341)	352,226
<b>Change in cash during the year</b>	<b>(9,575,261)</b>	<b>(16,190,524)</b>
Cash, beginning of the year	22,441,567	38,632,091
<b>Cash, end of the year</b>	<b>\$ 12,866,306</b>	<b>\$ 22,441,567</b>

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.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Expressed in Canadian dollars)

	Attributable to shareholders of Southern Arc Minerals Inc.						Non-controlling Interest	Total Equity
	Capital Stock	Treasury Stock	Share-based Payment Reserve	Deficit	Total			
<b>Balance at 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 year	-	-	-	(39,677,608)	(39,677,608)	(2,267,562)	(41,945,170)	
Share-based compensation	-	-	343,022	-	343,022	-	343,022	
Change in non-controlling interest	-	-	-	-	-	(88,772)	(88,772)	
	-	-	343,022	(39,677,608)	(39,334,586)	(2,356,334)	(41,690,920)	
<b>Balance at 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>	
<b>Balance at June 30, 2011</b>	<b>\$ 74,151,488</b>	<b>\$ (1,170,000)</b>	<b>\$ 10,461,028</b>	<b>\$ (22,066,164)</b>	<b>\$ 61,376,352</b>	<b>\$ 405,105</b>	<b>\$ 61,781,457</b>	
Comprehensive loss for the year	-	-	-	(4,189,085)	(4,189,085)	(123,326)	(4,312,411)	
Shares issued for exploration properties	742,500	-	-	-	742,500	-	742,500	
Share issue cost	(2,501)	-	-	-	(2,501)	-	(2,501)	
Share-based compensation	-	-	1,037,887	-	1,037,887	-	1,037,887	
Change in non-controlling interest	-	-	-	-	-	73,144	73,144	
	739,999	-	1,037,887	(4,189,085)	(2,411,199)	(50,182)	(2,461,381)	
<b>Balance at 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>	

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

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

#### **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 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

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

These consolidated financial statements include the accounts of the Company; and

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

Significant intercompany balances and transactions have been eliminated upon consolidation.

##### **Significant accounting judgement and estimates**

The preparation of these financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

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

conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### *Critical accounting estimates*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to the following:

- i) The estimated fair value of the Company's financial assets and liabilities are by their nature, subject to measurement uncertainty.
- ii) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.
- iii) The collectability of loans receivable which may impact bad debt expense.
- iv) The estimated rehabilitation provision.
- v) The estimated fair value of the Company's assets held for sale.

##### *Critical accounting judgements*

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments.

- i) A deferred income tax asset is recognized to the extent that it is probable that future income tax profits will be available against which the asset can be used. To the extent that management does not consider it probable that a deferred income tax asset will be recovered, a deferred income tax asset is not recognized.
- ii) The application of the Company's accounting policy for exploration expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.
- iii) The determination of a subsidiary's functional currency often requires significant judgement where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.
- iv) To classify the Company's asset as held for sale requires judgement in determining whether the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for a sale of such assets and whether the sale of the asset is highly probable.

#### **Property, plant and equipment**

Telephone equipment is recorded at cost and amortized using the declining balance method at 20% per year. Vehicles, furniture, computers, field equipment and leasehold improvements are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Vehicles, furniture, computers and field equipment	4 years
Leasehold improvements	10 years

Depreciation of vehicles, computers (field) and field equipment were allocated to exploration properties.



## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

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

### **Exploration properties**

#### *(i) Exploration properties*

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation are recognized and capitalized by geographical area, in addition to the acquisition costs by geographical area. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration activities, including general administrative overhead costs, are expensed in the period in which they occur.

If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of an exploration property is impaired, that property is written down to its estimated fair value. An exploration property is reviewed for impairment annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

The amounts shown for exploration properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete property development and future profitable production or proceeds from the disposition thereof.

Title and permits to exploration properties involves certain inherent risks due to the difficulties of determining the validity of certain exploration property interests as well as the potential for problems arising from the frequently ambiguous conveying characteristics of many exploration properties. The Company has investigated title to all of its exploration property interests and, to the best of its knowledge, title to all of its exploration property interests are in good standing. The Company is in various stages of applying for permits for ongoing exploration activities related to the exploration properties.

#### *(ii) Joint interest*

A portion of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

The Company does not record any exploration expenditures made by the joint venture partner on its account. It also does not recognize any gain or loss on its option and joint venture agreement arrangement, but re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Exploration advances received from a joint venture partner in accordance with the terms of the option and joint venture agreement are recorded as current liabilities until the exploration expenditure is incurred.

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

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

### **Exploration properties (continued)**

#### *(iii) Rehabilitation provision*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

### **Foreign currency transactions**

The functional and reporting currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign currency translation differences are recognized in profit or loss.

### **Loss per share**

The Company presents basic per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutive and, therefore, basic and diluted loss per share are the same.

### **Investment**

Investments in companies over which the Company can exercise significant influence are accounted for using the equity method. When there is a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss in the determination of comprehensive income or loss.

### **Share-based payment transaction**

The share option plan allows the Company to grant options to its employees and consultants. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

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

### **Share-based payment transaction (continued)**

each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

### **Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except to the extent that they relate to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be applied. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### **Financial instruments**

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

#### *Subsequent measurement*

#### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. Cash is classified as fair value through profit or loss.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables and loans receivable are classified as loans and receivables.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss. The Company has not classified any financial assets as held-to-maturity.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of comprehensive loss. The Company has not classified any financial assets as available-for-sale.

All financial assets except for those recognized at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

### Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit or loss.

*Other financial liabilities* - This category includes accounts payable and accrued liabilities, which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

### **New accounting standards and recent pronouncement**

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 financial statements.

- IFRS 9 - Financial Instruments. This standard partially replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2015. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

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

### **New accounting standards and recent pronouncement (continued)**

- 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. This standard is effective for annual periods beginning on or after January 1, 2013. The Company has determined that there is no impact on its consolidated 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. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, if IFRS 10, IFRS 12, and consequential amendments to IAS 28 Investments in Associates and Joint Ventures are applied at the same time. The Company has determined that there is no impact on its consolidated 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. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company has determined that there is no impact on its consolidated 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. IFRS 13 is applicable for fiscal years beginning on or after January 1, 2013. The standard, which may be early adopted, will apply prospectively from the beginning of the annual period in which it is adopted. The Company has determined that there is no impact on its consolidated financial statements arising from this standard.

## **3. INVESTMENT IN NICKEL OIL & 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, 2013 and June 30, 2012, 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).

In January 2012, Nickel agreed to sell all of its interests in its wells to its joint venture partner in settlement of amounts owed of \$452,731. This sale was completed with an effective date of July 1, 2012.

**SOUTHERN ARC MINERALS INC.**

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**4. DEPOSIT**

During the year ended June 30, 2013, the Company advanced \$865,000 to Eagle Hill Exploration Corporation (“Eagle Hill”) in the form of a promissory note (the “Deposit”) repayable by June 26, 2014 with an annual interest rate of 8%. It is intended that the Deposit balance will form part of the payment for a proposed equity investment by the Company in Eagle Hill and the interest will be forgiven. See also Note 16 Events Subsequent to the Reporting Period, where, upon closing of the proposed equity investment, the advanced funds formed part of the purchase price of the equity investment.

**5. PROPERTY, PLANT AND EQUIPMENT**

	Telephone Equipment	Vehicles	Furniture	Computer	Field Equipment	Leasehold Improvement	Total
<b>Costs</b>							
Balance, June 30, 2011	\$ 26,278	\$ 8,677	\$ 16,504	\$ 95,216	\$ 86,342	\$ 34,716	\$ 267,733
Additions	-	113,987	16,435	12,091	62,577	-	205,090
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)
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ 122,664</b>	<b>\$ 26,457</b>	<b>\$ 84,196</b>	<b>\$ 127,955</b>	<b>\$ -</b>	<b>\$ 361,272</b>
<b>Accumulated depreciation</b>							
Balance, June 30, 2011	\$(17,420)	\$ (720)	\$ (784)	\$ (7,825)	\$ (5,730)	\$ (289)	\$ (32,768)
Depreciation for the year	(1,772)	(21,521)	(8,158)	(25,205)	(35,138)	(3,471)	(95,265)
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
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ (52,898)</b>	<b>\$(13,703)</b>	<b>\$(46,375)</b>	<b>\$ (67,050)</b>	<b>\$ -</b>	<b>\$(180,026)</b>
<b>Net carrying value</b>							
Balance, June 30, 2012	\$ 7,086	\$ 100,423	\$ 23,997	\$ 74,277	\$ 108,051	\$ 30,956	\$ 344,790
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ 69,766</b>	<b>\$ 12,754</b>	<b>\$ 37,821</b>	<b>\$ 60,905</b>	<b>\$ -</b>	<b>\$ 181,246</b>

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.

During the year ended June 30, 2013, \$59,526 of depreciation was capitalized to exploration properties (year ended June 30, 2012: \$66,259).

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**6. EXPLORATION PROPERTIES**

	West Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Total
<b>Balance, June 30, 2011</b>	<b>\$ 16,256,580</b>	<b>\$ 6,540,328</b>	<b>\$ 22,796,908</b>
Acquisition costs	2,198,147	843,850	3,041,997
Deferred exploration costs incurred during the year:			
Assaying, surveying and analysis	446,493	-	446,493
Camp construction and other	56,372	192,950	249,322
Drilling	3,116,458	-	3,116,458
Geological and other consulting	1,285,612	66,071	1,351,683
Labour	6,343,019	84,744	6,427,763
Total deferred exploration costs	11,247,954	343,765	11,591,719
<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
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)
Mineral property write-down	(34,986,812)	(1,192,789)	(36,179,601)
Reclassified as assets held for sale (Note 15)	-	(3,551,210)	(3,551,210)
Re-measurement of assets held for sale (Note 15)	-	(3,291,080)	(3,291,080)
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>

**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”) which now forms the western portion of the Company’s West Lombok property (including the Selodong, Mencanggih 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

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 6. EXPLORATION PROPERTIES (continued)

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 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 \$0.90 options and currently holds those 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 \$525,600 (US\$500,000) (June 30, 2012: \$509,550 (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, \$105,120 (US\$100,000) (June 30, 2012: \$nil) are classified as assets held for sale (Note 15).

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, the transaction was renegotiated to change the purchaser to an individual buyer 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, the Company recognized a \$3,291,080 impairment provision against its book value of the Taliwang property to \$3,551,210 and reclassified the full amount as assets held for sale.

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 has written the property value down to \$nil and recorded an impairment provision of \$34,986,812 and a mineral property write-down of this amount during the year.

#### **East Elang and Sabalong properties**

The Company acquired the East Elang and Sabalong properties by way of mining licenses ("KPs") which were granted to the Company by the Sumbawa Regency in 2006 and 2007, respectively. Both KPs were subsequently transitioned into IUPs 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 and Sabalong properties.

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 would 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;



## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 6. EXPLORATION PROPERTIES (continued)

- 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 frames, 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.

During the current fiscal year, Vale completed its Phase 1 exploration work on the Sabalong property, elected not to proceed to Phase 2 and withdrew from the Sabalong project. Vale remains committed to funding exploration work on the Company's East Elang property.

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 June 30, 2013, Vale had advanced US\$2,179,000 (June 30, 2012: US\$2,179,000) to PT SAM and PT SAM held US\$93,022 (June 30, 2012: US\$166,976) of these funds as cash.

In December 2012, the Company decided not to pursue further exploration at the Sabalong property and to relinquish all rights to the property. As a result, the Company has written down the value of the property to \$nil and has recognized a \$1,192,789 impairment provision during the year. The remaining value of the Sumbawa property of \$102,068 relates to the Company's East Elang property.

#### 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, 2011	106,964,510	\$ 74,151,488	(1,300,000)	\$ (1,170,000)	\$10,461,028
Shares issued for exploration properties	2,250,000	742,500	-	-	-
Share issue costs	-	(2,501)	-	-	-
Share-based compensation	-	-	-	-	1,037,887
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
<b>Balance as at June 30, 2013</b>	<b>109,214,510</b>	<b>\$ 74,891,487</b>	<b>(1,300,000)</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,841,937</b>

During the year ended June 30, 2012, the Company increased its ownership in PT. Indotan Lombok Barat Bangkit and PT. Indotan Sumbawa Barat to 90% each by acquiring the 5% interests owned by the Company's Indonesian joint venture partner PT PPM. As part of the consideration for these 5% interests, the Company issued to PT PPM 2,250,000 Southern Arc shares at market value of \$0.33 per share.

#### 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.

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2011	7,500,000	\$ 0.81
Granted	1,655,000	1.02
Expired	(75,000)	0.90
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
Number of options currently exercisable	8,567,500	\$ 0.78

During the year ended June 30, 2013, the Company recorded share-based compensation of \$343,022 (2012: \$1,037,887) fair valued using the Black-Scholes option pricing model, as a result of the granting of 850,000 options (2012: 1,655,000). These amounts were recorded as share-based payment reserve on the statement of financial position. The weighted average fair value of the options granted was \$0.18 (2012: \$0.85) 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 year:

	2013	2012
Risk-free interest rate	1.17%	1.59%
Expected life of options	5 years	5 years
Annualized volatility	123.27%	127.20%
Forfeiture rate	0.00%	0.00%
Dividend rate	0.00%	0.00%

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

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	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
	890,000	\$ 0.90	November 14, 2016
	300,000	\$ 0.25	July 18, 2017
	250,000	\$ 0.25	May 10, 2018
	<u>9,290,000</u>		

## SOUTHERN ARC MINERALS INC.

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

##### Warrants

The Company has granted warrants to purchase common shares. A summary of warrants granted is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at June 30, 2011	1,704,571	\$ 1.64
Expired	(640,246)	1.70
Outstanding at June 30, 2012	1,064,325	1.60
Expired	(1,064,325)	1.60
Outstanding at June 30, 2013	-	\$ -

At 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 June 30, 2013, the Company included in accounts payable \$13,811 (June 30, 2012: \$1,507,734) of exploration expenditures.
- During the year ended June 30, 2012, the Company issued 2,250,000 common shares at \$0.33 per share for a value of \$742,500 for acquisition of exploration properties.
- During the year ended June 30, 2012, the Company received \$175,248 (2012: \$275,705) of interest income from operating activities.

#### 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:

	2013	2012
Management fees	\$ 824,500	\$ 614,000
Consulting fees	\$ 393,713	\$ 504,188
Drilling services	\$ 1,465,593	\$ 3,112,916
Share-based compensation	\$ 283,134	\$ 635,417

During the year ended June 30, 2013, the Company paid \$824,500 (2012: \$851,140) for 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 and Sabalong properties. This contract was awarded under a competitive bidding process and all charges under the contract are considered to be at market rates. During the year ended June 30, 2013, the Company paid a total of \$1,465,593 (US\$1,452,845) (2012: \$3,112,916 (US\$3,097,106)) for drilling services pursuant to the contract. A balance of \$nil (2012: \$751,097) is included in accounts payable for drilling services incurred during the year ended June 30, 2013. The related party balances have no fixed repayment terms and bear no interest.

## SOUTHERN ARC MINERALS INC.

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#### 9. RELATED PARTY TRANSACTIONS (continued)

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	\$ 197,129	\$ 735,062
Office expense	386,699	379,594
Employee benefits	-	351,103
Insurance	44,263	54,197
Interest and bank charges	28,606	39,101
Corporate promotion	814	26,723
Telephone	8,985	18,930
Meals and entertainment	7,782	8,390
	\$ 674,278	\$ 1,613,100

#### 11. FINANCIAL INSTRUMENTS

The nature of the Company's operations expose 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.

**SOUTHERN ARC MINERALS INC.**

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**11. FINANCIAL INSTRUMENTS (continued)**

**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 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.

At June 30, 2012, the Company had US\$1,800,937 (approximately CDN\$1,835,335) and Indonesian Rupiah ("Rph") 288,313,592 (approximately CDN\$31,426) in cash and US\$1,388,666 (approximately CDN\$1,415,190) and Rph 913,920,520 (approximately CDN\$99,617) in accounts payable and accrued liabilities. As at June 30, 2012, US\$ amounts were converted at a rate of US\$0.9813 to CDN\$1 and Rph amounts were converted at a rate of Rph 9,174 to CDN\$1.

**Fair value**

The fair value of the Company's financial instruments is approximated by their carrying value as at June 30, 2013 and June 30, 2012 due to their short term nature.

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.

Financial instruments measured at fair value on June 30, 2013 and June 30, 2012 is summarized in levels of fair value hierarchy as follows:

June 30, 2013	Level 1	Level 2	Level 3
Assets			
Cash	\$ 12,866,306	\$ -	\$ -
June 30, 2012			
Assets			
Cash	\$ 22,441,567	\$ -	\$ -

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**12. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of unproven mineral properties, and to maintain a flexible capital structure. The capital structure of the Company consists of equity attributable to common shareholders comprising issued capital, share-based payment reserve and deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company currently does not produce any revenue and has relied on existing cash balances, equity issuances and advances from related parties to fund its operations. The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management in the year ended June 30, 2013.

**13. INCOME TAXES**

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

	2013	2012
Loss for the year, before income taxes	\$ (41,945,170)	\$ (4,312,411)
Expected income tax recovery	\$ (10,591,155)	\$ (1,121,227)
Items not deductible for income tax purposes	223,757	413,461
Effect of change in tax rate	(63,420)	14,806
Effect of tax rates in other jurisdictions	26,127	55,932
Tax benefits unrecognised	10,404,691	637,028
Total income taxes	\$ -	\$ -

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

	2013	2012
Deferred income tax assets:		
Non-capital loss carry forwards	\$ 4,727,953	\$ 3,256,176
Capital loss carry forwards	8,281	50,438
Share issuance costs	315,937	455,616
Cumulative exploration expenses	7,554,502	(1,459,372)
Equipment	2,585	6,098
Long-term investment	696,150	669,375
	13,305,408	2,978,331
Tax benefits unrecognised	(13,305,408)	(2,978,331)
Net deferred income tax assets	\$ -	\$ -

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

**13. INCOME TAXES (continued)**

The Company has available for deduction against future years' Canadian taxable income non-capital losses of approximately \$15,105,146. Non-capital losses expire as follows:

2015	\$	403,890
2016		604,856
2027		486,895
2028		511,735
2029		886,865
2030		2,938,228
2031		3,597,090
2032		3,763,442
2033		<u>1,892,502</u>
	\$	<u>15,085,503</u>

In addition, the Company has \$12,168,519 (2012: \$13,520,577) of unclaimed resource expenses for Canadian income tax purposes that can be carried forward indefinitely and used to reduce taxable income in Canada.

Future tax benefits, which may arise as a result of these losses and resource expenditures, have not been recognized in these financial statements.

**14. SEGMENTED INFORMATION**

The Company conducts its business as a single operating segment being the acquisition and exploration of resource properties.

	Canada	Singapore	Indonesia	Total
<b>June 30, 2013</b>				
Exploration properties	\$ -	\$ -	\$ 102,068	\$ 102,068
Total assets	\$ 13,476,335	\$ 663,584	\$ 4,052,367	\$ 18,192,286
<b>June 30, 2012</b>				
Exploration properties	\$ -	\$ -	\$ 37,430,624	\$ 37,430,624
Total assets	\$ 21,476,990	\$ 1,160,408	\$ 38,247,114	\$ 60,884,512
<b>For the year ended June 30,</b>			2013	2012
Net loss for the year – Canada			\$ 1,662,841	\$ 2,701,587
Net loss for the year – Singapore			285,298	445,860
Net loss for the year – Indonesia			39,997,031	1,164,964
Net loss for the year			\$ 41,945,170	\$ 4,312,411

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

(Expressed in Canadian dollars)

**15. 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\$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, the transaction was renegotiated to change the purchaser to an individual buyer 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. The completion date for the transaction is expected by late 2013.

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

	2013	2012
Exploration properties	\$ 3,551,210	\$ -
Property, plant and equipment	7,975	-
Loans receivable	105,120	-
Total	\$ 3,664,305	\$ -

Liabilities of Taliwang project classified as held for sale

	2013	2012
Accounts payable and accrued liabilities	\$ 13,403	\$ -
Total	\$ 13,403	\$ -

**16. EVENTS SUBSEQUENT TO THE REPORTING PERIOD**

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 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"). Subsequent to this transaction, the Company holds a 26.14% equity interest in Eagle Hill and will account for its investment using the equity method.