



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2012 AND 2011**

(Unaudited - Expressed in Canadian dollars)

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

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three and six months ended December 31, 2012, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	December 31, 2012	June 30, 2012
ASSETS		
Current		
Cash	\$ 17,795,516	\$ 22,441,567
Receivables	42,597	40,701
Prepaid expense and deposit	98,678	117,280
	17,936,791	22,599,548
Property, plant and equipment (Note 4)	287,173	344,790
Exploration properties (Note 5)	35,612,324	37,430,624
Loans receivable (Note 5)	497,450	509,550
Total Assets	\$ 54,333,738	\$ 60,884,512
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 728,378	\$ 1,564,436
	728,378	1,564,436
Equity		
Capital stock (Note 6)	74,891,487	74,891,487
Treasury stock (Note 6)	(1,170,000)	(1,170,000)
Share-based payment reserve (Note 6)	11,727,268	11,498,915
Deficit	(32,140,933)	(26,255,249)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	53,307,822	58,965,153
Non-controlling interest	297,538	354,923
Total equity	53,605,360	59,320,076
Total Liabilities and Equity	\$ 54,333,738	\$ 60,884,512

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue on February 27, 2013:

"John Proust" Director "David Stone" Director

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

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

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
EXPENSES				
Office and miscellaneous (Note 9)	\$ 171,975	\$ 361,271	\$ 431,890	\$ 573,231
Share-based compensation (Note 6)	134,862	456,648	228,353	554,918
Management fees (Note 8)	203,500	141,000	419,500	282,000
Professional fees	121,530	154,850	169,505	221,628
Foreign exchange (gain) loss	(64,577)	(50,651)	63,946	(392,113)
Travel	23,502	55,974	23,502	104,674
Investor relations	21,248	85,661	35,530	134,697
Rent	27,300	28,024	50,701	53,548
Transfer agent and filing fees	25,635	50,268	40,907	57,151
Consulting fees	-	4,530	-	41,493
Mineral Property write-off	4,541,049	-	4,541,049	-
Depreciation	7,401	7,274	14,835	13,038
Loss before other items	(5,213,425)	(1,294,849)	(6,019,718)	(1,644,265)
OTHER ITEMS				
Interest income	40,907	55,678	97,234	147,017
Loss on equity investment (Note 3)	-	(25,096)	-	(52,289)
Impairment on equity investment (Note 3)	-	(305,582)	-	(305,582)
Impairment of equipment (Note 4)	-	-	(7,086)	-
	40,907	(275,000)	90,148	(210,854)
Net and comprehensive loss for the period	\$ (5,172,518)	\$ (1,569,849)	\$ (5,929,570)	\$ (1,855,119)
Comprehensive loss attributable to:				
Shareholders of Southern Arc Minerals Inc.	\$ (5,152,616)	\$ (1,544,813)	\$ (5,885,684)	\$ (1,818,619)
Non-controlling interests	(19,902)	(25,036)	(43,886)	(36,500)
Basic and diluted loss per share	\$ (0.05)	\$ (0.01)	\$ (0.05)	\$ (0.02)
Weighted average number of shares outstanding	107,914,510	105,664,510	107,914,510	105,664,510

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

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

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Comprehensive loss for the period	\$ (5,172,516)	\$ (1,569,849)	\$ (5,929,570)	\$ (1,855,119)
Items not affecting cash:				
Share-based compensation	134,862	456,648	228,353	554,918
Depreciation	7,401	7,274	14,835	13,038
Mineral property write-off	4,541,049	-	4,541,049	-
Loss on equity investment	-	25,096	-	52,289
Impairment on equity investment	-	305,582	-	305,582
Impairment of equipment	-	-	7,086	-
Foreign exchange (gain) loss	(64,577)	(50,651)	63,947	(392,113)
Changes in non-cash working capital items:				
(Decrease) increase in receivables	(3,767)	26,816	(1,896)	103,309
Prepaid expense and deposit	9,461	(5,901)	18,602	(36,729)
Increase (decrease) in accounts payable and accrued liabilities	231,324	(308,798)	555,000	(192,884)
Net cash used in operating activities	(316,763)	(1,113,783)	(502,594)	(1,447,709)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in exploration properties	(2,514,113)	(3,664,164)	(4,078,112)	(6,747,557)
Acquisition of property, plant and equipment	-	(114,525)	-	(196,592)
Loan receivable	(5,600)	(101,700)	-	(101,700)
Net cash used in investing activities	(2,519,713)	(3,880,389)	(4,078,112)	(7,045,849)
Effect of exchange rate changes on cash	68,384	37,578	(65,345)	368,397
Change in cash during period	(2,768,092)	(4,956,594)	(4,646,051)	(8,125,161)
Cash, beginning of period	20,563,608	35,463,524	22,441,567	38,632,091
Cash, end of period	\$ 17,795,516	\$ 30,506,930	\$ 17,795,516	\$ 30,506,930
Cash paid for income taxes - \$nil				
Cash paid for interest	\$ -	\$ -	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 7)

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

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Attributable to shareholders of the Company							
	Capital Stock	Treasury Stock	Share-based Payment Reserve	Deficit	Total	Non-controlling Interest	Total Equity	
Balance at June 30, 2012	\$ 74,891,487	\$ (1,170,000)	\$ 11,498,915	\$ (26,255,249)	\$ 58,965,153	\$ 354,923	\$ 59,320,076	
Comprehensive loss for the period	-	-	-	(5,885,684)	(5,885,684)	(43,886)	(5,929,570)	
Share-based compensation	-	-	228,353	-	228,353	-	228,353	
Change in non-controlling interest	-	-	-	-	-	(13,499)	(13,499)	
	-	-	228,353	(5,885,684)	(5,657,331)	(57,385)	(5,714,716)	
Balance at December 31, 2012	\$ 74,891,487	\$ (1,170,000)	\$ 11,727,268	\$ (32,140,933)	\$ 53,307,822	\$ 297,538	\$ 53,605,360	
Balance at June 30, 2011	\$ 74,151,488	\$ (1,170,000)	\$ 10,461,028	\$ (22,066,164)	\$ 61,376,352	\$ 405,105	\$ 61,781,457	
Comprehensive loss for the period	-	-	-	(1,818,619)	(1,818,619)	(36,500)	(1,855,119)	
Share-based compensation	-	-	554,918	-	554,918	-	554,918	
	-	-	554,918	(1,818,619)	(1,263,701)	(36,500)	(1,300,201)	
Balance at December 31, 2011	\$ 74,151,488	\$ (1,170,000)	\$ 11,015,946	\$ (23,884,783)	\$ 60,112,651	\$ 368,605	\$ 60,481,256	

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

December 31, 2012 and 2011

(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 its current plans, budgeted capital expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for the 12 months from the date of approval of the financial statements. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue business.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended June 30, 2012.

These condensed consolidated interim financial statements were approved for issuance by the Company’s Board of Directors on February 27, 2013.

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

December 31, 2012 and 2011

(Expressed in Canadian dollars)

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 it 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 December 31, 2012 and June 30, 2012, the Company held 15.3 million Nickel shares (37.6%) 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.

4. PROPERTY, PLANT AND EQUIPMENT

	Telephone Equipment	Vehicles	Furniture	Computer	Field Equipment	Leasehold Improvement	Total
Costs							
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
Impairment	(26,278)	-	-	-	-	-	(26,278)
Balance, December 31, 2012	\$ -	\$ 122,664	\$ 32,939	\$ 107,307	\$ 148,919	\$ 34,716	\$ 446,545
Accumulated depreciation							
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 period		(15,145)	(4,069)	(12,315)	(17,485)	(1,517)	(50,531)
Impairment	19,192	-	-	-	-	-	19,192
Balance, December 31, 2012	\$ -	\$ (37,386)	\$ (13,011)	\$ (45,345)	\$ (58,353)	\$ (5,277)	\$ (159,372)
Net carry value							
Balance, June 30, 2011	\$ 8,858	\$ 7,957	\$ 15,720	\$ 87,391	\$ 80,612	\$ 34,427	\$ 234,965
Balance, June 30, 2012	\$ 7,086	\$ 100,423	\$ 23,997	\$ 74,277	\$ 108,051	\$ 30,956	\$ 344,790
Balance, December 31, 2012	\$ -	\$ 85,278	\$ 19,928	\$ 61,962	\$ 90,566	\$ 29,439	\$ 287,173

During the period ended December 31, 2012, \$35,696 of depreciation was capitalized to exploration properties (year ended June 30, 2012: \$66,259).

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2012 and 2011

(Expressed in Canadian dollars)

5. EXPLORATION PROPERTIES

	West Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Total
Balance, June 30, 2011	\$ 16,256,580	\$ 6,540,328	\$ 22,796,908
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
Balance, June 30, 2012	\$ 29,702,681	\$ 7,727,943	\$ 37,430,624
Deferred exploration costs incurred during the year:			
Assaying, surveying and analysis	6,016	16,814	22,830
Camp construction and other	799,814	13,430	813,244
Drilling	168,101	198,785	366,886
Geological and other consulting	492,065	147,519	639,584
Labour	560,573	319,632	880,205
Total deferred exploration costs	2,026,569	696,180	2,722,749
Mineral property write-off	-	(4,541,049)	(4,541,049)
Balance, December 31, 2012	\$ 31,729,250	\$ 3,883,074	\$ 35,612,324

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 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 any development within the area originally covered by Block 1. The Company has the right to repurchase this 2% NSR for US\$1 million at any time.

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2012 and 2011

(Expressed in Canadian dollars)

5. EXPLORATION PROPERTIES (cont'd...)

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 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 \$497,450 (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.

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"). The transaction is contingent on Coke completing its initial public offering on the Australian Securities Exchange and certain other conditions. With 15 million shares, Southern Arc would own approximately 8% of Coke. The shares will be held in escrow for a period of six months from the date Coke lists on the Australian Securities Exchange. Based on an expected value of A\$0.20 per share, the transaction values the Company's interest in the Taliwang property at approximately \$3.6 million. As a result, the Company recognized a \$3,348,260 impairment provision against its book value of the Taliwang property.

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. Vale completed Phase 1 exploration on Sabalong and elected not to proceed further with that property. To exercise its option, Vale must fully fund the advancement of the East Elang property, 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;
- 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.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

5. EXPLORATION PROPERTIES (cont'd...)

During the period, 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 and Sabalong properties are held by the Company's wholly-owned Indonesian subsidiary, PT SAM. Funds advanced to PT SAM by Vale are recorded as cash and as accounts payable and accrued liabilities in the Company's accounts until such time as the funds are expended on approved exploration activities. As at December 31, 2012, Vale had advanced US\$2,179,000 (June 30, 2012: US\$2,179,000) to PT SAM and PT SAM held US\$133,813 (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 period.

6. CAPITAL STOCK AND RESERVES

	Number of Common Shares	Capital Stock	Number of Treasury Shares	Treasury Stock	Share-based Payment Reserve
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	-	-	-	-	228,653
Balance as at December 31, 2012	109,214,510	\$ 74,891,487	(1,300,000)	\$(1,170,000)	\$ 11,727,568

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 share 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6. CAPITAL STOCK AND RESERVES (cont'd...)
Share options (cont'd...)

	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	600,000	0.25
Cancelled	(350,000)	0.86
Outstanding at December 31, 2012 (Remaining contractual life is 2.45 years)	9,330,000	\$ 0.78
Number of options currently exercisable	8,490,000	\$ 0.76

During the period ended December 31, 2012, the Company recorded share-based compensation of \$228,652 (2011: \$554,918) fair valued using the Black-Scholes option pricing model, as a result of the granting of 600,000 options (2011: 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 \$0.20 (December 31, 2011: \$0.90) per option.

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

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

	December 31, 2012	December 31, 2011
Risk-free interest rate	1.18%	1.59%
Expected life of options	5 years	5 year
Annualized volatility	123.18%	127.20%
Forfeiture rate	0.00%	0.00%
Dividend rate	0.00%	0.00%

At December 31, 2012, the Company had share purchase options outstanding enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	300,000	\$ 0.25	November 23, 2013
	100,000	\$ 0.40	November 23, 2013
	350,000	\$ 0.80	November 23, 2013
	3,050,000	\$ 0.40	September 16, 2014
	2,850,000	\$ 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
	980,000	\$ 0.90	November 14, 2016
	300,000	\$ 0.25	July 18, 2017
	<u>9,330,000</u>		

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

6. CAPITAL STOCK AND RESERVES (cont'd...)**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 December 31, 2012	-	\$ -

At December 31, 2012, the Company had no share purchase warrants outstanding.

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transaction during the period. At December 31, 2012, the Company included in accounts payable \$116,675 (December 31, 2011: \$559,736) of exploration expenditures.

8. RELATED PARTY TRANSACTIONS**Key management and personnel compensation**

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

	Three Months ended December 31, 2012	Three Months ended December 31, 2011	Six Months ended December 31, 2012	Six Months ended December 31, 2011
Management fees	340,159	\$ 224,156	653,564	\$ 443,463
Drilling services	233,807	\$ -	365,745	\$ 605,261
Share-based compensation	116,896	\$ 503,640	207,054	\$ 503,640

During the period ended December 31, 2012, the Company paid \$417,000 (2011: \$282,000) for management fees to a private company controlled by the Chief Executive Officer and Director of the Company. The above transactions occurred in the normal course of operations and are recorded at the consideration established and agreed to by the related parties.

Other transactions with related parties

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 period ended December 31, 2012, the Company paid a total of \$365,745 (US\$368,896) (2011: \$2,253,756 (US\$2,236,533)) for drilling services pursuant to the contract. A balance of \$69,219 (December 31, 2011: \$211,320) is included in accounts payable for drilling services incurred during the period ended December 31, 2012.

The related party balances have no fixed repayment terms and bear no interest.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2012 and 2011

(Expressed in Canadian dollars)

9. OFFICE AND MISCELLANEOUS EXPENSES

	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six Months ended December 31, 2011
Administrative	\$ 23,789	\$ 34,018	\$ 71,261	\$ 75,000
Office expenses	138,097	307,570	327,815	459,889
Insurance	2,844	12,247	17,447	24,843
Interest and bank charges	7,245	7,436	15,367	13,499
	\$ 171,975	\$ 361,271	\$ 431,890	\$ 573,231