



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

(Unaudited - Expressed in Canadian dollars)

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

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

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

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

Nature and continuance of operations (Note 1)

Events subsequent to the reporting period (Note 13)

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

“John Proust”

Director

“David Stone”

Director

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

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

(Expressed in Canadian dollars)

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

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

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

(Expressed in Canadian dollars)

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

Supplemental disclosure with respect to cash flows (Note 8)

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

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

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

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

Investments in associates

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

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

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

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

New standards, amendments and interpretations issued

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

- **IFRS 10 - Consolidated Financial Statements.** In May 2011, the IASB issued IFRS 10, which replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- **IFRS 11 - Joint Arrangement.** In May 2011, the IASB issued IFRS 11, which replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- **IFRS 12 - Disclosure of interest in Other Entities.** IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- **IFRS 13 - Fair Value Measurement.** IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued (continued)

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

3. INVESTMENT IN ASSOCIATES

Eagle Hill Exploration Corporation

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

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

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

The carrying value of Eagle Hill is as follows:

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

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

Nickel Oil and Gas Corp.

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

4. DEPOSIT

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

5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

(Expressed in Canadian dollars)

6. EXPLORATION PROPERTIES

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

Lombok and Taliwang properties

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

In August 2005, the Company entered into an agreement with PT Newmont Nusa Tenggara (“Newmont”) regarding a property (“Block 1”) that now forms the western portion of the Company’s West Lombok property (including the Selodong, 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 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.

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(Expressed in Canadian dollars)

6. EXPLORATION PROPERTIES (continued)

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

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

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

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

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

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

East Elang property

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

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

- a) Phase 1 – Vale will fund US\$1,200,000 of exploration expenditures within one year from the date the Company receives an exploration activities permit from the Ministry of Forestry for that property. Vale can then elect to proceed to;
- b) Phase 2 minimum program – Vale will fund at least US\$2,500,000 of additional exploration expenditures within 2 years of commencing Phase 2;
- c) Phase 2 full program – Vale may proceed to completion of a pre-feasibility study or fund further exploration expenditures of at least US\$10,000,000 within 4 years of commencing Phase 2;
- d) Upon completing the Phase 2 full program, Vale may elect to solely fund the completion of a bankable Feasibility Study within 7 years of commencing Phase 2.

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

SEPTEMBER 30, 2013 AND 2012

(Expressed in Canadian dollars)

6. EXPLORATION PROPERTIES (continued)

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

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

7. CAPITAL STOCK AND RESERVES

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

Share options

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange ("TSX-V"). The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price, are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's shares on the date of grant. The share options granted are exercisable for a period of up to 10 years. A summary of the Company's outstanding share options granted is presented in the following table.

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

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

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

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

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

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

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

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

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

Warrants

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

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

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

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9. RELATED PARTY TRANSACTIONS

Key management and personnel compensation

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

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

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

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

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

10. OFFICE AND MISCELLANEOUS EXPENSES

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

11. FINANCIAL INSTRUMENTS

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

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

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

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11. FINANCIAL INSTRUMENTS (continued)

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

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

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

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

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

Fair value

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

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

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

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

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

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12. ASSETS HELD FOR SALE

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

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

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

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

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

13. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

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