Southern Arc
MINERALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED
JUNE 30, 2013

This Management's Discussion and Analysis ("MD&A"), prepared as of October 28, 2013, should be read in conjunction with the audited consolidated annual financial statements of Southern Arc Minerals Inc. ("Southern Arc" or the "Company") for the year ended June 30, 2013, and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. Additional information related to the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.southernarcminerals.com.

Statements in this MD&A that are not historical facts are "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. Readers are cautioned not to put undue reliance on forward-looking statements.

COMPANY OVERVIEW

Southern Arc, through its subsidiaries (collectively "Southern Arc" or "the Company"), is a mineral exploration company exploring for gold and copper-gold. The Company's current portfolio includes two exploration-stage projects with epithermal gold and copper-gold porphyry prospects on the Lombok and Sumbawa islands in Indonesia, and a substantial investment in a resource-stage gold project located in Quebec, Canada.

Southern Arc was incorporated in British Columbia, Canada on August 19, 2004. To date the Company's efforts have been focused in Indonesia. At its flagship West Lombok project, which hosts several gold-rich copper porphyry and epithermal gold vein prospects, Southern Arc has completed approximately 47,720 metres of drilling and in July 2013 completed a resource estimate for the project. The Company's East Elang project is a grassroots exploration property that will be advanced in partnership with Vale S.A. ("Vale"). In December 2012 the Company reached an agreement to sell its third Indonesian property, Taliwang, and the property has been classified as an Asset Held for Sale pending completion of this transaction.

In December 2012 the Company announced its intention to diversify its portfolio by investing in gold properties outside of Indonesia. The Company conducted an extensive search worldwide for high-quality properties, and on August 15, 2013 invested $7.3 million to acquire a 26.14% interest in Eagle Hill Exploration Corporation ("Eagle Hill"). Eagle Hill owns the high-grade Windfall Lake Gold Deposit in Quebec, Canada. Dundee Corporation also participated in the private placement, resulting in a total investment of $12 million, with Southern Arc and Dundee Corporation each holding a 26.14% interest in Eagle Hill. The $12 million investment allowed Eagle Hill to consolidate ownership of the property and fund an aggressive drill program, with the objective of expanding the existing mineral resource.

Southern Arc trades on the TSX Venture Exchange under the symbol "SA" and on the OTCQX International Exchange under the symbol "SOACF". To date, the Company has not generated revenues from operations and is considered to be in the exploration stage. The Company conducts its activities through wholly-owned subsidiaries, limited liability companies, partnerships and joint ventures.

FINANCIAL SNAPSHOT

	June 30, 2013	June 30, 2012	June 30, 2011
Total assets	**$ 18,192,286**	$ 60,884,512	$ 62,706,114
Exploration properties	**102,068**	37,430,624	22,796,908
Working capital	**16,060,362**	21,035,112	37,957,778
Comprehensive loss	**(41,945,170)**	(4,312,411)	(6,583,353)
Basic and diluted loss per share	**(0.38)**	(0.04)	(0.08)

At the date of this MD&A, Southern Arc had approximately $8.0 million in working capital.

EAGLE HILL INVESTMENT

In August 2013, following an extensive search worldwide for high-quality properties, the Company and chose to invest in Eagle Hill. Eagle Hill owns the high-grade Windfall Lake Gold Deposit in Quebec, Canada. With this consolidation complete, Eagle Hill owns 100% of the Main Zone, which hosts the majority of the mineral resource. A resource estimate completed in July 2012 by SRK Consulting (Canada) Inc. ("SRK") outlined a mineral resource of 538,000 ounces @ 10.05 g/t gold in the indicated category and 822,000 ounces @ 8.76 g/t gold in the inferred category (see Eagle Hill press release dated July 25, 2012). With grades averaging 10.05 g/t gold in the indicated category, Eagle Hill is one of the highest-grade development-stage gold projects in the world. Eagle Hill owns 100% of the main zone (the "Main Zone"), which hosts the majority of the mineral resource.

Windfall Lake is located in the Abitibi Gold Belt, a highly favourable jurisdiction for exploration and mining. The greenstone belts of the Abitibi region constitute one of the most prolific gold-producing regions in the world, having produced over 170 million ounces of gold to date. The project is easily accessible by paved highways and all-weather gravel roads and has substantial infrastructure on site, including a 58-person camp and a 1,450-metre access ramp (vertical depth of 100 metres). To date 641 diamond drill holes totaling 162,097 metres have been completed on the property, of which 356 (105,340 metres) were considered for geological and resource modelling.

On August 15, 2013, the Company invested $7,324,050 (inclusive of a $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. Each unit comprises one common share of Eagle Hill and one half share purchase warrant, with each whole warrant entitling Southern Arc to acquire a further common share of Eagle Hill at a price of $0.10 per share for a period of four years. 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. Should Southern Arc choose to exercise all of its warrants, the Company would hold a 30.74% interest in Eagle Hill on a fully diluted basis, and be Eagle Hill's largest shareholder. Eagle Hill trades on the TSX Venture Exchange under the symbol "EAG" and on the OTCQX International Exchange under the symbol "EHECF". Dundee Corporation (TSX: DC.A) also participated in the private placement by investing $4,675,950 to acquire an additional 62,346,000 units of Eagle Hill, thereby increasing its ownership of Eagle Hill from 18.8% to 26.14%. The $12 million private placement allowed Eagle Hill to acquire Noront Resources Inc.'s ("Noront") 25% interest, as well as Noront's royalty interests and rights associated with the Windfall Lake Property.

The $12 million private placement has also funded an aggressive drill program. Three rigs started drilling on September 12, 2013 with the expectation of drilling 25,000 metres by year-end 2013. The majority of the mineral resource is hosted in the Main Zone, comprising the 27, Caribou, Mink and Mallard Gold Lenses. The deposit is well defined from surface to a depth of 500 metres, and remains open along strike and at depth. Eagle Hill plans to expand the resource by testing a large, sparsely drilled anomaly to the west of the Main Zone, drilling lateral extension of known gold lenses, and testing the extension of mineralization at depth. Following completion of this program in December 2013, Eagle Hill plans to release an updated resource estimate in early 2014.

Immediately following approval of the private placement, Eagle Hill's board of directors and executive team was reconstituted. John Proust and Dr. Mike Andrews, also Directors of Southern Arc, were appointed to the board along with David Christie and Carl Calandra. Robert Parsons and Daniel Racine have also been appointed to the board as independent directors. John Proust was appointed Interim CEO of Eagle Hill and Dr. Mike Andrews was appointed Interim President of

Eagle Hill, while the board of directors conducts an executive search for a permanent CEO. Eagle Hill's board of directors also promoted Dr. Jean-Philippe Desrochers to the position of Vice President, Exploration. Dr. Desrochers joined Eagle Hill as Chief Geologist in 2010 and has been instrumental in the development of Eagle Hill's mineral resource.

INDONESIAN ACTIVITIES DURING FISCAL 2013

West Lombok Property (Lombok Island)

The West Lombok project covers a 13-km long by 7-km wide structural corridor of mineralization and alteration hosting porphyry copper-gold and epithermal gold deposits. The two main epithermal prospects on the property, Pelangan and Mencanggah, cover broad areas of 4 km by 5 km and 6.5 km by 4.5 km, respectively, that host numerous structurally-controlled silica ledges variably overprinted by high-grade quartz veins and breccias. Individual tabular ledge bodies range in thickness from 2 to 66 metres, with a strike length of up to 1,000 metres and a vertical extent of greater than 300 metres. Southern Arc has completed 26,477 metres of drilling to date on epithermal gold mineralization in the Pelangan and Mencanggah prospects, confirming broad zones of low-grade mineralization throughout the property, high-grade events typical of epithermal boiling zones and several high-grade shoots. At the Selodong porphyry copper-gold intrusive complex in the southeastern end of the property, Southern Arc has completed 20,046 metres of drilling to date with the majority of drill holes intersecting broad zones of significant copper-gold mineralization. In 2011, the Company completed an airborne geophysical survey of the West Lombok project at 50-metre spacings to define both near-surface and buried copper-gold porphyry targets. Industry experts including Dr. Steve Garwin, Southern Arc's Senior Technical Advisor, modelled and interpreted the results of the survey in conjunction with the Company's geological and geochemistry database, and identified 17 porphyry targets on the property. A number of these targets have already had a limited amount of drill testing and demonstrated zones hosting high-grade gold-rich porphyry copper mineralization, supporting the outcome of the prospectivity analysis.

On November 20, 2012, Southern Arc announced that the forestry permit required to conduct drilling on the property, known as a *Pinjam Pakai* (borrow to use) permit, had been received, allowing Southern Arc to commence drilling. Commencing in mid-December 2012 Southern Arc drilled 14 holes at the Bising target and 16 holes at the Tibu Serai target in the Mencanggah prospect. Drill results are available on SEDAR and on the Company's website.

With this phase of drilling complete, Southern Arc had enough data to complete a National Instrument 43-101 compliant resource estimate for portions of the property. Southern Arc had worked closely since December 2011 with SRK, an internationally renowned, independent consulting service to major, intermediate and junior mining and exploration companies. SRK helped to prepare the drill program for epithermal gold targets within the Pelangan and Mencanggah prospects and reviewed the data throughout the drilling process. On July 11, 2013, Southern Arc released the first resource estimate for the West Lombok property (see July 11, 2013 press release). SRK estimated an inferred resource totalling 1.49 million ounces of gold, 1.82 million ounces of silver and 397.3 million pounds of copper from three open-pittable epithermal gold deposits and one porphyry copper deposit. The Raja, Bising and Tibu Serai epithermal gold deposits are estimated to contain 11,783,000 tonnes averaging 1.5 g/t gold for contained metal of 567,820 ounces of gold, with an additional 1.82 million ounces of silver in the Raja deposit. The Selodong porphyry copper mineralization is estimated to contain 66,750,000 tonnes averaging 0.43 g/t gold and 0.27% copper for contained metal of 922,800 ounces of gold and 397,324,000 pounds of copper within two zones: Montong Botek and Blongas.

Despite completing a 43-101 compliant inferred resource estimate for the West Lombok project, Southern Arc's market capitalization, like many of its peers, was not impacted. With the backdrop of a challenging market for junior mining companies, Southern Arc's management has determined that it is prudent to write down the West Lombok project at this time. Management continue to believe that its West Lombok project holds great potential and the write down of this asset reflects management's interpretation of IFRS as it relates to impairing assets in a timely fashion.

East Elang Property (Sumbawa Island)

The East Elang property is located adjacent to Newmont's Elang-Dodo property, which hosts a large copper-gold porphyry deposit. Aerial photography and lithographical studies suggest that the Elang mineralized structure may extend onto Southern Arc's East Elang property. While the property is considered highly prospective due to its location and results from aerial surveys, exploration has been deferred pending reclassification of the property's forestry status and issuance of the appropriate permits.

Under the terms of the October 2010 option and joint venture agreement, the property will be advanced in partnership with Vale, whereby Vale can earn a 75% interest in the East Elang property by advancing the property to bankable feasibility study with a minimum Phase 1 expenditure of US$1.2 million within one year from the date on which Southern Arc receives a Ministry of Forestry *Pinjam Pakai* permit for the property. Southern Arc has not yet applied for the *Pinjam Pakai* permit because the majority of the East Elang property, including the most prospective areas, is designated as primary forest and subject to a moratorium on exploration and mining activities. In May 2013 the Indonesian government extended the moratorium to May 2015. As a result, there can be only very limited exploration activity on the property until either a reclassification is granted or the moratorium is lifted. Southern Arc has requested a reclassification of the property's forestry status and has also applied for suspension (back-dated for two years) of the mining business license ("IUP") until the reclassification process has been completed, ensuring that Southern Arc and Vale have adequate time to evaluate the property once exploration commences. In the interim, Company field activities continue to focus on CSR engagement at the village and sub-district levels.

Taliwang Property (Sumbawa Island)

In December 2012, following a strategic review of the Company's projects and exploration strategy, 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 was contingent on Coke completing its initial public offering on the Australian Securities Exchange and certain other conditions. Coke has been unable to complete its initial public offering, but an individual related to Coke has proposed to continue with the transaction on substantially the same terms. Consequently, Southern Arc has agreed to a revised purchase and sale agreement whereby the individual will purchase Taliwang in exchange for US$3,500,000, of which US$100,000 has been received as a non-refundable deposit.

As a result, during the year ended June 30, 2013, the Company recognized a $3,291,080 impairment provision against its book value of the Taliwang property. The Taliwang property has been classified as an Asset Held for Sale pending completion of this transaction, which remains contingent on completion of due diligence and other requirements.

Sabalong Property (Sumbawa Island)

Southern Arc acquired the Sabalong property in 2007 and in 2010 entered into an option and joint venture agreement with Vale to advance the property. Southern Arc and Vale drilled three holes on the property commencing in October 2011, for a total of 1,811 metres, with Vale funding all exploration expenditures. As no significant assay results were returned, Vale elected not to proceed to Phase 2 exploration at Sabalong and relinquished all rights to the property. Subsequent to completion of Vale's Phase 1 work on the property, Southern Arc regained a 100% economic interest in the Sabalong property and between July and September 2012 completed a six-hole drill program totaling 1,035.6 metres to test epithermal gold vein targets in the Toyang prospect as defined by historical Newmont (1986–92), Rio Tinto Zinc ("RTZ") (1993–98) and Company (2007–present) exploration work. While a number of the holes revealed mineralized intervals similar in scale and tenor to historical RTZ results, Southern Arc's drilling failed to demonstrate any increase in grade or width with depth, and did not establish lateral extension of the mineralization.

In December 2012, the Company decided that it would not pursue any further exploration at the property and that it would relinquish all rights to the Sabalong property. As a result, the Company has written down the book value of the property to $nil and recorded an impairment charge of $1,192,789 during the year.

EXPLORATION PROPERTY REVIEW

The Company's accounting policy is to record its exploration properties at cost. Exploration and evaluation expenditures relating to exploration properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or the properties are sold or abandoned, at which time deferred costs are written off.

West Lombok Property (Lombok Island)

The Company acquired its original interest in the West Lombok property in 2005 by paying $57,100 and issuing 8,050,000 common shares (valued at $603,750) to Sunda Mining Corporation ("Sunda") and by paying $126,000 and issuing 700,000 common shares (valued at $87,500) to Indotan Inc. ("Indotan"). The Company also granted a 0.5% net smelting royalty ("NSR") to individuals related to Sunda and a 1% NSR to Indotan on approximately 8% of the current West Lombok property, which excludes Block 1 described below.

The West Lombok property comprises a 13-km long by 7-km wide northwest-trending structural corridor of hydrothermal mineralization and alteration that hosts the Pelangan epithermal gold prospect, the Mencanggah epithermal/porphyry copper-gold district and the Selodong porphyry copper-gold prospect. This area was previously held by PT Newmont Nusa Tenggara ("Newmont"), a subsidiary of Newmont Mining Corporation. In August 2005, Southern Arc entered into an agreement with Newmont regarding a property ("Block 1") that now forms the western portion of the West Lombok property and is included in the West Lombok 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.

Southern Arc has given a free-carry interest for 10% of the West Lombok project to the local Regency Government as per a cooperation agreement signed in December 2010, ensuring government support for the project and long-term benefits for local communities as the project advances. Southern Arc believes that having the local Regency Government as an equity partner creates a synergistic and mutually beneficial environment for advancement of the project. This relationship ensures it is in the local government's interest to support the Company's activities and that local communities will receive benefits directly from Southern Arc's success at the project. The Regency interest is loan-carried through to a production scenario, whereby debt and equity contribution are paid back through dividends or other financial means.

The exploration stage of the West Lombok IUP (encompassing 10,088 hectares), issued in January 2011, is initially valid for five years and permits the Company to pursue exploration activities up to the conclusion of a feasibility study. This period may be extended with approval of the Indonesian Government. On approval of a feasibility study, the Company can automatically transition the IUP into the exploitation stage, with the right to conduct mining production on this property for 20 years with the potential for two further 10-year extension periods. In addition to the IUP, the Ministry of Forestry *Pinjam Pakai* permit required for exploration activities within areas designated as production forest was issued in November 2012. On the West Lombok property, 1.1% of the area is designated protected forest (no open-pit mining), 55.1% is designated production forest (open-pit mining allowed) and 43.8% has no forestry designation (no restriction on mining activities).

Since receiving its West Lombok IUP in January 2011, Southern Arc has proactively engaged with local communities to discuss its exploration and development plans and to address questions and concerns. The Company offers employment and training programs and undertakes an extensive CSR program through its fully-funded foundation, with an emphasis on education, community health, environmental protection and economic empowerment of local communities. In 2012, Southern Arc granted six micro-credit loans to local village members to support entrepreneurial initiatives in 2013 has continued to support local communities by assisting with road maintenance and supporting requests for assistance with educational programs and maintaining religious buildings.

The Company has spent $35 million to date on its West Lombok property. 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 recorded an impairment provision of $35.0 million and recorded a mineral property write-off of this amount during the period.

Pelangan prospect

The Pelangan prospect, covering an approximate 4-km by 5-km area in the northwest part of the property, comprises four main epithermal gold targets including Tanjung-Jati, Kayu Putih, Raja and Lala. Southern Arc has completed 13,295 metres of drilling on the Pelangan prospect. Phase 1 drilling was completed at the Pelangan prospect in 2007, together with geological mapping and outcrop channel sampling of sub-parallel vein structures. Phase 2 drilling was focused on identifying and defining high-grade shoots within large continuous structures. The presence of such shoots are suggested by a high-grade quartz episode within the mineralized structural breccias and increasing gold grade with depth. Drilling shows that these breccia bodies range in true width between 3 metres and 20 metres. Phase 2 drilling confirmed high-grade events typical of epithermal boiling zones at both the Central Raja and Tanjung Lode structures and identified three high-grade shoots that will be examined further with future drilling. All results are available on SEDAR at www.sedar.com on the Company's website at www.southernarcminerals.com.

Mencanggah prospect

The Mencanggah prospect comprises a large cluster of west-northwest to north-trending, gold-bearing epithermal mineralized structural breccias concentrated in a 6.5-km by 4.5-km area, with the potential to host copper-gold porphyry mineralization at depth. Channel sampling indicates that these breccia bodies range in true width between 3 metres and 66 metres. The Bising and Waterfall targets have been drill tested and show encouraging results, especially at the Bising target. Part of the drilling completed at the Tibu Serai target will be incorporated into the pending resource estimate. Drilling at the Tibu Serai target has demonstrated the contiguous nature of high-grade mineralization along one of the mineralized structures at Mencanggah and highlights the potential of numerous other high-grade surface indications yet to be drill tested at Mencanggah and the rest of the project. Southern Arc completed 13,182 metres of drilling for epithermal gold on the Mencanggah prospect in Phase 1 and Phase 2 exploration. Drill results are available on the Company's website and on SEDAR.

Mencanggah prospect – porphyry copper-gold exploration

While the majority of porphyry exploration has focused on the Selodong prospect, two holes were drilled in March 2013 (1,197 metres) to test deep targets beneath the Mencanggah lithocap (Appendix 3). Neither hole encountered significant porphyry-style mineralization, instead intersecting magnetite rich diorite and volcanics, respectively. Numerous porphyry targets remain to be tested beneath the lithocaps at Mencanggah, Pelangan prospect and Selodong.

Selodong prospect

As a result of the porphyry prospectivity study, in calendar Q1-2012 the Company initiated drilling at the Belikat and Blongas East targets in the Selodong prospect and completed 974 metres in two holes. Drilling returned encouraging results and confirmed the methodology behind the prospectivity study for targeting shallow or blind porphyry mineralization throughout the property. The Company completed Phase 1 drilling at Selodong in September 2008 with 30 holes totaling 17,859 metres. These holes tested seven of the 14 porphyry copper-gold targets, with the majority intersecting broad zones (126.45 to 855.11 m) of significant copper-gold mineralization. All results are available on the Company's website and on SEDAR.

East Elang Property (Sumbawa Island)

The East Elang property covers 9,670 hectares immediately to the east of Newmont's Elang-Dodo property, which hosts a large copper-gold porphyry deposit. Southern Arc acquired the East Elang property in 2006 by way of a mining license, which was subsequently transitioned into a seven-year IUP license in December 2009. The IUP is held by Southern Arc's subsidiary, PT. Selatan Arc Minerals.

In October 2010, the Company entered into an option and joint venture agreement with Vale to advance the East Elang property. Vale can earn a 75% interest in PT. Selatan Arc Minerals by funding exploration through to completion of a bankable feasibility study within an agreed-upon time frame. Phase 1 exploration would require a minimum of US$1,200,000 of exploration expenditures within one year from the date that Southern Arc receives a *Pinjam Pakai* permit from the Ministry of Forestry.

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

SUMMARY OF QUARTERLY RESULTS

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Total assets	$ 18,192,286	$ 53,939,440	$ 54,333,738	$ 60,321,920
Exploration properties	102,068	37,212,907	35,612,324	38,808,405
Working capital	16,060,362	15,164,760	17,208,413	19,027,865
Net loss	(35,487,971)	(527,628)	(5,172,518)	(757,053)
Basic and diluted loss per share	(0.32)	(0.00)	(0.05)	(0.01)

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Total assets	$ 60,884,512	$ 62,872,227	$ 61,274,365	$ 62,268,305
Exploration properties	37,430,624	35,680,748	29,634,073	25,502,244
Working capital	21,035,112	22,901,030	29,897,586	35,017,284
Net loss	(1,184,372)	(1,272,920)	(1,569,849)	(285,270)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.00)

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2013

During the three-month period ended June 30, 2013, the Company had a loss of $35,487,971 compared to a loss of $1,184,372 for the three-month period ended June 30, 2012. Significant fluctuations occurred in the following categories:

a) Share-based compensation of $48,962 (2012: $200,834) decreased due to lower calculated expense for options vested during the period. Share-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share-based compensation, the fair value of the Company's stock and the risk-free interest rate.

b) Foreign exchange gain of $74,926 was lower during the three-month period ended June 30, 2013 (2012: loss of $118,344) primarily due to lower US$ cash balances and the net effect fluctuation of the US$/CDN$ exchange rate had on the CDN$ equivalent of the Company's holdings in its US$ bank balance and its US$ payables balance.

c) Management fees increased to $202,500 compared to $156,000 in 2012 and are discussed in detail in the Related Parties section.

d) Professional fees of $155,378 (2012: $98,654) increased due to higher level of corporate activity in the period.

e) Travel expenses of $45,642 (2012: $15,293) increased as a result of higher level of executive travel during the period.

f) Interest income of $39,902 (2012: $60,499) decreased during the period as a result of lower cash balances.

g) The Company invested $1,507,327 cash (2012: $998,779) on exploration properties and $nil on property, plant and equipment (2012: $nil).

h) The Company recognized a $34,986,812 impairment provision (2012: $nil) against its book value of the West Lombok property.

RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2013

During the year ended June 30, 2013, the Company had a loss of $41,945,170 compared to loss of $4,312,411 for the year ended June 30, 2012. Significant fluctuations incurred in the following categories:

a) Share-based compensation of $343,022 (2012: $1,037,887) decreased as a result of fewer share options vested during the period. Share-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share-based compensation, the fair value of the Company's stock and risk-free interest rate.

b) Foreign exchange gain of $81,647 was realized during the year ended June 30, 2013 (2012: $354,697 gain) primarily due to lower US$ balances and reduced fluctuation of the US$/CDN$ exchange rate and the net effect on the CDN$ equivalent of the Company's holdings and transactions in its US$ bank balance and US$ payables balance.

c) Management fees increased to $824,500 from $614,000 in 2012 and are discussed in detail in the Related Parties section.

d) Office and miscellaneous expenses decreased to $674,278 (2012: $1,613,100) as a result of lower levels of corporate activities.

e) Professional fees of $391,581(2012: $553,324) decreased as a result of lower corporate legal activity during the period.

f) Travel expenses of $86,391 (2012: $188,260) decreased as a result of reduced executive travel during the period.

g) Interest income of $175,684 (2012: $278,209) decreased during period due to lower cash balances.

h) The Company invested $7,093,371 cash (2012: $12,847,509) on exploration properties and $2,445 on property, plant and equipment (2012: $205,090).

i) The Company wrote down the value of the Sabalong property to $nil and recognized a $1,192,789 impairment provision.

j) The Company recognized a $3,291,080 impairment provision against its book value of the Taliwang property.

k) The Company recognized a $34,986,812 impairment provision against its book value of the West Lombok property.

l) In 2013 the Company recorded a write-down of $51,443 (2012: $nil) on property, plant equipment. Under other items in 2012, the Company recorded its share of the equity loss of Nickel Oil and Gas ("Nickel") of $52,289 and recorded an impairment charge related to Nickel of $305,582.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position at June 30, 2013 was $12,866,306, a decrease of $9,575,261 from June 30, 2012. As at June 30, 2013, the Company's working capital was $16,060,362 compared to a working capital of $21,035,112 as at June 30, 2012. The decrease is primarily due to cash used for operating activities and exploration activities on the Indonesian properties. As at the date of this MD&A, the Company's working capital balance is approximately $8.0 million, inclusive of the $3.66 million of Assets held for sale (Taliwang).

Net cash used in operating activities for the year ended June 30, 2013 was $1,574,104 compared to net cash used of $3,455,764 during the year ended June 30, 2012. The cash used in operating activities reflects the lower level of exploration and corporate activity and a decrease in the accounts payable balance during the period.

Net cash used in investing activities during the year ended June 30, 2013 was $7,960,816 compared to net cash used of $13,084,485 during the year ended June 30, 2012. The cash used in investing activities for the period consists primarily of additions to exploration properties.

There were no financing activities during the year ended June 30, 2013 (2012: $2,501 expenditure).

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:

	June 30, 2013	June 30, 2012
Management fees	$ 824,500	$ 614,000
Consulting fees (exploration)	$ 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 Director 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.

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

CURRENT SHARE DATA

As at the date of this MD&A, the Company has 109,214,510 common shares issued, of which 107,914,510 are outstanding and 1,300,000 are treasury shares.

The Company has the following share options outstanding:

	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
	9,265,000		

As at the date of this MD&A, the Company has no share purchase warrants outstanding.

RISKS AND UNCERTAINTIES

The nature of the Company's operations exposes the Company to credit risk, liquidity risk, market risk and geopolitical 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

Credit risk is the risk of loss associated with a counter-party'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/GST amounts. The credit risk on these amounts is minimal.

Liquidity risk

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 in the accompanying Financial Statements.

Market risk

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 the 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.

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations, devaluations 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.

Geopolitical Risk

To date, all of the Company's properties and operations have been located in Indonesia. As such, the Company is subject to political, economic and other uncertainties, including, but not limited to, changes in policies and regulations or the personnel administering them, changes with regard to foreign ownership of property rights, exchange controls and royalty and tax increases, and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are to be conducted, as well as risks of loss due to civil strife, acts of war and insurrections. If a dispute arises regarding the Company's property interests, the Company cannot rely on western legal standards in defending or advancing its interests.

In August 2013 the Company undertook a significant investment to diversify its geopolitical risk and invested $7.3 million to purchase a 26.14% equity interest in Eagle Hill, which is advancing a high-quality gold project located in Quebec, Canada.

Fair value

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

International Financial Reporting Standards ("IFRS") require 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 are 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	Level 1	Level 2	Level 3
Assets			
Cash	$ 22,441,567	$ -	$ -

The Company's financial instruments consist of cash, receivables, loans receivable, accounts payable and accrued liabilities.

INDUSTRY

The Company is engaged in the acquisition and exploration of resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of economically mineable deposits. The focus of the Company is on areas in which the geological setting is well understood by management.

GOLD AND METAL PRICES

The price of gold is affected by numerous factors beyond the control of the Company including central bank sales, producer hedging activities, the relative exchange rate of the US$ with other major currencies, demand, political and economic conditions and production levels. In addition, the price of gold has been volatile over short periods of time due to speculative activities. The prices of other metals and mineral products for which the Company may explore all have the same or similar price risk factors.

TRENDS

Continued strength in gold and other commodity prices, increasing demand, especially from Asia, and perception of increased risk in major financial markets has supported a discernible need for the development of commodity exploration projects. Junior companies, like Southern Arc, are key participants in identifying properties of merit to explore and develop.

SHAREHOLDER RIGHTS PLAN AND BONUS AND COMPENSATION PLAN

The Company's Shareholder Rights Plan dated effective October 21, 2010 (the "Plan") is designed to ensure the fair treatment of shareholders in connection with any take-over bid for outstanding common shares of the Company. The Plan seeks to provide shareholders with adequate time to properly assess a take-over bid without undue pressure. It also provides the Board of Directors with adequate time to fully assess an unsolicited take-over bid, to allow competing bids to emerge, and, if applicable, to explore other alternatives to the take-over bid to maximize shareholder value.

The Plan is not intended to prevent or deter take-over bids that treat shareholders fairly. Under the Plan, those bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be "Permitted Bids". Permitted Bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days. In the event a take-over bid does not meet the Permitted Bid Requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Company at a substantial discount to the market price of the common share at that time. The Plan has an initial term of three years. The Plan is similar to plans adopted by other Canadian companies and ratified by their shareholders.

The Company's Bonus and Compensation Plan permits the Company to distribute or option up to 1.3 million common shares of the Company to eligible persons, including directors, officers, employees or consultants of Southern Arc.

CRITICAL ACCOUNTING POLICIES

Reference should be made to the Company's significant accounting policies contained in Note 2 of the Company's consolidated financial statements as at June 30, 2013 and 2012. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

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 economic 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 they operate 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.

Exploration properties

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.

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.

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.

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.

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 operations and comprehensive loss. Cash is classified as fair value through profit or loss.

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. Accounts receivable 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 operations and 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 operations and 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 operations and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, and loans payable all of 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.

- 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.

QUALIFIED PERSON AND QUALITY CONTROL AND ASSURANCE

The technical information in this document has been reviewed by Southern Arc's Executive Vice President, Andrew Rowe, B. App. Sc. Geology, MAusIMM. Mr. Rowe has over 20 years of international mineral exploration experience throughout Southeast and Central Asia and Australia. During this time he has held such positions as Principal Geologist – Feasibility Studies, Senior Geologist and Consulting Geologist. The technical information in this document has also been reviewed by Southern Arc's President & Chief Operating Officer, Dr. Mike Andrews, PhD, FAusIMM, who has sufficient experience relevant to the style of mineralization under consideration and qualifies as a Qualified Person as defined by National Instrument 43-101.

The drill program and sampling protocol is managed by Southern Arc under the supervision of Andrew Rowe. The diamond drill holes are drilled at PQ, HQ and NQ sizes depending on hole depth and core recovery to date has averaged 98.0%. Half core is cut by rock saw and is generally sampled using nominal 1-metre intervals; however, sample intervals are varied according to geological contacts and have ranged between 0.2 to 2.5 metres in length. Three quality control samples (one blank and two standards) are inserted into each batch of 40 samples. The half core samples are securely transported from the project site to the Intertek Testing Services ("ITS") sample preparation laboratory in Sumbawa Besar via private truck hired by Southern Arc. Sample pulps are then sent to the ITS Jakarta laboratory by ITS. Gold is analysed by fire assay with AAS finish and a four-acid digestion with ICP-MS finish is used to analyse a full suite of elements including silver and base metals. ITS is one of the world's largest product and commodity testing, inspection and certification organizations. The Jakarta laboratory is ISO 17025 accredited and employs a Laboratory Information Management System for sample tracking, quality control and reporting.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continue", "estimates", "forecasts", "expect", "is expected", "project", "propose", "potential", "targeting", "intends", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved" or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by readers, as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company and its joint venture partners on its properties and work plans to be conducted. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving mining, exploration and other permits in Indonesia;
- the impact of increasing competition;
- unpredictable changes to the market prices for gold, copper and other commodities;
- exploration and developments costs for its properties in Indonesia;
- availability of additional financing and farm-in or joint-venture partners;
- anticipated results of exploration and development activities;
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: volatility in the market price for minerals; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral and oil and gas operations; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing and farm-in or joint venture partners and unpredictable weather conditions. Although the Company has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.