



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2012 AND 2011**

(Unaudited - Expressed in Canadian dollars)

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

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three months ended September 30, 2012, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	September 30, 2012	June 30, 2012
ASSETS		
Current		
Cash	\$ 20,563,608	\$ 22,441,567
Receivables	38,830	40,701
Prepaid expense and deposit	108,139	117,280
	20,710,577	22,599,548
Property, plant and equipment (Note 4)	311,088	344,790
Exploration properties (Note 5)	38,808,405	37,430,624
Loans receivable (Note 5)	491,850	509,550
Total Assets	\$ 60,321,920	\$ 60,884,512
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 1,682,712	\$ 1,564,436
	1,682,712	1,564,436
Equity		
Capital stock (Note 6)	74,891,487	74,891,487
Treasury stock (Note 6)	(1,170,000)	(1,170,000)
Share-based payment reserve (Note 6)	11,592,406	11,498,915
Deficit	(26,988,318)	(26,255,249)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	58,325,575	58,965,153
Non-controlling interest	313,633	354,923
Total equity	58,639,208	59,320,076
Total Liabilities and Equity	\$ 60,321,920	\$ 60,884,512

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue on November 23, 2012:

“John Proust” Director “David Stone” Director

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

SOUTHERN ARC MINERALS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30**

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	September 30, 2012	September 30, 2011
EXPENSES		
Office and miscellaneous (Notes 9)	\$ 259,914	\$ 211,960
Share-based compensation (Note 6)	93,491	98,270
Management fees (Note 8)	216,000	141,000
Professional fees	47,977	66,778
Foreign exchange loss (gain)	128,524	(341,642)
Travel	-	48,700
Investor relations	14,282	49,036
Rent	23,401	25,524
Transfer agent and filing fees	15,271	6,883
Consulting fees	-	36,963
Depreciation	7,434	5,764
Loss before other items	(806,294)	(349,236)
OTHER ITEMS		
Interest income	56,327	91,339
Loss on equity investment (Note 3)	-	(27,193)
Impairment of equipment (Note 4)	(7,086)	-
	(49,241)	64,146
Net and comprehensive loss for the year	\$ (757,053)	\$ (285,270)
Comprehensive loss attributable to:		
Shareholders of Southern Arc Minerals Inc.	\$ (733,069)	\$ (273,806)
Non-controlling interests	(23,984)	(11,464)
	\$ (757,053)	\$ (285,270)
Basic and diluted loss per share	\$ (0.01)	\$ (0.00)
Weighted average number of shares outstanding	109,214,510	106,964,510

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

SOUTHERN ARC MINERALS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30**

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	September 30, 2012	September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive loss for the year	\$ (757,053)	\$ (285,270)
Items not affecting cash:		
Share-based compensation	93,491	98,270
Depreciation	7,434	5,764
Loss on equity investment	-	27,193
Impairment loss on equipment	7,086	-
Foreign exchange loss (gain)	128,524	(341,462)
Changes in non-cash working capital items:		
Receivables	1,871	76,493
Prepaid expense and deposit	9,141	(30,828)
Accounts payable and accrued liabilities	323,676	(78,113)
Net cash used in operating activities	(442,878)	(527,953)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in exploration properties	(1,563,999)	(3,322,226)
Acquisition of property, plant and equipment	-	(82,281)
Exploration advances received	-	432,861
Net cash used in investing activities	(1,563,999)	(3,080,396)
Effect of exchange rate changes on cash	128,918	331,033
Change in cash during period	(1,877,959)	(3,168,567)
Cash, beginning of period	22,441,567	38,632,091
Cash, end of period	\$ 20,563,608	\$ 35,463,524
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 7)

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

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Attributable to shareholders of the Company						Non-controlling Interest	Total Equity
	Capital Stock	Treasury Stock	Share-based Payment Reserve	Deficit	Total			
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	
Balance at July 1, 2011	\$ 74,151,488	\$ (1,170,000)	\$ 10,461,028	\$ (22,066,164)	\$ 61,376,352	\$ 405,105	\$ 61,781,457	
Comprehensive loss for the period	-	-	-	(273,806)	(273,806)	(11,464)	(285,270)	
Share-based compensation	-	-	98,270	-	98,270	-	98,270	
Change in non-controlling interest	-	-	-	-	-	22,928	22,928	
	-	-	98,270	(273,806)	(175,536)	11,464	(164,072)	
Balance at September 30, 2011	\$ 74,151,488	\$ (1,170,000)	\$ 10,559,298	\$ (22,339,970)	\$ 61,200,816	\$ 416,569	\$ 61,617,385	

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Southern Arc Minerals Inc. (“Southern Arc” or “the Company”) was incorporated in British Columbia, Canada on August 19, 2004. The Company is a natural resource company engaged in the acquisition and exploration of resource properties in Indonesia. To date, the Company has not generated revenues from operations and is considered to be in the exploration stage. The Company’s head office is located at Suite 1680 - 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6.

The Company is in the process of exploring and developing its exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. Based on its current plans, budgeted capital expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for the 24 months from the date of approval of the financial statements. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue business.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

These condensed consolidated interim financial statements were approved for issuance by the Corporation’s Board of Directors on November 23, 2012.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Expressed in Canadian dollars)

3. INVESTMENT IN NICKEL OIL & GAS CORP.

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

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

4. PROPERTY, PLANT AND EQUIPMENT

	Telephone Equipment	Vehicles	Furniture	Computer	Field Equipment	Leasehold Improvement	Total
Costs							
Balance, June 30, 2011	\$ 26,278	\$ 8,677	\$ 16,504	\$ 95,216	\$ 86,342	\$ 34,716	\$ 267,733
Additions	-	113,987	16,435	12,091	62,577	-	205,900
Balance, June 30, 2012	\$ 26,278	\$ 122,664	\$ 32,939	\$ 107,307	\$ 148,919	\$ 34,716	\$ 472,823
Impairment	(26,278)	-	-	-	-	-	(26,278)
Balance, September 30, 2012	\$ -	\$ 122,664	\$ 32,939	\$ 107,307	\$ 148,919	\$ 34,716	\$ 446,545
Accumulated depreciation							
Balance, June 30, 2011	\$ (17,420)	\$ (720)	\$ (784)	\$ (7,825)	\$ (5,730)	\$ (289)	\$ (32,768)
Depreciation for the year	(1,772)	(21,521)	(8,158)	(25,205)	(35,138)	(3,471)	(95,265)
Balance, June 30, 2012	\$ (19,192)	\$ (22,241)	\$ (8,942)	\$ (33,030)	\$ (40,868)	\$ (3,760)	\$ (128,033)
Depreciation for the period		(7,667)	(2,065)	(6,706)	(9,309)	(869)	(26,616)
Impairment	19,192	-	-	-	-	-	19,192
Balance, September 30, 2012	\$ -	\$ (29,908)	\$ (11,007)	\$ (39,736)	\$ (50,177)	\$ (4,629)	\$ (135,457)
Net carry value							
Balance, June 30, 2011	\$ 8,858	\$ 7,957	\$ 15,720	\$ 87,391	\$ 80,612	\$ 34,427	\$ 234,965
Balance, June 30, 2012	\$ 7,086	\$ 100,423	\$ 23,997	\$ 74,277	\$ 108,051	\$ 30,956	\$ 344,790
Balance, September 30, 2012	\$ -	\$ 92,756	\$ 21,932	\$ 67,571	\$ 98,742	\$ 30,087	\$ 311,088

During the period ended September 30, 2012, \$19,182 of depreciation was capitalized to exploration properties (year ended June 30, 2012: \$66,259).

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Expressed in Canadian dollars)

5. EXPLORATION PROPERTIES

	West Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Total
Balance, June 30, 2011	\$16,256,580	\$ 6,540,328	\$ 22,796,908
Acquisition costs	2,198,147	843,850	3,041,997
Deferred exploration costs incurred during the year:			
Assaying, surveying and analysis	446,493	-	446,493
Camp construction and other	56,372	192,950	249,322
Drilling	3,116,458	-	3,116,458
Geological and other consulting	1,285,612	66,071	1,351,683
Labour	6,343,019	84,744	6,427,763
Total deferred exploration costs	11,247,954	343,765	11,591,719
Balance, June 30, 2012	\$29,702,681	\$ 7,727,943	\$ 37,430,624
Deferred exploration costs incurred during the year:			
Assaying, surveying and analysis	-	16,814	16,814
Camp construction and other	15,892	-	15,892
Drilling	-	198,785	3,116,458
Geological and other consulting	157,362	113,957	171,112
Labour	726,589	148,382	1,190,777
Total deferred exploration costs	899,843	477,938	1,377,781
Balance, September 30, 2012	\$30,602,524	\$ 8,205,881	\$ 38,808,405

Lombok and Taliwang (Sumbawa) Properties, Indonesia

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% NSR to individuals related to Sunda and a 2% NSR to Indotan on the Taliwang property, and a 0.5% NSR to individuals related to Sunda and a 1% NSR to Indotan on approximately 8% of the current Lombok property, which excludes Block 1 described below.

In August 2005, the Company entered into an agreement with PT Newmont Nusa Tenggara (“Newmont”) regarding a property (“Block 1”) which now forms the western portion of the Company’s Lombok property (including the Selodong, Mencangah and Pelangan prospects) and is included in the mining business license (“IUP”). The acquisition was completed through a relinquishment by Newmont of the Block 1 area. The terms of the agreement include granting Newmont a 2% NSR on any mineral production from the Block 1 area and a right of first refusal should the Company wish to introduce a new partner into any development within the area originally covered by Block 1. The Company has the right to repurchase this 2% NSR for US\$1 million at any time.

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Expressed in Canadian dollars)

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

shares at a price of \$0.90 per common share during the year ended June 30, 2011. The Company assigned 200,000 of these \$0.90 options to a Director of the Company as stock-based compensation. In June 2011 the Company exercised the remaining 1,300,000 \$0.90 options and currently holds those shares.

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

The Company has advanced loans receivable of \$509,550 (US\$500,000) (2011: \$433,935 (US\$450,000)) 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.

During the year ended June 30, 2012 the Company incurred a payable of \$751,097 (US\$737,220) to a related party as reimbursement for payments made, on the Company's behalf, to a third party to acquire the rights to an industrial forestry permit application, to ensure the Company's priority mining rights to develop the West Lombok property. The balance of US\$737,220 remains payable at September 30, 2012 (see also Note 8).

On May 17, 2012, Southern Arc announced that it has 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 Puri Permata Mega ("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.

East Elang and Sabalong (Sumbawa) Properties

The Company acquired the East Elang and Sabalong properties by way of mining licenses ("KPs") which were granted to the Company by the Sumbawa Regency in 2006 and 2007, respectively. Both KPs were subsequently transitioned into IUPs in December 2009.

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

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

If Vale completes a bankable feasibility study on either of the East Elang or Sabalong properties within the permitted time frames, Vale will be entitled to receive a 75% interest in the Company's subsidiary PT. Selatan Arc Minerals ("PT SAM") which holds the IUPs for East Elang and Sabalong.

During the period, Vale completed its Phase 1 exploration work on the Sabalong property, elected not to proceed to Phase 2 and withdrew from the Sabalong project. Vale will continue their exploration work on the Company's East Elang property and the Company now holds a 100% economic interest in the Sabalong project.

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

September 30, 2012 and 2011

(Expressed in Canadian dollars)

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

The East Elang and Sabalong properties are held by the Company's wholly-owned Indonesian subsidiary, PT SAM. Funds advanced to PT SAM by Vale are recorded as cash and as accounts payable and accrued liabilities in the Company's accounts until such time as the funds are expended on approved exploration activities. As at September 30, 2012, Vale had advanced US\$2,179,000 (June 30, 2011: US\$2,179,000) to PT SAM and PT SAM held US\$166,976 (June 30, 2012: US\$166,976) of these funds as cash.

6. CAPITAL STOCK AND RESERVES

	Number of Common Shares	Capital Stock	Number of Treasury Shares	Treasury Stock	Share-based Payment Reserve
Balance as at June 30, 2011	106,964,510	\$ 74,151,488	1,300,000	\$ (1,170,000)	\$ 10,461,028
Shares issued for exploration properties	2,250,000	742,500	-	-	-
Share issue costs	-	(2,501)	-	-	-
Share-based compensation	-	-	-	-	1,037,887
Balance as at June 30, 2012	109,214,510	\$ 74,891,487	1,300,000	\$ (1,170,000)	\$ 11,498,915
Share-based compensation	-	-	-	-	93,791
Balance as at September 30, 2012	109,214,510	\$ 74,891,487	1,300,000	\$ (1,170,000)	\$ 11,592,706

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

Share options

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

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2011	7,500,000	\$ 0.81
Granted	1,655,000	1.02
Expired	(75,000)	0.90
Outstanding at June 30, 2012 (Remaining contractual life is 3.05 years)	9,080,000	\$ 0.82
Granted	600,000	0.25
Cancelled	(350,000)	0.86
Outstanding at September 30, 2012 (Remaining contractual life is 2.77 years)	9,333,000	\$ 0.78
Number of options currently exercisable	8,020,000	\$ 0.76

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Expressed in Canadian dollars)

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

During the period ended September 30, 2012, the Company recorded share-based compensation of \$93,791 (2011: \$98,270) fair valued using the Black-Scholes option pricing model, as a result of the granting of 600,000 options (2011: 400,000). These amounts were recorded as share-based payment reserve on the statement of financial position. The weighted average fair value of the options granted was \$0.20 (September 30, 2011: \$1.34) per option.

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

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

	September 30, 2012	September 30, 2011
Risk-free interest rate	1.18%	2.62%
Expected life of options	5 years	5 year
Annualized volatility	123.18%	121.25%
Forfeiture rate	0.00%	0.00%
Dividend rate	0.00%	0.00%

At September 30, 2012, the Company had share purchase options outstanding enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	3,150,000	\$ 0.40	September 16, 2014
	3,200,000	\$ 0.80	July 19, 2015
	400,000	\$ 2.00	January 18, 2016
	300,000	\$ 1.85	February 11, 2016
	300,000	\$ 1.70	June 22, 2016
	200,000	\$ 1.71	July 11, 2016
	200,000	\$ 1.11	August 17, 2016
	980,000	\$ 0.90	November 18, 2016
	600,000	\$ 0.25	July 18, 2017
	<u>9,330,000</u>		

Warrants

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

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

At September 30, 2012, the Company had no share purchase warrants outstanding

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012 and 2011

(Expressed in Canadian dollars)

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transaction. At September 30, 2012, the Company included in accounts payable \$1,302,334 (September 30, 2011: \$108,749) of exploration expenditures.

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

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

	September 30, 2012	September 30, 2011
Management fees	\$ 313,405	\$ 219,307
Drilling services	\$ 131,938	\$ 605,261
Share-based compensation	\$ 90,158	\$ 98,270

During the period ended September 30, 2012, the Company paid \$216,000 (2011: \$141,000) for management fees to a private company controlled by the Chief Executive Officer and director of the Company. The above transactions occurred in the normal course of operations and are recorded at the consideration established and agreed to by the related parties.

Other transactions with related parties

During the year end June 30, 2011, the Company entered into a contract with a company controlled by a director and officer of the Company for drilling services at the Company's West Lombok 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, 2012 the Company paid a total of \$131,938 (US\$132,632) (2011: \$605,261 (US\$628,369)) for drilling services pursuant to the contract. A balance of \$nil (September 30, 2011: \$nil) is included in accounts payable for drilling services incurred during the period ended September 30, 2012. A balance of \$751,097 (September 30, 2011: \$nil) is included in accounts payable at September 30, 2012 to reimburse a related party for amounts paid, on the Company's behalf, to a third party to acquire the rights to an industrial forestry permit application, to ensure the Company's priority mining rights to develop the West Lombok property. The related party received no consideration from the Company, other than reimbursement of amounts paid.

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

9. OFFICE AND MISCELLANEOUS EXPENSES

	2012	2011
Administrative	\$ 47,472	\$ 40,982
Office expense	189,717	152,319
Insurance	14,603	12,596
Interest and bank charges	8,122	6,063
	\$ 259,914	\$ 211,960