



CONDENSED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2020 AND 2019**

(Unaudited - Expressed in Canadian dollars)

NOTICE TO READER
CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three months ended September 30, 2020, 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.
STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian dollars)

As at	September 30, 2020	June 30, 2019
Assets		
Current		
Cash	\$ 279,768	\$ 349,773
Receivables	109,388	61,358
Prepaid expenses and other deposits	36,832	29,130
Investments (Note 4)	1,249,197	1,122,690
	1,675,185	1,562,951
Investments (Note 4)	8,150,001	6,111,198
Investments in associates (Note 3, 4)	7,424,523	7,628,221
Property and equipment (Note 5)	4,824	6,713
Right-of-use asset (Note 6)	-	19,087
	-	19,087
Total assets	\$ 17,254,533	\$ 15,328,170
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 207,887	\$ 143,882
Lease liabilities (Note 6)	-	25,633
	-	25,633
Total liabilities	207,887	169,515
Shareholders' equity		
Capital stock (Note 7)	77,356,532	77,171,731
Treasury stock (Note 7)	(1,170,000)	(1,170,000)
Equity reserve (Note 7)	12,447,338	12,447,338
Accumulated other comprehensive loss	(127,517)	(1,715,892)
Deficit	(71,459,707)	(71,574,522)
	-	(71,574,522)
Total shareholders' equity	17,046,646	15,158,655
Total liabilities and shareholders' equity	\$ 17,254,533	\$ 15,328,170

Nature of operations and going concern (Note 1)
Subsequent events (Notes 4c and 11)

Approved by the Board of Directors and authorized for issuance on November 26, 2020:

On behalf of the Board of Directors

"John Proust" Director

"Morris Klid" Director

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

SOUTHERN ARC MINERALS INC.
STATEMENTS OF NET INCOME (LOSS)
(Unaudited - Expressed in Canadian dollars)

For the three months ended	September 30, 2020	September 30, 2019
Expenses		
Depreciation	\$ 20,976	\$ 43,954
Office and miscellaneous	44,689	33,189
Management fees (Note 8)	90,000	120,000
Foreign exchange loss (gain)	2,311	(3,806)
Investor relations	1,011	961
Professional fees	115,704	15,591
Transfer agent and filing fees	11,537	5,130
Loss before other items	(286,228)	(215,019)
Other income (expense)		
Interest and other income	27,806	37,571
Realized and unrealized gain on investments (Note 3, 4)	576,935	536,110
Equity loss from investment in associate (Note 3)	(203,698)	(367,954)
Gain on fair value adjustment on derivative liability	-	1,198,028
Gain on dilution of investment in associate (Note 3)	-	603,940
	401,043	2,007,695
Net income for the period	\$ 114,815	\$ 1,792,676
Basic income per share	\$ 0.01	\$ 0.12
Diluted income per share	\$ 0.01	\$ 0.12
Weighted average shares outstanding	17,387,192	14,389,616
Diluted weighted average shares outstanding	18,818,413	15,473,583

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

SOUTHERN ARC MINERALS INC.
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in Canadian dollars)

For the three months ended		September 30, 2020	September 30, 2019
Net income for the period	\$	114,815	\$ 1,792,676
Other comprehensive income (loss)			
Items that may not be subsequently reclassified to profit/loss:			
Change in fair value of investments		1,588,375	(1,746,373)
		1,588,375	(1,746,373)
Total comprehensive income (loss) for the period	\$	1,703,190	\$ 46,303
Comprehensive income (loss) attributable to:			
Shareholders of Southern Arc Minerals Inc.	\$	1,703,190	\$ 46,303
	\$	1,703,190	\$ 46,303

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

SOUTHERN ARC MINERALS INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian dollars)

For the periods ended	September 30, 2020	September 30, 2019
Cash flows from operating activities		
Net income for the period	\$ 114,815	\$ 1,792,676
Items not affecting cash:		
Depreciation	20,976	43,954
Equity loss from investment in associate (Note 3)	203,698	367,954
Realized and unrealized gain on investments (Note 4)	(576,935)	(536,109)
Gain on fair value adjustment on derivative liability	-	(1,198,028)
Gain on dilution of investment in associate (Note 3)	-	(603,940)
Finance expense	-	832
Changes in non-cash working capital items:		
Receivables and prepaid expenses	(55,731)	27,202
Accounts payable, accrued liabilities and other long-term liabilities	64,004	11,254
Interest income received	-	-
Net cash used in operating activities	(229,173)	(94,205)
Cash flows from financing activities		
Cash received from exercise of options and warrants	184,801	-
Lease payments	(25,633)	(49,784)
Net cash provided by financing activities	159,168	(49,784)
Change in cash during the period	(70,005)	(143,989)
Cash, beginning of the period	349,773	435,968
Cash, end of the period	\$ 279,768	\$ 291,979

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

SOUTHERN ARC MINERALS INC.
STATEMENTS OF CHANGES IN EQUITY
(Unaudited - Expressed in Canadian dollars)

	Capital Stock		Treasury Stock	Equity Reserve	Accumulated Other Comprehensive Income (loss)		Deficit	Total Equity
	Number of shares	Capital Stock			Income (loss)	Deficit		
Balance, June 30, 2019	14,389,616	\$ 75,437,533	\$ (1,170,000)	\$ 12,570,902	\$ 655,170	\$ (71,627,989)	\$ 15,865,616	
Net income for the period	-	-	-	-	-	1,792,676	1,792,676	
Other comprehensive loss	-	-	-	-	(1,746,373)	-	(1,746,373)	
Balance, September 30, 2019	14,389,616	\$ 75,437,533	\$ (1,170,000)	\$ 12,570,902	\$ (1,091,203)	\$ (69,835,313)	\$ 15,911,919	
Balance, June 30, 2020	19,174,616	\$ 77,171,731	\$ (1,170,000)	\$ 12,447,338	\$ (1,715,892)	\$ (71,574,522)	\$ 15,158,655	
Net income for the period	-	-	-	-	-	650,775	650,775	
Shares issued for exercise of options and warrants	320,000	184,801	-	-	-	-	184,801	
Other comprehensive loss	-	-	-	-	1,588,375	-	1,588,375	
Balance, September 30, 2020	19,494,616	\$ 77,356,532	\$ (1,170,000)	\$ 12,447,338	\$ (127,517)	\$ (70,923,747)	\$ 17,582,606	

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Southern Arc Minerals Inc. (“Southern Arc” or “the Company”) was incorporated in British Columbia, Canada on August 19, 2004. The Company is a Canadian company focused on creating value through project generation and strategic investments in mineral resource companies with a focus on gold and copper-gold. The Company’s head office is located at Suite 650 - 669 Howe Street, Vancouver, British Columbia, Canada, V6C 0B4.

These condensed interim 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. The Company does not currently generate any revenues or have operations that generate cash flows. Accordingly, the Company relies on funding received from the sale of investments and financing received from the issuance of common shares or loans and borrowings to finance its strategic investment activities and general and administrative costs. Subsequent to September 30, 2020, the Company distributed certain of its investment securities with a carrying value of \$12,369,266 to the shareholders of the Company (note 11). Subsequent to the distribution, the Company’s business plan is to continue making strategic investments in resource companies with a focus on gold and copper-gold. Based on current plans, budgeted general and administration expenditures and funds received after September 30, 2020 on exercise of options and warrants (note 11), the Company has sufficient cash to finance its general and administrative expenses and other current obligations for the twelve-month period. However, the Company will be required to obtaining additional financing in order to fund additional investments or exploration projects. 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.

On March 11, 2020, the novel coronavirus outbreak (“COVID-19”) outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Company’s business are not known at this time. These impacts could include an impact on the Company’s ability to obtain debt and equity financing to fund ongoing investing activities as well as the Company’s ability to conduct business.

These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed interim financial statements have been prepared in accordance with IFRS, as applicable to interim financial reports including IAS 34, “Interim Financial Reporting”, and should be read in conjunction with the Company’s annual financial statements for the year ended June 30, 2020, which have been prepared in accordance with IFRS.

These condensed interim financial statements were approved for issuance by the Company’s Board of Directors on November 26, 2020.

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements 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 interim financial statements include estimates which, by their nature, are uncertain. 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 conditions and other factors, including expectations of future events that are believed to be reasonable under the current 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 calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices related to the issuance of share options, if any. These estimates impact share-based compensation expense and share-based payment reserve.
- ii) The determination of fair value of investments in non-tradable warrants and call option issued on certain shares of Tethyan Resources Plc, which are derivative instruments, requires assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact mark to market gains and losses recognized in profit or loss.

Critical accounting judgements

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

- i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained as required. See Note 1.
- ii) The classification of the Company's investments as an investment in associate or financial assets through other comprehensive income is determined by reviewing whether the Company has significant influence based on the percentage of holdings and other qualitative factors. The Company's investments held as investment in associate is subject to evaluation of significant and prolonged declines in value. The Company considers an investment to be impaired if there is a decline of 20% or more of an investment's quoted market price that persists for period of nine months or more.

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. INVESTMENT IN ASSOCIATE

Japan Gold Corp.

Japan Gold Corp. (“Japan Gold”) is a mineral exploration company which focuses on the acquisition and exploration of resources properties in northern Hokkaido, northern Honshu and Kyushu, Japan. As at September 30, 2020, the Company holds 40,250,000 common shares of Japan Gold representing 23.08% of Japan Gold’s issued and outstanding common shares.

On March 9, 2020, the Company advanced an unsecured, non-interest-bearing loan to Japan Gold in the principal amount of \$1,000,000. This loan had a six-month term maturing on September 9, 2020. In consideration for the loan, the Company received a cash fee of 5% of the amount of the loan (\$50,000) and 500,000 non-transferable share purchase warrants of Japan Gold. Each warrant entitles the Company to purchase one common share of Japan Gold at \$0.40 per share until March 9, 2021. The fair value of these warrants was determined to be \$35,609 using the Black-Scholes pricing model and the following weighted average assumptions: Risk-free interest rate – 1.58%; expected volatility – 75%; share price of \$0.32 and strike price - \$0.40; expected life of warrants – 1 year.

On May 22, 2020 and June 1, 2020, Japan Gold completed private placements of a total of 34,278,000 units at a price of \$0.25 per unit. Each unit consisted of one common share of Japan Gold and one half of a transferable common share purchase warrant exercisable at \$0.40 per share for a period of 24 months. Of the units issued by Japan Gold, 4,000,000 units were issued to the Company in exchange for the settlement of the \$1,000,000 loan. The Company recognized a gain on the settlement of the loan of \$156,813 as the fair value of the shares and warrants received exceeded the carrying value of the loan. The Company also purchased an additional 4,520,000 units under the above offering and concurrently effected private sales of 4,520,000 Japan Gold common shares at \$0.25 per share. As a result of the private placements and settlement of the loan, the Company’s ownership in Japan Gold decreased from 25.87% to 23.08%.

A gain on dilution of \$901,293 was recognized in net income for the year ended June 30, 2020 in respect of the decreases in percentage owned.

A continuity of the Company’s investment in associate relating to Japan Gold is as follows:

Balance - June 30, 2019	\$	6,795,954
Share of net loss for the year		(1,200,903)
Share of net comprehensive income for the year		131,877
Additional investment		1,000,000
Gain on dilution of investment in associate		901,293
Balance - June 30, 2020	\$	7,628,221
Share of net loss for the period		(203,698)
Balance - September 30, 2020	\$	7,424,523

As at September 30, 2020, the fair value of the 40,250,000 Japan Gold common shares owned by the Company was \$13,483,750 based on the quoted market price and the fair value of the 18,084,100 warrants held was \$2,521,541 (note 4).

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

4. INVESTMENTS

The following table summarizes the Company's investments as at September 30, 2020 and June 30, 2020:

	September 30, 2020		June 30, 2020	
	Number of securities	Fair Value	Number of securities	Fair Value
Investment in shares of Rise Gold Corp. (Note 4a)	2,750,000	\$ 2,805,000	2,750,000	\$ 2,585,000
Investment in warrants of Rise Gold Corp. (Note 4a)	2,462,500	206,988	2,462,500	287,134
Investment in shares of PT Ancora Indonesia Resources Tbk. (Note 4b)	100,000,000	981,000	100,000,000	816,000
Investment in shares of Tethyan Resources Corp. (Note 4c)	10,028,119	3,359,420	10,028,119	2,156,045
Investment in warrants of Tethyan Resources Corp. (Note 4c)	754,949	61,209	754,949	19,556
Investment in warrants of Japan Gold Corp.	18,084,100	1,985,581	18,084,100	1,370,153
Total investments		\$ 9,399,198		\$ 7,233,888
Classified as current		(1,249,197)		(1,122,690)
Total non-current investments		\$ 8,150,001		\$ 6,111,198

a) Rise Gold Corp.

On April 18, 2018, the Company participated in a non-brokered private placement of Rise Gold Corp. ("Rise Gold"), a company listed on the Canadian Securities Exchange. The Company purchased 2,000,000 units of Rise Gold at a price of \$1.00 per unit for \$2,000,000. Each unit consisted of one share of common stock and one share purchase warrant. Each warrant is exercisable into one share at a price of \$1.50 per share until April 18, 2021.

On November 6, 2018, the Company purchased 750,000 units in Rise Gold at a price of \$1.00 per unit for a purchase price of \$750,000 by way of a private placement. Each unit consisted of one share of Rise Gold's common stock and one-half of one share purchase warrant. Each whole warrant is exercisable into one additional share of Rise Gold's common stock at an exercise price of \$1.30 per share until November 6, 2020. Along with this purchase, the Company also received 87,500 share purchase warrants as a finder's fee. These finder's fee warrants have an exercise price of \$1.30 per warrant and expire on October 16, 2020. Following the investment, the Company owns approximately 18.84% of Rise Gold's issued and outstanding shares of common stock. The Company recorded a loss of \$254,176 on initial recognition of the common shares and warrants as their fair value was less than the cost to acquire these securities.

As at September 30, 2020, the Company owns approximately 12.47% of Rise Gold's issued and outstanding shares of common stock. The fair value of the Company's investment in shares of Rise Gold was \$2,805,000 (June 30, 2020: \$2,585,000) based on quoted market price of \$1.02 per share for 2,750,000 shares. As a result, the Company recorded an unrealized gain of \$220,000 in accumulated other comprehensive income for the period ended September 30, 2020 (June 30, 2020: \$1,072,500).

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

4. INVESTMENTS (continued)

As at September 30, 2020, the fair value of Rise Gold’s warrants (total of 2,462,500 warrants) is \$206,988 (June 30, 2020: \$287,134). During the period ended September 30, 2020, the Company recorded an unrealized loss on Rise Gold warrants of \$80,146 (September 30, 2019: gain of 130,303) in net income. The following assumptions have been used to calculate the fair value of Rise warrants using the Black-Scholes model:

	September 30, 2020	June 30, 2020
Risk-free interest rate	0.25%	0.25%
Expected life of options (in years)	0.35-0.80	0.35-0.80
Annualized volatility	78%-91%	78%-91%
Share price	\$ 0.94	\$ 0.94
Exercise price	\$1.30-\$1.50	\$1.30-\$1.50
Forfeiture rate and dividend rate	0.00%	0.00%

b) PT Ancora Indonesia Resources, Tbk.

As at September 30, 2020, the Company owns 100 million shares of PT Ancora Indonesia Resources, Tbk (“PT Ancora”) representing 5.66% of PT Ancora’s issued and outstanding common shares. PT Ancora is an Indonesian company listed on the Indonesia Stock Exchange (OKAS:IJ). The Company has classified its investment in PT Ancora as a financial asset at fair value through other comprehensive income with changes in fair value recorded in other comprehensive income (loss). As at September 30, 2020, these shares had a fair market value of \$981,000 (June 30, 2020: \$816,000) based on the then quoted market price of \$0.01 per share resulting in the recognition of an unrealized loss of \$165,000 (September 30, 2019: gain of \$511,500) in other comprehensive income (loss).

c) Tethyan Resource Corp.

As at September 30, 2020, the Company held a total of 10,028,119 (June 30, 2020: 10,028,119) common shares of Tethyan Resource Corp (“Tethyan”). Tethyan is a TSX Venture quoted junior exploration company with a focus on exploring for copper and gold within the Western Tethyan Orogenic Belt in Serbia. As at September 30, 2020, the fair value of Tethyan shares was \$3,359,420 (June 30, 2020: \$2,156,045). As a result, the Company recorded an unrealized gain of \$1,203,375 in accumulated other comprehensive income for the period ended September 30, 2020 (September 30, 2019: loss of \$2,807,873).

As at September 30, 2020, the Company owns 754,949 warrants of Tethyan which have a fair value of \$61,209 resulting in an unrealized gain of \$41,653 (June 30, 2020: fair value of \$19,556 and loss of \$160,775) on Tethyan warrants recorded in net income for the period ended September 30, 2020. These warrants are exercisable at \$0.35 and expire on June 29, 2021. The following assumptions have been used to calculate the fair value of Tethyan warrants using the Black-Scholes model:

	September 30, 2020	June 30, 2020
Risk-free interest rate	0.25%	0.25%
Expected life of options (in years)	1.00	1.00
Annualized volatility	75.00%	69.00%
Share price	\$ 0.34	\$ 0.22
Exercise price	\$ 0.35	\$ 0.35
Forfeiture rate and dividend rate	0.00%	0.00%

On October 7, 2020, Tethyan announced the completion of a business combination with Adriatic Metals plc (“Adriatic”) where Adriatic has acquired all of the common shares of Tethyan by way of a court approved plan of arrangement. The Company received 0.166 of one ordinary share of Adriatic for each common share of Tethyan held or 1,664,668 shares. The Company also received 0.166 of one share purchase warrant of Adriatic for each share purchase warrant of Tethyan or 125,322 warrants.

SOUTHERN ARC MINERALS INC.**NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2020 and 2019

(Expressed in Canadian dollars)

4. INVESTMENTS (continued)**d) Japan Gold Corp.**

As at September 30, 2020, the Company valued the 18,084,100 warrants of Japan Gold at \$1,985,581 (June 30, 2020 – 18,084,100 warrants of Japan Gold at \$1,370,153) and recorded an unrealized gain on these warrants of \$615,428 in net income for the period ended September 30, 2020. The following assumptions were used to fair value these warrants:

	September 30, 2020	June 30, 2020	June 30, 2019
Risk-free interest rate	0.25%	0.25%	1.62%
Expected life of options (in years)	0.44-1.86	.42-2.11	3.00
Annualized volatility	75%	63% - 75%	75.00%
Share price	\$ 0.34	\$ 0.30	\$ 0.27
Exercise price	\$ 0.40 - 0.42	\$ 0.40 - 0.42	\$ 0.40
Forfeiture rate and dividend rate	0.00%	0.00%	0.00%

5. PROPERTY AND EQUIPMENT

Cost	Leasehold		Total
	Office furniture	Improvements	
At June 30, 2019 and 2020	\$ 30,222	\$ 29,660	\$ 59,882
Foreign currency translation adjustment	-	-	-
At September 30, 2020	\$ 30,222	\$ 29,660	\$ 59,882
Accumulated depreciation			
At June 30, 2019	\$ 15,952	\$ 29,660	\$ 45,612
Depreciation expenses	7,557	-	7,557
At June 30, 2020	\$ 23,509	\$ 29,660	\$ 53,169
Depreciation expenses	1,889	-	1,889
At September 30, 2020	\$ 25,398	\$ 29,660	\$ 55,058
Total carrying value, June 30, 2020	\$ 6,713	\$ -	\$ 6,713
Total carrying value, September 30, 2020	\$ 4,824	\$ -	\$ 4,824

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

6. LEASES

Right-of-use assets	
Balance, - July 1, 2019	\$ -
Adoption of IFRS 16	336,164
Lease modification	(230,758)
Depreciation for the year	(86,319)
Balance - June 30, 2020	\$ 19,087
Depreciation for the period	(19,087.00)
Balance - September 30, 2020	\$ -
Lease liabilities	
Balance, - July 1, 2019	\$ -
Adoption of IFRS 16	336,164
Lease payments	(104,243)
Lease modification	(230,758)
Interest	24,470
Balance - June 30, 2020	\$ 25,633
Lease payments	(25,633)
Interest	-
Balance - September 30, 2020	\$ -

The lease liability and right of use asset relate to office space in Vancouver with annual lease payments of approximately \$113,000. The lease was to expire on June 30, 2023.

On March 30, 2020, the Company provided notice to terminate the lease agreement effective on September 30, 2020. As a result of the modification to the lease, the Company re-measured the lease liability using the remaining lease payments discounted using an incremental borrowing rate of 10% and recognized a reduction in the lease liability and in the lease asset of \$230,758.

For the period ended September 30, 2020, the Company recognized rent payments of approximately \$3,730 in net income for arrangements considered to be low value. For the period ended September 30, 2020, the Company recognized rent payments of \$3,730 for the above leased premises and arrangement considered to be low value.

SOUTHERN ARC MINERALS INC.**NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2020 and 2019

(Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at September 30, 2020, 19,624,616 (June 30, 2020 – 19,304,616) are issued of which 19,494,616 (June 30, 2020 – 19,174,616) are outstanding and 130,000 (June 30, 2020 – 130,000) are in treasury.

On November 1, 2019, the Company closed the first tranche of a non-brokered private placement through the issuance of 2,150,000 common shares at a price of \$0.35 per share for gross proceeds of \$752,500. No finder's fees were paid in connection with the financing. On January 6, 2020, the Company closed the final tranche of this non-brokered private placements through the issuance of 850,000 common shares at a price of \$0.35 per share for gross proceeds of \$297,500. The Company incurred issuance costs of \$13,566 in connection with this financing. 2,000,000 of these shares were issued to an individual/entities related to the Company's Chief Executive Officer and 155,050 shares were issued to a director of the Company.

Earnings (loss) per share

Basic income (loss) per share is the net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share adjusts basic net income (loss) per share for the effects of potential dilutive common shares.

The calculations of diluted weighted average number of shares outstanding as at September 30, 2020 and September 30, 2019 are as follows:

	September 30, 2020	September 30, 2019
Basic weighted average number shares outstanding	17,387,192	14,389,616
Dilutive securities:		
Options	366,860	230,469
Warrants	1,064,360	853,498
Diluted weighted average number of shares outstanding	18,818,412	15,473,583

Share options

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price, are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's shares on the date of grant. The share options granted are exercisable for a period of up to ten years, as determined by the board of directors at the time of grant. 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, 2018	899,000	\$ 0.32
Granted	577,000	\$ 0.35
Expired	(30,000)	\$ 0.32
Outstanding at June 30, 2019	1,436,000	\$ 0.33
Exercised	(300,000)	\$ 0.33
Outstanding at June 30, 2020	1,136,000	\$ 0.33
Exercised	(200,000)	\$ 0.33
Expired	(100,000)	\$ 0.33
Outstanding at September 30, 2020	836,000	\$ 0.33

SOUTHERN ARC MINERALS INC.**NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2020 and 2019

(Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY (continued)**Share options (continued)**

During the period ended September 30, 2020, 200,000 were exercised for total proceeds of \$66,400 to the Company. Options totaling 100,000 expired unexercised.

1,485,000 options were exercised during the year ended June 30, 2020 of which 1,355,000 were exercised by a director of the Company.

As at September 30, 2020, all outstanding stock options are fully vested and exercisable. The Company had share options outstanding as follows:

	Number of Options	Exercise Price	Expiry Date
Options	479,000	\$ 0.32	November 26, 2020
	357,000	\$ 0.35	December 14, 2023
	836,000		

Out of the 200,000 options exercised during the year, 200,000 of them were exercised by a related party.

Share purchase warrants

As at September 30, 2020, 2,311,667 (June 30, 20120: 2,581,677) warrants remain outstanding exercisable into common shares of the Company at \$0.32 until January 26, 2021. During the period ended September 30, 2020, 270,000 warrants were exercised for proceeds of \$118,401.

1,485,000 warrants were exercised during the year ended June 30, 2020 of which 1,355,000 were exercised by a director of the Company.

Subsequent to the period ended September 30, 2020, 812,000 options and 2,311,667 warrants were exercised for total proceeds of \$978,328. A total of 24,000 options were cancelled.

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

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

	Period ended September 30, 2020	Period ended September 30, 2019
Management fees	\$ 90,000	\$ 120,000

The management fees are paid to a private company controlled by the Chief Executive Officer and Chairman of the Company. Management fees include administrative, finance, accounting, investor relations and consulting services.

The above transactions are recorded at the consideration established and agreed to by the related parties.

During the period ended September 30, 2020, the Company charged Japan Gold \$34,145 (September 30, 2019: \$33,955) for rent and certain other office expenses. As at September 30, 2020, \$71,981 (June 30, 2020: \$37,836) of these fees were included in accounts receivable.

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Expressed in Canadian dollars)

9. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment focused on the acquisition and exploration of resource properties and investments. As at September 30, 2020 and June 30, 2020, all of the Company's assets and liabilities and income are in Canada.

10. FINANCIAL INSTRUMENTS

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

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

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company currently does not have any significant credit 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.

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal. The Company is not currently exposed to material foreign currency risk. The quoted market price of Rise Gold, Tethyan and PT Ancora shares are subject to fluctuations and this impacts other comprehensive income. A 1% change (plus or minus) in the price of Rise Gold, Tethyan and PT Ancora shares would change the fair value of the common shares and other comprehensive income by approximately \$71,454. A 1% change (plus or minus) in the market price used in the valuation of the Company's investment in warrants would change the fair value of the warrants and net income by \$47,684.

Fair value

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

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

The Company's investment in common shares of Rise Gold, Tethyan and PT Ancora were recognized at fair value using the quoted market price of these instruments. Accordingly, these are classified as level 1. The Rise Gold, Tethyan and Japan Gold warrants were recognized at fair value using level 2 inputs. The fair value of the warrants were determined using a Black-Sholes option pricing formula. The carrying value of cash, receivables, deposits and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

SOUTHERN ARC MINERALS INC.

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11. SUBSEQUENT EVENTS

In October 2020, the Company completed a return of capital transaction (the “Transaction”) by way of a court approved plan of arrangement under the Business Corporations Act (British Columbia). Pursuant to the plan of arrangement, the Company exchanged each of its outstanding common shares for one new Class A common share and one redeemable share of the Company. The Class A common shares have similar rights as the old common shares and will continue to be listed on the TSX Venture Exchange. The redeemable shares were immediately redeemed in exchange for the distribution of the following securities to the shareholders of the Company on a pro-rata basis:

	# of securities	Carrying value – September 30, 2020
Common shares of Japan Gold Corp.	40,250,000	\$ 7,424,523
Common shares of Rise Gold Corp.	2,750,000	2,805,000
Common shares of Adriatic Metals Plc	1,664,668	3,359,420
		\$12,588,943

Subsequent to the period ended September 30, 2020, 812,000 options and 2,311,667 warrants were exercised for total proceeds of \$978,328. A total of 24,000 options were cancelled.