Southern Arc
MINERALS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2018 AND 2017

(Unaudited - Expressed in Canadian dollars)

NOTICE TO READER
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the "Company") for the three and six months ended December 31, 2018, 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 STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in Canadian dollars)

As at		**December 31, 2018**		June 30, 2018
Assets				
Current				
Cash	$	1,695,926	$	573,385
Short-term deposits		5,000,000		600,000
Receivables		171,732		74,015
Loan receivable (Note 5)		131,250		14,932
Prepaid expenses and other deposits		126,285		99,799
Investments (Note 4)		4,061,500		3,750,400
		11,186,693		5,112,531
Investments (Note 4)		679,247		678,012
Investment in associate (Note 5)		1,091,666		1,356,402
Deposits		41,203		15,785
Exploration and evaluation assets (Note 7)		5,069,217		4,076,676
Property and equipment (Note 8)		604,652		694,430
Total assets	**$**	**18,672,678**	**$**	**11,933,836**
Liabilities				
Current				
Accounts payable and accrued liabilities	$	720,375	$	509,334
Related party loan (Note 10)		716,205		-
Total liabilities		1,436,580		509,334
Shareholders' equity				
Capital stock (Note 9)		75,437,533		75,437,533
Treasury stock (Note 9)		(1,170,000)		(1,170,000)
Equity reserve (Note 9)		14,177,632		13,926,387
Accumulated other comprehensive income		(905,426)		(614,429)
Deficit		(77,411,780)		(77,475,077)
Equity attributable to shareholders		10,127,959		10,104,414
Non-controlling interest		7,108,139		1,320,088
Total shareholders' equity		17,236,098		11,424,502
Total liabilities and shareholders' equity	**$**	**18,672,678**	**$**	**11,933,836**

Nature of operations and going concern (Note 1)
Subsequent events (Note 14)

Approved by the Board of Directors and authorized for issuance on February 28, 2019:

On behalf of the Board of Directors

"John Proust" Director *"Morris Klid"* Director

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

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

	Three months ended, December 31, 2018	Three months ended, December 31, 2017	Six months ended, December 31, 2018	Six months ended, December 31, 2017
Expenses				
Depreciation	$ 6,172	$ 5,793	$ 12,228	$ 18,482
Consulting	469,353	365,384	653,451	822,136
Office and miscellaneous	27,838	103,408	159,653	260,332
Financing expense (income)	(6,250)	-	26,112	-
Management fees (Note 10)	248,000	153,000	507,000	306,000
Exploration expenses (Note 7)	(3,004)	58,038	980	240,886
Foreign exchange loss (gain)	(582,939)	17,951	(384,940)	26,817
Investor relations	32,102	46,159	62,501	92,657
Professional fees	177,617	58,199	359,055	107,539
Rent	109,890	62,344	133,590	128,539
Salaries and benefits	-	13,993	-	59,484
Transfer agent and filing fees	57,110	10,264	61,842	51,253
Travel	26,840	83,759	81,889	222,988
Share-based compensation (Note 9)	251,245	-	251,245	-
Loss before other items	**(813,974)**	**(978,292)**	**(1,924,606)**	**(2,337,113)**
Other income (expense)				
Interest and other income	3,040	7,018	11,028	11,446
Realized and unrealized gain (loss) on investments (Note 4, 5)	70,671	-	(298,765)	134,041
Equity loss from investment in associate (Note 5)	(243,373)	(133,372)	(427,700)	(315,251)
Gain on sale of subsidiary	-	2,827,405	-	2,827,405
Gain on sale of property (Note 7)	1,629,375	-	1,629,375	-
Gain on dilution of investment in associate (Note 5)	-	-	148,032	-
	1,459,713	2,701,051	1,061,970	2,657,641
Net income (loss) before income taxes	**$ 645,739**	**$ 1,722,759**	**$ (862,636)**	**$ 320,528**
Income tax expense	-	132,789	-	132,669
Net income (loss) for the period	**$ 645,739**	**$ 1,855,548**	**$ (862,636)**	**$ 453,197**
Net income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ 1,156,804	$ 2,177,840	$ 63,297	$ 1,282,114
Non-controlling interests	(511,065)	(322,292)	(925,933)	(828,917)
	$ 645,739	**$ 1,855,548**	**$ (862,636)**	**$ 453,197**
Basic income per share	$ 0.08	$ 0.15	$ 0.00	$ 0.09
Diluted income per share	$ 0.06	$ 0.11	$ 0.00	$ 0.06
Weighted average shares outstanding	14,389,616	14,676,018	14,389,616	14,815,418
Diluted weighted average shares outstanding	19,922,283	19,631,685	19,922,283	19,771,085

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

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

	Three months ended, December 31, 2018	Three months ended, December 31, 2017	Six months ended, December 31, 2018	Six months ended, December 31, 2017
Net income (loss) for the period	$ 645,739	$ 1,855,548	$ (862,636)	$ 453,197
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments	697,600	1,020,528	(138,900)	616,148
Gain on available-for-sale investments classified to net loss	-	-	-	403,397
Cumulative foreign currency translation adjustment	(132,342)	-	(152,097)	-
Net income tax expense related to available for sale investments	-	(132,789)	-	(132,669)
	565,258	887,739	(290,997)	886,876
Total comprehensive income (loss) for the period	**$ 1,210,997**	**$ 2,743,287**	**$ (1,153,633)**	**$ 1,340,073**
Comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ 1,996,767	$ 3,065,579	$ 66,760	$ 2,168,990
Non-controlling interests	$ (785,770)	(322,292)	(1,220,393)	(828,917)
	$ 1,210,997	**$ 2,743,287**	**$ (1,153,633)**	**$ 1,340,073**

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

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

For the six months ended	December 31, 2018	December 31, 2017
Cash flows from operating activities		
Net income (loss) for the period	$ (862,636)	$ 453,197
Items not affecting cash:		
Depreciation	12,228	18,482
Income tax recovery	-	(132,669)
Exploration expense	-	240,886
Equity loss from investment in associate (Note 5)	427,700	315,251
Realized and unrealized loss (gain) on investments (Note 4)	298,765	(134,041)
Gain on sale of subsidiary	-	(2,827,405)
Gain on dilution of investment in associate (Note 5)	(148,032)	-
Foreign exchange loss	302,884	-
Financing expense	26,112	-
Share-based compensation (Note 9)	251,245	-
Changes in non-cash working capital items:		
Receivables and prepaid expenses	(149,621)	125,117
Accounts payable, accrued liabilities and other long-term liabilities	211,040	(591,781)
Net cash provided by (used in) operating activities	369,685	(2,532,963)
Cash flows from investing activities		
Proceeds from sale of investments, net (Note 4)	-	3,647,400
Loan receivable	(131,250)	(400,000)
Cash used to acquire investments (Note 4)	(750,000)	(5,749,073)
Redemption of short-term investment	600,000	2,400,000
Purchase of short-term investment	(5,000,000)	(4,550,000)
Investment in exploration property	-	(240,886)
Cash received on acquisition of subsidiary	-	2,549,073
Property and equipment	-	(682,779)
Exploration and evaluation assets	(1,278,854)	(2,060,541)
Net cash (used in) investing activities	(6,560,104)	(5,086,806)
Cash flows from financing activities		
Loan from related party	648,350	-
Cash received from subsidiary private placement	6,650,000	-
Cash received from exercise of options in subsidiary	14,610	-
Cash used to repurchase common shares	-	(383,492)
Net cash (used in) from financing activities	7,312,960	(383,492)
Change in cash during the period	**1,122,541**	**(8,003,261)**
Cash, beginning of the period	573,385	11,763,403
Cash, end of the period	**$ 1,695,926**	**$ 3,760,142**

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

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

	Attributable to shareholders of Southern Arc Minerals Inc.							
	Capital Stock	Treasury Stock	Equity Reserve	Accumulated Other Comprehensive Income (loss)	Deficit	Total	Non-controlling Interest	Total Equity
Balance, June 30, 2017	**$ 75,842,885**	**$ (1,170,000)**	**$ 13,926,387**	**$ 863**	**$ (73,395,553)**	**$ 15,204,582**	**$ (1,166,924)**	**$ 14,037,658**
Net income (loss) for the period	-	-	-	-	1,282,114	1,282,114	(828,917)	453,197
Common shares repurchased	(383,492)	-	-	-	-	(383,492)	-	(383,492)
Other comprehensive income	-	-	-	886,876	-	886,876	-	886,876
Balance, December 31, 2017	**$ 75,459,393**	**$ (1,170,000)**	**$ 13,926,387**	**$ 887,739**	**$ (72,113,439)**	**$ 16,990,080**	**$ (1,995,841)**	**$ 14,994,239**
Balance, June 30, 2018	**$ 75,437,533**	**$ (1,170,000)**	**$ 13,926,387**	**$ (614,429)**	**$ (77,475,077)**	**$ 10,104,414**	**$ 1,320,088**	**$ 11,424,502**
Net income for the period	-	-	-	-	63,297	63,297	5,788,051	5,851,348
Share-based compensation	-	-	251,245	-	-	251,245	-	251,245
Other comprehensive loss	-	-	-	(290,997)	-	(290,997)	-	(290,997)
Balance, December 31, 2018	**$ 75,437,533**	**$ (1,170,000)**	**$ 14,177,632**	**$ (905,426)**	**$ (77,411,780)**	**$ 10,127,959**	**$ 7,108,139**	**$ 17,236,098**

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

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 consolidated interim financial statements (which includes the consolidation of Japan Gold Corp. (Note 3)) 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 is in the process of evaluating its exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. 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 exploration activities and general and administrative costs. Based on current plans, budgeted expenditures, and cash requirements, the Company does not have sufficient cash to finance its planned activities for the twelve months from the date of approval of the consolidated financial statements. As a result, the Company will require cash injections by way of selling its investments or obtaining additional financing in order to fund exploration activities and required general and administrative expenses. 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 material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. 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 as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed consolidated 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, 2018, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issuance by the Company's Board of Directors on February 28, 2019.

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.;
ii) its 31.9%-owned Japan subsidiary Japan Gold Corp. and its wholly owned subsidiary Japan Gold KK (formerly Southern Arc Minerals Japan KK)

Significant intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

The preparation of these consolidated 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 consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated 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. These estimates impact share-based compensation expense and share-based payment reserve.

ii) The determination of fair value of investments in non-tradable warrants, 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 in the near term. See Note 1.

ii) The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

iii) The Company's assessment of the economic recoverability and probability of future economic benefits of exploration and evaluation costs capitalized, subject to impairment analysis.

iv) The classification of the Company's investments as an investment in associate or investment held as available for sale 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 available for sale and 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards and pronouncements

The following is an overview of accounting standard change that the Company will be required to adopt in future years. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 9 - Financial Instruments. This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, de-recognition of financial assets and financial liabilities. The required adoption date for IFRS 9 is July 1, 2018. Other than changes to the classification of financial instruments to confirm to classifications of IFRS 9 and additional disclosures, the Company does not expect any material impacts on the financial statements on adoption of IFRS 9.

- IFRS 15 - Revenue from Contracts with Customers contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 will be effective for the Company on July 1, 2018. As the Company does not currently earn revenues, adoption of this standard will not have any impact on the consolidated financial statements.

- IFRS 16 – Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for the Company on July 1, 2019. The Company does not expect that adoption of this standard will have a material impact on the consolidated financial statements.

3. ACQUISITION AND REORGANIZATION

Japan Gold Corp.

On September 15, 2016, the Company's then wholly owned subsidiary, Southern Arc Minerals Japan KK ("SAMJ"), combined with Sky Ridge Resources ("Sky Ridge"), a publically listed entity ("the Acquisition"). Upon completion of the Acquisition and a concurrent $7 million financing, Sky Ridge consolidated its shares on a one-for-two basis and changed its name to Japan Gold Corp. ("Japan Gold"). In exchange for the Company's interest in SAMJ, Southern Arc received 23,750,000 post-consolidation common shares of Japan Gold, representing approximately 42.9% of the issued and outstanding shares of Japan Gold on an undiluted basis. The securities acquired by Southern Arc pursuant to the Acquisition are subject to an Escrow Agreement with 10% of the shares released from escrow on September 16, 2016 and 15% of the shares to be released at each of six month increments over a 36 month period from the date of the Acquisition. Japan Gold is a mineral exploration company which focuses on the acquisition and exploration of resources properties in northern Hokkaido and northern Honshu, Japan. Prior to this transaction, Japan Gold had net assets of $975,498 comprised almost entirely of cash and short term investments.

The fair value of the shares of Japan Gold received by the Company was $9,500,000 based on the quoted market price of Japan Gold on the acquisition date. The Company determined that it controlled Japan Gold at the time of the Acquisition because of common key management personnel, board representation and the large block of shares the Company owns relative to the other shareholders of Japan Gold. The Company controlled SAMJ before the transaction and continues to control Japan Gold and SAMJ subsequent to the transaction. Accordingly, the transaction has been accounted for as a sale of a partial interest in the assets of SAMJ to the non-controlling shareholders of Japan Gold in exchange for the Company's 42.9% interest in Japan Gold's existing assets of $7,546,236 which includes $7,000,000 raised in connection with the issuance of common shares by Japan Gold. The acquisition of 42.9% of the issued and outstanding common shares of Japan Gold constituted an asset acquisition as Japan Gold did not meet the definition of a business as defined in IFRS 3, Business Combinations. The transaction resulted in the recognition of non-controlling interest of $4,340,511and a gain on the transaction of $3,172,798 was recognized directly in equity.

On August 9, 2017, the Company completed a financing with Japan Gold where it acquired 12,500,000 units of Japan Gold at a price of $0.40 for total cost of $5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of Japan Gold. Each warrant is exercisable into one additional common share of Japan Gold at a price of $0.40 per share for a period of 5 years. The Company owned 53.06% of Japan Gold's issued and outstanding common shares. As the Company controls Japan Gold before and after the transaction, the impact of the additional investment was accounted for as an equity transaction and resulted in an increase in non-controlling interest of $1,971,421 and a corresponding increase in deficit.

On December 21, 2018, Japan Gold completed a private placement of $6,650,000 which resulted in an issuance of 44,333,334 common shares at a price of $0.15 per share. The Company purchased 10,000,000 shares under this offering and concurrently effected a private sale of its 10,000,000 freely tradeable shares to funds managed by a global investment manager. Following the close of the Japan Gold financing, there is no change in the total number of shares held by the Company. As a result of the financing, the Company now owns 31.9% of the issued and outstanding common shares of Japan Gold.

As at December 31, 2018, Japan Gold's net assets consisted primarily of cash and cash equivalents of $1,362,230, short-term deposits of $5,000,000, other current assets of $251,127, property, plant and equipment of $581,248, exploration and evaluation assets of $5,069,217, deposits of $41,203 and current liabilities of $462,028. Japan Gold had no revenues for the period from July 1, 2018 to December 31, 2018 and net loss of Japan Gold for this period was $1,359,977 excluding certain inter-company eliminations.

On December 31, 2018, the fair value of the 36,250,000 shares of Japan Gold owned by the Company is $7,975,000 based on the then quoted market price of $0.22 per share.

4. INVESTMENTS

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 20,000,000 units of Rise Gold at a price of $0.10 per unit for $2,000,000. Each unit consists of one share of common stock and one share purchase warrant. Each warrant is exercisable into one share at a price of $0.15 per share for a period of 36 months from the date of issuance. The Company recognized a gain of $1,453,301 on initial recognition of the common shares and warrants as their fair value exceeded the cost to acquire these securities.

On November 6, 2018, the Company purchased 7,500,000 units in Rise Gold at a price of C$0.10 per unit for a purchase price of C$750,000 by way of a private placement. Each unit consists 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 C$0.13 per share until November 6, 2020. Following the investment, the Company owns approximately 18.84% of Rise Gold's issued and outstanding shares of common stock.

The Company has classified its investment in Rise Gold common shares as financial assets that are available-for-sale with changes in fair value recorded in other comprehensive income (loss). The Rise Gold warrants are classified as derivatives and are recognized at their fair value with changes in fair value included in profit or loss.

During the period ended December 31, 2018, the Company recorded an unrealized gain of $225,000 in accumulated other comprehensive loss (loss of $600,000 for the year ended June 30, 2018) relating to the investment in common shares of Rise Gold. In addition, during the period ended December 31, 2018 the Company recorded an unrealized loss on Rise Gold warrants of $34,941($427,099 for the year ended June 30, 2018) in net loss. As at December 31, 2018, the Company owned approximately 18.84% of Rise Gold.

b) PT Ancora Indonesia Resources, Tbk.

On December 12, 2017, the Company acquired 100 million shares of PT Ancora Indonesia Resources, Tbk ("PT Ancora"), representing 5.66% of PT Ancora's issued and outstanding, at a cost of (US$2,000,000 or $2,549,200) from third parties in a private transaction. 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 assets that are available-for-sale with changes in fair value recorded in other comprehensive income (loss). As at December 31, 2018, these shares had a fair market value of $1,586,500 (June 30, 2018: $1,950,400) based on the then quoted market prices of these shares resulting in the recognition of an unrealized loss of $369,900 (June 30, 2018: $598,801) in other comprehensive income (loss).

(Unaudited - Expressed in Canadian dollars)

5. INVESTMENT IN ASSOCIATE

As at December 31, 2018, the Company holds a total of 10,028,119 (June 30, 2018: 9,983,068) common shares of Tethyan Resources Plc ("Tethyan"), which represents 19.91% (June 30, 2018: 22.53%) of Tethyan's issued and outstanding shares. 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.

During the period ended December 31, 2018, the Company's interest in Tethyan decreased from 22.53% to 19.91% as a result of dilution related to an equity financing that was undertaken by Tethyan in which the Company did not participate. As a result, the Company recognized a gain on dilution on its equity investment in Tethyan of $148,032.

During the year ended June 30, 2018, the Company's interest in Tethyan decreased to 22.53% from 29.9% as a result of dilution related to equity financings that were undertaken by Tethyan in which the Company did not participate. The Company recognized a gain on dilution on its equity investment in Tethyan of $731,368.

Investment in Tethyan is accounted for as an equity investment by the Company and is subject to evaluation of significant and prolonged declines in value. The fair value of the Company's investment in Tethyan as at December 31, 2018 is $1,905,343 based on the publicly traded closing share price of $0.19 per share, which is greater than its carrying value.

During the year ended June 30, 2018, the Company advanced $400,000 to Tethyan which earned interest at LIBOR plus 4% per annum. On June 29, 2018, the Company converted the $400,000 that was advanced to Tethyan into 1,600,000 units of Tethyan. Each unit is comprised of one ordinary share and one-half of one share purchase warrant of Tethyan. Each whole warrant is exercisable into one ordinary share of Tethyan at an exercise price of C$0.35 per share for a period of three years. The Company valued the warrants at $51,810 and classified these as derivatives and $348,190 was allocated to the shares acquired on conversion of the loan receivable. As at December 31, 2018 the fair value of these warrants is $42,162 resulting in an unrealized loss of $9,648 on Tethyan warrants to be recorded in net loss.

A continuity of the Company's interest is as follows:

		December 31, 2018
Balance - July 1, 2016	$	-
Acquisition of investment		2,075,657
Share of net loss for the year		(578,845)
Balance - June 30, 2017	$	1,496,812
Conversion of loan receivable		348,190
Gain on dilution of equity investment		731,368
Share of net loss for the year		(1,219,968)
Balance - June 30, 2018	$	1,356,402
Acquisitional fo investment	$	14,932
Gain on dilution of equity investment		148,032
Share of net loss for the period		(427,700)
Balance - December 31, 2018 (quoted market value - $1,905,343)	$	1,091,666

During the period ended December 31, 2018, $14,932 of interest receivable accrued in connection with the $400,000 previously advanced to Tethyan by the Company was used to exercise 45,051 whole warrants and acquire additional 45,051 shares of Tethyan.

During the period ended December 31, 2018, the Company advanced $125,000 to Tethyan. The balance of these advances includes a financing fee of 5% as at December 31, 2018 for a total of $131,250.

(Unaudited - Expressed in Canadian dollars)

6. SUPPLEMENTAL INFORMATION

For the purposes of providing additional information regarding the net assets and working capital available to Southern Arc, below is a summary of the non-consolidated standalone net assets of Southern Arc Minerals Inc. as at December 31, 2018. For purposes of this supplementary information, the Company has reflected its investment in common shares and warrants of Japan Gold and Tethyan Resources Plc (Note 5) at their fair value at the December 31, 2018.

		Southern Arc
Cash	$	369,696
Receivables		18,861
Loan receivable		131,250
Prepaid expense and other deposits		28,029
Investment in PT Ancora Indonesia Resources Tbk. (Note 4b)		1,586,500
Investment in Rise Gold Corp (Note 4a)		2,475,000
Investment in Rise Gold Corp. warrants (Note 4a)		637,085
Investment in Tethyan Resources Plc shares (at quoted market price)		1,905,343
Investment in Tethyan Resources Plc. warrants (at fair value)		42,162
Investment in Japan Gold Corp. shares (at quoted market price)		7,975,000
Investment in Japan Gold Corp warrants (at fair value)		1,085,102
Total assets	**$**	**16,254,028**
Total liabilities	**$**	**(813,517)**
Net assets	**$**	**15,440,511**

(Unaudited - Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

Japan Gold Corp.

As at December 31, 2018, the Company's subsidiary Japan Gold owned 68 prospecting rights related to its interests in Japan. These prospecting rights provide the Company with the right to explore the areas of interest covered by these rights. Japan Gold's project portfolio also consists of 216 prospecting license applications for a combined area of 71,529 hectares over 17 separate projects on the three main islands of Japan.

	Ikutahara project	Eboshi project	Ohra-Takamine project	Tobaru project	Total
Balance, June 30, 2017	**$ 83,803**	**$ 19,459**	**$ -**	**$ -**	**$ 103,262**
Consulting	1,178,255	45,727	-	-	**1,223,982**
Supply stock and material	866,314	-	-	-	**866,314**
Depreciation	335,922	-	-	-	**335,922**
Drilling	617,357	-	-	-	**617,357**
Geochemistry	40,761	8,331	-	-	**49,092**
Geophysics	7,947	1,449	-	-	**9,396**
Insurance	13,088	-	-	-	**13,088**
Travel	161,453	3,562	-	-	**165,015**
Field supplies	414,059	13,747	-	-	**427,806**
Foreign currency translation adjustment	251,661	13,781	-	-	**265,442**
Balance, June 30, 2018	**$ 3,970,620**	**$ 106,056**	**$ -**	**$ -**	**$ 4,076,676**
Consulting	399,897	7,568	57,892	1,390	**466,747**
Insurance	14,585	-	-	-	**14,585**
Depreciation	130,975	-	-	-	**130,975**
Travel	124,759	2,248	14,262	-	**141,269**
Field Supplies	73,368	3,682	6,577	-	**83,627**
Foreign currency translation adjustment	147,370	4,720	3,166	82	**155,338**
Balance, December 31, 2018	**$ 4,861,574**	**$ 124,274**	**$ 81,897**	**$ 1,472**	**$ 5,069,217**

West Lombok property

The Company, through a 90%-owned subsidiary, holds the exploration permit for the West Lombok property located on Lombok Island, Indonesia. 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 wrote off the carrying value. During the period ended December 31, 2018, the Company incurred an additional $3,984 (June 30, 2018: $65,576) of exploration costs relating to the West Lombok property.

On December 12, 2017, the Company completed the sale of the West Lombok Property to PT Ancora in consideration for a cash payment of US$2,000,000 ($2,549,200) and a granting of a 3% Net Smelter Return royalty. PT Ancora acquired all of the issued and outstanding shares of the Company's Singaporean subsidiary Indotan Lombok Pte Ltd ("IL"). IL owns 90% of PT Indotan Lombok Barat Bangkit, an Indonesian company, which holds the IUP. Under the terms of the agreement, PT Ancora has the right to buy back the NSR from the Company at any time by paying an additional US$2,000,000 million.

(Unaudited - Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

West Lombok property (continued)

The Company recognized a gain of $434,592 on June 30, 2018 as a result of the PT Ancora transaction as follows:

Consideration received (US$2,000,000)	$	2,549,200
Cash		8,245
Current liabilities		(33,152)
Long-term liabilities		(253,292)
Non-controlling interest		2,392,807
Gain on investment	$	434,592

Taliwang property

On October 26, 2018, the Company received US$750,000 from the sale of its Taliwang project in 2014. A provision for impairment for this amount was recognized in a prior year. The Company also disposed of its 5% net smelter royalties in connection with the Taliwang project for an additional US$500,000. In total, the Company received cash proceeds of US$1,250,000 ($1,629,375).

8. PROPERTY AND EQUIPMENT

Cost	Equipment	Office furniture	Leasehold Improvements	Land and buildings	Total
At June 30, 2017	$ -	$ 26,716	$ 16,461	$ 140,565	$ 183,742
Purchases	798,775	3,506	13,199	27,603	843,083
Foreign currency translation adjustment	43,345	-	-	14,100	57,445
At June 30, 2018	$ 842,120	$ 30,222	$ 29,660	$ 182,268	$ 1,084,270
Purchases	-	-	-	-	-
Foreign currency translation adjustment	36,829	-	-	16,596	53,425
At December 31, 2018	$ 878,949	$ 30,222	$ 29,660	$ 198,864	$ 1,137,695
Accumulated depreciation					
At June 30, 2017	$ -	$ 1,669	$ 2,058	$ 19,442	$ 23,169
Depreciation capitalized in exploration and evaluation assets	301,737	-	-	34,185	335,922
Depreciation expenses	-	6,728	14,829	9,192	30,749
At June 30, 2018	$ 301,737	$ 8,397	$ 16,887	$ 62,819	$ 389,840
Depreciation capitalized in exploration and evaluation assets	107,104	-	-	23,871	130,975
Depreciation expenses	-	3,778	7,415	1,035	12,228
At December 31, 2018	$ 408,841	$ 12,175	$ 24,302	$ 87,725	$ 533,043
Total carrying value, June 30, 2018	**$ 540,383**	**$ 21,825**	**$ 12,773**	**$ 119,449**	**$ 694,430**
Total carrying value, December 31, 2018	**$ 470,108**	**$ 18,047**	**$ 5,358**	**$ 111,139**	**$ 604,652**

During the year ended June 30, 2018, the Company's subsidiary, Japan Gold, purchased from PT. Promincon Indonesia ("PMC") three compact portable diamond core drill rigs, other equipment and supply stock and material for a total of $US1,224,702 ($1,584,465). Of this amount $866,314 was classified as exploration and evaluation assets and $718,151 was recorded as property, plant and equipment. A director and officer of Japan Gold and the Company has a controlling interest in PMC. The transaction was measured at the exchange amount.

(Unaudited - Expressed in Canadian dollars)

9. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2018, 14,519,616 (June 30, 2018 – 14,519,616) are issued of which 14,389,616 (June 30, 2018 – 14,389,616) are outstanding and 130,000 (June 30, 2018 – 130,000) are in treasury.

On April 19, 2017, the TSX Venture Exchange accepted the Company's Normal Course Issuer Bid to allow the Company to repurchase up to 761,280 of its common shares for a period up to April 23, 2018. During the year ended June 30, 2018, the Company repurchased 585,000 of its own shares for total cost of $405,352 (June 30, 2017 - 141,000 shares repurchased for $89,740). As these shares were cancelled and are no longer outstanding, the cost to repurchase these shares are offset against share capital within shareholders' equity.

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, 2016 (remaining average contractual life is 4.16 years)	959,000	$	0.32
Exercised	(57,500)		0.32
Expired	(12,500)		0.32
Outstanding at June 30, 2017 and June 30, 2018 (remaining average contractual life is 2.41 years)	889,000	$	0.32
Granted – December 14, 2019	577,000	$	0.35
Expired	(30,000)	$	0.32
Number of options exercisable at December 31, 2018 (remaining average contractual life is 3.13 years)	1,436,000	$	0.34

During the period ended December 31, 2018, the Company recorded a share-based compensation expense of $251,245 (December 31, 2017: $Nil). Out of this amount $172,100 was related to the options issued by Southern Arc and $79,145 was related to options issued by Japan Gold.

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

		December 14, 2019
Risk-free interest rate		1.62%
Expected life of options (in years)		5
Annualized volatility		75.00%
Share price	$	0.45
Fair value of options granted	$	0.30
Forfeiture rate and dividend rate		0.00%

(Unaudited - Expressed in Canadian dollars)

9. SHAREHOLDERS' EQUITY (continued)

Share purchase warrants

As part of a private placement on January 26, 2016, the Company issued 4,166,667 warrants with an exercise price of $0.32 and an expiry date of January 26, 2021. During the year ended June 30, 2018, 100,000 of these warrants were exercised into 100,000 common shares of the Company for $32,000. As at December 31, 2018, 4,066,667 warrants remain outstanding.

10. 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:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Management fees	$ 248,000	$ 153,000	$ 507,000	$ 306,000
Share-based compensation	$ 161,659	$ -	$ 161,659	$ -

During the period ended December 31, 2018, the Company and Japan Gold paid $507,000 (December 31, 2017: $306,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Out of this amount, $282,000 relates to management fees incurred by Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

During the year ended June 30, 2018, the Company's subsidiary, Japan Gold, purchased from PT. Promincon Indonesia ("PMC") three compact portable diamond core drill rigs, other equipment and supply stock and material for a total of $US1,224,702 ($1,584,465). Of this amount $866,314 was classified as exploration and evaluation assets and $718,151 was recorded as property, plant and equipment. A director and officer of Japan Gold and the Company has a controlling interest in PMC. The transaction was measured at the exchange amount.

On August 29, 2018, the Company entered into a loan agreement with Promincon Pte, a company controlled by a director of the Company, for US$500,000. The loan matures three months after its issue and the Company will pay a one-time fee of 5% of the principal amount. The loan is secured by the shares of Tethyan owned by the Company. As at December 31, 2018, the balance of this loan including the fee payable is $716,205.

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

(Unaudited - Expressed in Canadian dollars)

11. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment focused on the acquisition and exploration of resource properties. The Company's assets and liabilities by geographic areas as at December 31, 2018 and June 30, 2018 are as follows:

As at December 31, 2018	Indonesia	Japan	Canada	Total
Current assets	$ -	$ 6,577,358	$ 4,609,335	$ 11,186,693
Investment	-	-	679,247	679,247
Investment in associate	-	-	1,091,666	1,091,666
Property, plant and equipment	-	581,249	23,403	604,652
Deposits	-	41,203	-	41,203
Exploration and evaluation assets	-	5,069,217	-	5,069,217
Total liabilities	-	(562,028)	(874,552)	(1,436,580)
	$ -	$ 11,706,999	$ 5,529,099	$ 17,236,098

As at June 30, 2018	Indonesia	Japan	Canada	Total
Current assets	$ -	$ 909,671	$ 4,202,860	$ 5,112,531
Investment	-	-	678,012	678,012
Investment in associate	-	-	1,356,402	1,356,402
Property, plant and equipment	-	659,834	34,596	694,430
Deposits	-	15,785	-	15,785
Exploration and evaluation assets	-	4,076,676	-	4,076,676
Total liabilities	-	(455,719)	(53,615)	(509,334)
	$ -	$ 5,206,247	$ 6,218,255	$ 11,424,502

For the period ended December 31,	2018	2017
Net income (loss) for the period – Canada	$ 497,340	$ (231,036)
Net loss for the period – Japan	(434,043)	(1,058,081)
Net loss for the period – Singapore	-	(113,234)
Net income (loss) for the period	$ 63,297	$ (1,402,351)

12. COMMITMENTS

The Company has entered into a lease agreement for office space in Vancouver with annual rent expense of approximately $206,000.

13. 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. 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 carrying value of the financial assets. The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Accounts receivable consists of amounts receivable from the Canadian federal government for the refundable GST amounts. The Company assesses the collectability and fair value of this receivable at each reporting period. The carrying value of cash, short term deposits and receivables totaling $1,247,400 represents the Company's maximum exposure to 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 quoted market price of Rise Gold Corp and PT Ancora Indonesia Resources, Tbk shares are subject to fluctuations and this impacts other comprehensive income. A 1% change (plus or minus) in the price of PT and Rise shares would change the fair value of the shares by approximately $40,615.

Foreign exchange risk - The Company operates in Japan and Indonesia. The Company could accordingly be at risk for foreign currency fluctuations.

At December 31, 2018, the Company had ¥1,609,831 (approximately CDN$19,987) in cash, and ¥21,318,551 (approximately CDN$264,563) in accounts payable and accrued liabilities. As at December 31, 2018, Yen amounts were converted at a rate of ¥0.01241 to CDN$1. A 10% fluctuation in foreign exchange would result in a net change of approximately CDN$24,458.

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 Rise Gold and PT Ancora common shares were recognized at fair value using the quoted market price of these instruments. Accordingly, these are classified as level 1. The Rise Gold and Tethyan 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, loan receivable, accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

14. SUBSEQUENT EVENTS

On January 31, 2019, Tethyan closed a non-brokered private placement by issuing 16,580,000 units at a price of $0.20 per unit for gross proceeds of $3,316,000. Each unit is comprised of one ordinary share of Tethyan and one transferable share purchase warrant of Tethyan, which is exercisable into one ordinary share of Tethyan at an exercise price of $0.25 per share for a period of five years from the closing date. In connection with the financing by Tethyan, the Company has granted an exclusive call option to Augusta Investments Inc. ("Augusta") to purchase up to 5,000,000 of Southern Arc's ordinary shares in Tethyan. The call option is valid for a period of 18 months and is exercisable at a price of $0.25 per share for a total purchase price of up to $1,250,000. In addition to the call option and at the request of Augusta, the Company also deposited all of its 10,028,119 ordinary shares of Tethyan (including the 5,000,000 shares subject to the call option) into escrow for a period of 18 months. If the call option is exercise in full or in part, the optioned shares will be released to Augusta against payment to the Company for such shares.