



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2019 AND 2018**

(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, 2019, 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 - Expressed in Canadian dollars)

As at	December 31, 2019		June 30, 2019	
Assets				
Current				
Cash	\$	1,606,488	\$	435,968
Receivables		52,748		64,211
Prepaid expenses and other deposits		27,320		45,041
Investments (Note 4)		1,842,400		1,515,900
		3,528,956		2,061,120
Investments (Note 4)		4,788,459		8,584,045
Investments in associates (Note 3, 4)		6,781,859		6,795,954
Property and equipment (Note 5)		10,491		14,270
Right-of-use asset (Note 6)		546,836		-
Total assets	\$	15,656,601	\$	17,455,389
Liabilities				
Current				
Accounts payable and accrued liabilities	\$	43,709	\$	50,636
Derivative liability (Note 4)		43,498		1,539,137
Lease liabilities (Note 6)		101,232		-
		188,439		1,589,773
Lease liabilities (Note 6)		431,387		-
Total liabilities		619,826		1,589,773
Shareholders' equity				
Capital stock (Note 7)		77,023,662		75,437,533
Treasury stock (Note 7)		(1,170,000)		(1,170,000)
Equity reserve (Note 7)		12,570,902		12,570,902
Accumulated other comprehensive income (loss)		(2,571,796)		655,170
Deficit		(70,815,993)		(71,627,989)
Equity attributable to shareholders		15,036,775		15,865,616
Total shareholders' equity		15,036,775		15,865,616
Total liabilities and shareholders' equity	\$	15,656,601	\$	17,455,389

Nature of operations and going concern (Note 1)
Subsequent events (Note 13)

Approved by the Board of Directors and authorized for issuance on February 25, 2020:

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, 2019		Three months ended, December 31, 2018		Six months ended, December 31, 2019		Six months ended, December 31, 2018	
Expenses								
Depreciation	\$	43,952	\$	6,172	\$	87,906	\$	12,228
Consulting		-		469,353		-		653,451
Office and miscellaneous		22,343		27,838		55,532		159,653
Financing expense (income)		-		(6,250)		-		26,112
Management fees (Note 8)		115,000		248,000		235,000		507,000
Exploration expenses		-		(3,004)		-		980
Foreign exchange loss (gain)		2,283		(582,939)		(1,523)		(384,940)
Investor relations		1,311		32,102		2,272		62,501
Professional fees		80,139		177,617		95,730		359,055
Rent		-		109,890		-		133,590
Interest expense		2,096		-		2,096		-
Transfer agent and filing fees		11,015		57,110		16,145		61,842
Travel		449		26,840		449		81,889
Share-based compensation		-		251,245		-		251,245
Loss before other items		(278,588)		(813,974)		(493,607)		(1,924,606)
Other income (expense)								
Interest and other income		28,608		3,040		66,179		11,028
Realized and unrealized gain (loss) on investments (Note 3, 4)		(778,230)		70,671		(242,120)		(298,765)
Equity loss from investment in associate (Note 3)		(250,081)		(243,373)		(618,035)		(427,700)
Gain on fair value adjustment on derivative liability		297,611		-		1,495,639		-
Gain on sale of property		-		1,629,375		-		1,629,375
Gain on dilution of investment in associate (Note 3)		-		-		603,940		148,032
		(702,092)		1,459,713		1,305,603		1,061,970
Net income (loss) for the period	\$	(980,680)	\$	645,739	\$	811,996	\$	(862,636)
Net income (loss) attributable to:								
Shareholders of Southern Arc Minerals Inc.	\$	(980,680)	\$	1,156,804	\$	811,996	\$	63,297
Non-controlling interests		-		(511,065)		-		(925,933)
	\$	(980,680)	\$	645,739	\$	811,996	\$	(862,636)
Basic income per share	\$	(0.06)	\$	0.08	\$	0.05	\$	0.00
Diluted income per share	\$	(0.06)	\$	0.08	\$	0.05	\$	0.00
Weighted average shares outstanding		16,549,562		14,389,616		15,469,589		14,389,616
Diluted weighted average shares outstanding		16,549,562		15,259,109		16,028,405		14,389,616

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, 2019	Three months ended, December 31, 2018	Six months ended, December 31, 2019	Six months ended, December 31, 2018
Net income (loss) for the period	\$ (980,680)	\$ 645,739	\$ 811,996	\$ (862,636)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments	(1,480,593)	697,600	(3,226,966)	(138,900)
Cumulative foreign currency translation adjustment	-	(132,342)	-	(152,097)
Total comprehensive income (loss) for the period	\$ (2,461,273)	\$ 1,210,997	\$ (2,414,970)	\$ (1,153,633)
Comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	\$ (2,461,273)	\$ 1,996,767	\$ (2,414,970)	\$ 66,760
Non-controlling interests	-	(785,770)	-	(1,220,393)
	\$ (2,461,273)	\$ 1,210,997	\$ (2,414,970)	\$ (1,153,633)

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, 2019	December 31, 2018
Cash flows from operating activities		
Net income (loss) for the period	\$ 811,996	\$ (862,636)
Items not affecting cash:		
Depreciation	87,906	12,228
Equity loss from investment in associate (Note 3)	618,035	427,700
Realized and unrealized loss on investments (Note 4)	242,120	298,765
Gain on fair value adjustment on derivative liability	(1,495,639)	-
Gain on dilution of investment in associate (Note 3)	(603,940)	(148,032)
Foreign exchange loss	-	302,884
Interest expense	2,096	26,112
Share-based compensation	-	251,245
Changes in non-cash working capital items:		
Receivables and prepaid expenses	29,183	(149,621)
Accounts payable, accrued liabilities and other long-term liabilities	(6,926)	211,040
Net cash provided by (used in) operating activities	(315,169)	369,685
Cash flows from investing activities		
Loan receivable	-	(131,250)
Cash used to acquire investments	-	(750,000)
Redemption of short-term investment	-	600,000
Purchase of short-term investment	-	(5,000,000)
Exploration and evaluation assets	-	(1,278,854)
Net cash used in investing activities	-	(6,560,104)
Cash flows from financing activities		
Cash received from private placement	1,037,529	-
Cash received from exercise of options	99,000	-
Cash received from exercise of warrants	449,600	-
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
Lease payments	(100,440)	-
Net cash provided by financing activities	1,485,689	7,312,960
Change in cash during the period	1,170,520	1,122,541
Cash, beginning of the period	435,968	573,385
Cash, end of the period	\$ 1,606,488	\$ 1,695,926

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

(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, 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
Balance, June 30, 2019	\$ 75,437,533	\$ (1,170,000)	\$ 12,570,902	\$ 655,170	\$ (71,627,989)	\$ 15,865,616	\$ -	\$ 15,865,616
Net income for the period	-	-	-	-	811,996	811,996	-	811,996
Shares issued for private placement, net of issuance cost	1,037,529	-	-	-	-	1,037,529	-	1,037,529
Shares issued for option exercise	99,000	-	-	-	-	99,000	-	99,000
Shares issued for warrant exercise	449,600	-	-	-	-	449,600	-	449,600
Other comprehensive loss	-	-	-	(3,226,966)	-	(3,226,966)	-	(3,226,966)
Balance, December 31, 2019	\$ 77,023,662	\$ (1,170,000)	\$ 12,570,902	\$ (2,571,796)	\$ (70,815,993)	\$ 15,036,775	\$ -	\$ 15,036,775

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - 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 consolidated 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. 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 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, 2019, 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 25, 2020.

Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and the comparative accounts of the Company and its wholly-owned Canadian subsidiary West Indonesia Mining Holdings Inc., and Japan Gold Corp.

The condensed consolidated interim financial statements also include the prior period results from operations of Japan Gold Corp. until December 21, 2018, the date on which the Company lost control of Japan Gold Corp. (Note 3).

Significant intercompany balances and transactions have been eliminated upon consolidation.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

The preparation of these condensed consolidated interim 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 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, 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 in the near term. 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 CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures

IFRS 16, Leases, replaces IAS 17, and the policy 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.

As a result of adoption of IFRS 16 on July 1, 2019, the Company's payments related to arrangements that meet the definition of a lease under IFRS 16 are no longer recognized as an expense in office and miscellaneous and interest on lease obligations are presented as financing expense with depreciation expense recognized on the right of use assets. IFRS 16 was applied using the modified retrospective approach, where the cumulative effect of initial application is recognized in deficit on July 1, 2019, with no restatement of comparative figures. Right-of-use assets are measured at amounts equal to the corresponding lease liabilities, which resulted in no adjustment to deficit on transition.

In applying IFRS 16, the Company elected to apply, under the modified retrospective approach, to recognize exemptions related to short-term and low value leases. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short term leases. Judgment was applied in adopting IFRS 16 to identify contracts within the scope of IFRS 16, evaluating lease renewal terms and determining the discount rate used to present value the lease arrangements. On transition, lease liabilities were measured at present value of the remaining lease payments under the agreement term. Right-of-use assets are measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

On July 1, 2019, upon adoption of IFRS 16, the Company recognized an increase in right-of-use assets and lease liabilities of \$630,963, with no adjustment to deficit, related to its office lease. The incremental borrowing rate for lease liabilities initially recognized on adoption of IFRS 16 was 10%. (See Note 6).

3. DECONSOLIDATION OF SUBSIDIARY

Japan Gold Corp.

On September 15, 2016, the Company's then wholly owned subsidiary, Japan Gold KK ("JG KK") (formerly Southern Arc Minerals Japan KK ("SAMJ")), combined with Sky Ridge Resources ("Sky Ridge"), a publicly 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 JG KK, 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. 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.

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 consisted 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. As a result, the Company's ownership in Japan Gold increased to 53.06%.

The Company determined that it had control of 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. Accordingly, the Company consolidated Japan Gold from the date of Acquisition.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

3. DECONSOLIDATION OF SUBSIDIARY

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 10,000,000 Japan Gold shares at \$0.15 per share. As a result of the private placement, the Company's ownership in Japan Gold decreased from 53.06% to 31.90% of the issued and outstanding common shares of Japan Gold. The Company determined as a result of the dilution, it has lost control of Japan Gold as at December 21, 2018. As the Company's interest allows the Company to exert significant influence over Japan Gold, the Company's remaining interest is now accounted for as an interest in associate using the equity method. The Company's remaining interest in Japan Gold was recognized at its fair value on December 21, 2018 based on the quoted market price of Japan Gold's common shares and the fair value of the warrants determined using a Black-Scholes pricing formula. The difference between the carrying value of the net assets of Japan Gold and non-controlling interest and the value assigned to the shares and warrants retained of \$7,420,102 was recognized as a gain on loss of control of subsidiary.

The following information summarizes the deconsolidation of Japan Gold as at December 21, 2018, which is the date of deconsolidation:

<u>Fair value of retained interest in Japan Gold</u>	
36,250,000 shares at \$0.23 per share (quoted market price)	\$ 8,337,500
12,500,000 warrants at \$0.094 per warrant	1,170,760
<u>Fair value of retained interest in associate</u>	<u>9,508,260</u>
<u>Net assets of Japan Gold</u>	
Cash	-
Receivables	152,871
Prepays and deposits	139,459
Exploration and evaluation assets	5,069,217
Property and equipment	581,248
Accounts payable and accrued liabilities	(1,010,834)
<u>Related party loan</u>	<u>(1,174,446)</u>
<u>Net assets of subsidiary</u>	<u>\$ 3,757,515</u>
Non-controlling interest's share of share-based payment reserve	754,143
Derecognition of non-controlling interest in subsidiary	694,741
Derecognition of foreign exchange amount in accumulated other comprehensive income	220,473
<u>Gain on loss of control of subsidiary</u>	<u>\$ 7,420,102</u>

Up to the date of loss of control (for the period from July 1, 2018 to December 21, 2018), Japan Gold had no revenues and net loss of Japan Gold for this period was \$1,747,611 excluding certain inter-company eliminations which has been included in net income of the company.

On August 22, 2019, Japan Gold completed a private placement of \$7,141,166 which resulted in an issuance of 26,448,763 units at a price of \$0.27 per unit. Each unit consisted of one common share of Japan Gold and one-half of a transferable common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of Japan gold at a price of \$0.42 per common share for a period of 24 months from closing. The Company purchased 1,648,200 units under this offering and concurrently effected a private sale of 1,648,200 Japan Gold shares at \$0.27 per share. The Company has retained the 824,100 warrants that it purchased. As a result of the private placement, the Company's ownership in Japan Gold decreased from 31.90% to 25.87% of the issued and outstanding common shares of Japan Gold.

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

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

3. DECONSOLIDATION OF SUBSIDIARY (continued)

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

	December 31, 2019	
Balance - December 21, 2018	\$	-
Fair value of retained interest in associate		9,508,260
Company's share of Japan Gold share-based payment reserve		(852,587)
Reclassify fair value of warrants to investments		(1,170,760)
Share of net loss for the period		(688,959)
Balance - June 30, 2019	\$	6,795,954
Share of net loss for the period		(618,035)
Gain on dilution of investment in associate		603,940
Balance - December 31, 2019	\$	6,781,859

As at December 31, 2019, the fair value of the common shares owned by the Company was \$9,968,750 based on the quoted market price.

4. INVESTMENTS

The following table summarizes the Company's investments as at December 31, 2019 and June 30, 2019:

	December 31, 2019		June 30, 2019	
	Number of securities	Fair Value	Number of securities	Fair Value
Investment in shares of Rise Gold Corp. (Note 4a)	2,750,000	\$ 1,870,000	27,500,000	\$ 1,512,500
Investment in warrants of Rise Gold Corp. (Note 4a)	2,462,500	189,333	24,625,000	175,818
Investment in shares of PT Ancora Indonesia Resources Tbk. (Note 4b)	100,000,000	1,842,400	100,000,000	1,515,900
Investment in shares of Tethyan Resources Plc. (Note 4c)	10,028,119	1,403,937	10,028,119	5,314,903
Investment in warrants of Tethyan Resources Plc. (Note 4c)	754,949	12,435	754,949	215,032
Investment in warrants of Japan Gold Corp.	13,324,100	1,312,754	12,500,000	1,365,792
Total investments		\$ 6,630,859		\$ 10,099,945
Classified as current		\$ (1,842,400)		\$ (1,515,900)
Total non-current investment		\$ 4,788,459		\$ 8,584,045

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

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 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 for a period of 36 months from the date of issuance.

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.

The Company has classified its investment in Rise Gold common shares as financial asset at fair value through other comprehensive income 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.

As at December 31, 2019, the fair value of the Company’s investment in shares of Rise Gold was \$1,870,000 based on quoted market price of \$0.68 per share for 2,750,000 shares (June 30, 2019: \$1,512,500). As a result, the Company recorded an unrealized gain of \$357,500 in accumulated other comprehensive income for the period ended December 31, 2019 (June 30, 2019: \$737,500).

As at December 31, 2019, the fair value of Rise Gold’s warrants (total of 2,462,500 warrants) is \$189,333 (June 30, 2019: \$175,818). During the period ended December 31, 2019, the Company recorded an unrealized gain on Rise Gold warrants of \$13,515 (June 30, 2019: loss of \$496,208) in net income (loss). The following assumptions have been used to calculate the fair value of Rise warrants using the Black-Scholes model:

	December 31, 2019		June 30, 2019	
Risk-free interest rate		1.59%		1.62%
Expected life of options (in years)		1.55		1.80
Annualized volatility		75.00%		75.00%
Share price	\$	0.680	\$	0.60
Exercise price	\$	1.50	\$	1.50
Forfeiture rate and dividend rate		0.00%		0.00%

The number of shares and share price have been adjusted to reflect a ten for one consolidation that took effect on December 16, 2019 for Rise Gold.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

4. INVESTMENTS (continued)

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 asset at fair value through other comprehensive income with changes in fair value recorded in other comprehensive income (loss). As at December 31, 2019, these shares had a fair market value of \$1,842,400 (June 30, 2019: \$1,515,900) based on the then quoted market price of these shares resulting in the recognition of an unrealized gain of \$326,500 (June 30, 2019: loss of \$434,500) in other comprehensive income (loss).

c) Tethyan Resources Plc.

As at December 31, 2019, the Company holds a total of 10,028,119 (June 30, 2019: 10,028,119) common shares of Tethyan Resources 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.

During the year ended June 30, 2019, the Company recognized a gain on dilution on its equity investment in Tethyan of \$148,032 as a result of issuance of shares by Tethyan on conversion of certain loans.

On January 30, 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. The Company did not participate in this offering and as a result, the Company’s interest in Tethyan decreased from 22.53% to 13.81%. As a result of the decrease in the Company’s interest, the Company concluded that it no longer has significant influence over Tethyan and classified its investment in Tethyan common shares as financial asset at fair value through other comprehensive income.

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 common 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 common shares of Tethyan (including the 5,000,000 shares subject to the call option) into escrow for a period of 18 months.

Upon concluding that the Company no longer had significant influence over Tethyan, the Company recorded its investment in Tethyan at fair value using the quoted market price on January 30, 2019 of \$0.20 per share for a total of \$2,005,624 and recognized a gain on loss of significant influence in associate of \$946,941. The Company also recognized \$292,289 in derivative liability relating to the fair value of Augusta’s call option. As a result, the net gain on loss of significant influence in associate recognized in net income was \$654,651.

As at December 31, 2019, the fair value of this derivative liability decreased to \$43,498 from \$1,539,137 as at June 30, 2019, resulting in a gain on fair value adjustment of derivative liability of \$1,498,639 recognized in profit or loss for the period ended December 31, 2019 (December 31, 2018: \$Nil). As at December 31, 2019, the fair value of Tethyan shares was \$1,403,937 (June 30, 2019: \$5,314,903). As a result, the Company recorded an unrealized loss of \$3,910,966 in accumulated other comprehensive income for the period ended December 31, 2019.

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

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

4. INVESTMENTS (continued)

The following parameters were used to calculate the fair value of the derivative liability on December 31, 2019 and June 30, 2019:

	December 31, 2019	June 30, 2019
Risk-free interest rate	1.59%	1.62%
Expected life of options (in years)	0.83	1.09
Annualized volatility	75%	75%
Share price	\$ 0.14	\$ 0.53
Exercise price	\$ 0.25	\$ 0.25
Forfeiture rate and dividend rate	0.00%	0.00%

As at December 31, 2019 the fair value of the Tethyan warrants is \$12,435 resulting in an unrealized loss of \$202,597 (June 30, 2019: gain of \$163,221) on Tethyan warrants recorded in net income for the period ended December 31, 2019. The following assumptions have been used to calculate the fair value of Tethyan warrants using the Black-Scholes model:

	December 31, 2019	June 30, 2019
Risk-free interest rate	1.59%	1.62%
Expected life of options (in years)	1.75	2
Annualized volatility	75.00%	75.00%
Share price	\$ 0.14	\$ 0.53
Exercise price	\$ 0.35	\$ 0.35
Forfeiture rate and dividend rate	0.00%	0.00%

A continuity of the Company's equity interest in Tethyan accounted for as investment in associate is as follows:

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
Acquisition of additional investment	\$ 14,932
Gain on dilution of equity investment	148,032
Share of net loss for the period up to January 30, 2019	(460,683)
Effect of loss of significant influence in associate	(1,058,683)
Balance - December 31 and June 30, 2019	\$ -

During the year ended June 30, 2019, \$14,932 of interest receivable accrued in connection with a \$400,000 advanced to Tethyan by the Company and repaid in fiscal 2018 was used to exercise 45,051 whole warrants and acquire an additional 45,051 shares of Tethyan.

During the year ended June 30, 2019, the Company advanced \$125,000 to Tethyan. These advances plus a financing fee of 5% for a total of \$131,250 was repaid in full during the year.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

4. INVESTMENTS (continued)

d) Japan Gold Corp.

As at December 31, 2019, the Company valued the 13,324,100 warrants of Japan Gold at \$1,312,754 (June 30, 2019 - 12,500,000 warrants of Japan Gold at \$1,365,792) and recorded an unrealized loss on these warrants of \$53,038 in net income for the period ended December 31, 2019. The following assumptions were used to fair value these warrants:

	December 31, 2019	June 30, 2018	December 21, 2018
Risk-free interest rate	1.59%	1.62%	1.62%
Expected life of options (in years)	1.89-2.86	3.00	3.11
Annualized volatility	75.00%	75.00%	75.00%
Share price	\$ 0.275	\$ 0.270	\$ 0.27
Share price	\$ 0.40 - 0.42	\$ 0.40	\$ 0.40
Forfeiture rate and dividend rate	0.00%	0.00%	0.00%

5. PROPERTY AND EQUIPMENT

Cost	Equipment	Office furniture	Leasehold Improvements	Land and buildings	Total
At June 30, 2018	\$ 842,120	\$ 30,222	\$ 29,660	\$ 182,268	\$ 1,084,270
Foreign currency translation adjustment	36,829	-	-	16,596	53,425
Deconsolidation of subsidiary (Note 3)	(878,949)	-	-	(198,864)	(1,077,813)
At June 30, 2019	\$ -	\$ 30,222	\$ 29,660	\$ -	\$ 59,882
At December 31, 2019	\$ -	\$ 30,222	\$ 29,660	\$ -	\$ 59,882
Accumulated depreciation					
At June 30, 2018	\$ 301,737	\$ 8,397	\$ 16,887	\$ 62,819	\$ 389,840
Depreciation capitalized in exploration and evaluation	107,104	-	-	23,871	130,975
Depreciation expenses	-	7,555	12,773	1,035	21,363
Deconsolidation of subsidiary (Note 3)	(408,841)	-	-	(87,725)	(496,566)
At June 30, 2019	\$ -	\$ 15,952	\$ 29,660	\$ -	\$ 45,612
Depreciation expenses	-	3,779	-	-	3,779
At December 31, 2019	\$ -	\$ 19,731	\$ 29,660	\$ -	\$ 49,391
Total carrying value, June 30, 2019	\$ -	\$ 14,270	\$ -	\$ -	\$ 14,270
Total carrying value, December 31, 2019	\$ -	\$ 10,491	\$ -	\$ -	\$ 10,491

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

6. LEASES

Right-of-use assets	
Balance, - July 1, 2019	\$ 630,963
Depreciation for the period	(84,127)
Balance - December 31, 2019	\$ 546,836
Lease liabilities	
Balance, - July 1, 2019	\$ 630,963
Lease payments	(100,440)
Interest	2,096
Balance - December 31, 2019	\$ 532,619
Less: current portion	(101,232)
Non-current lease liabilities	\$ 431,387

7. SHAREHOLDERS' EQUITY

On November 1, 2019, the Company closed 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.

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2019, 18,374,616 (June 30, 2019 – 14,519,616) are issued of which 18,244,616 (June 30, 2019 – 14,389,616) are outstanding and 130,000 (June 30, 2019 – 130,000) are in treasury.

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 share outstanding as at December 31, 2019 and 2018 are as follows:

	2019	2018
Basic weighted average number shares outstanding	15,469,589	14,389,616
Dilutive securities:		
Options	141,711	-
Warrants	417,105	-
Diluted weighted average number of shares outstanding	16,028,405	14,389,616

For the period ended December 31, 2018, the Company incurred a loss and all options and warrants were anti-dilutive.

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.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY (continued)

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2017 and June 30, 2018 (remaining average contractual life is 2.41 years)	889,000	\$ 0.32
Granted	577,000	\$ 0.35
Expired	(30,000)	\$ 0.32
Number of options exercisable at June 30, 2019	1,436,000	\$ 0.33
Exercised	(300,000)	\$ 0.33
Number of options exercisable at December, 2019	1,136,000	\$ 0.33

As at December 31, 2019, all outstanding stock options are fully vested. The Company had share options outstanding as follows:

	Number of Options	Exercise Price	Expiry Date
Options	659,000	\$ 0.32	November 26, 2020
	477,000	\$ 0.35	December 14, 2023
	1,136,000		

Share purchase warrants

As at December 31, 2019, 2,661,667 (June 30, 2019: 4,066,667) warrants remain outstanding exercisable into common shares of the Company at \$0.32 until January 26, 2021.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

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:

	Three months ended December 31, 2019	Three months ended December 31, 2018	Six months ended December 31, 2019	Six months ended December 31, 2018
Management fees	\$ 115,000	\$ 248,000	\$ 235,000	\$ 507,000
Share-based compensation	\$ -	\$ 161,659	\$ -	\$ 161,659

During the period ended December 31, 2019, the Company paid \$235,000 (December 31, 2018: \$248,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Of this amount, \$Nil (December 31, 2018: \$282,000) relates to management fees incurred by the previous subsidiary, Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

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 matured three months after its issue and the Company paid a one-time fee of 5% of the principal amount. The loan was secured by the shares of Tethyan owned by the Company. As at June 30, 2019, this loan including the one-time fee payable was repaid in full.

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

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

December 31, 2019 and 2018

(Unaudited - 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. The Company's assets and liabilities by geographic areas as at December 31, 2019 and June 30, 2019 are as follows:

As at December 31, 2019	Indonesia	Japan	Canada	Total
Current assets	\$ -	\$ -	\$ 3,528,956	\$ 3,528,956
Investment	-	-	4,788,459	4,788,459
Investment in associate	-	-	6,781,859	6,781,859
Property, plant and equipment	-	-	10,491	10,491
Right-of-use asset	-	-	546,836	546,836
Total liabilities	-	-	(619,826)	(619,826)
	\$ -	\$ -	\$ 15,036,775	\$ 15,036,775

As at June 30, 2019	Indonesia	Japan	Canada	Total
Current assets	\$ -	\$ -	\$ 2,061,120	\$ 2,061,120
Investment	-	-	8,584,045	8,584,045
Investment in associate	-	-	6,795,954	6,795,954
Property, plant and equipment	-	-	14,270	14,270
Total liabilities	-	-	(1,589,773)	(1,589,773)
	\$ -	\$ -	\$ 15,865,616	\$ 15,865,616

For the period ended December 31,	2019	2018
Net income for the period - Canada	\$ 811,996	\$ 497,340
Net loss for the period - Japan	-	(434,043)
Net income (loss) for the period	\$ 811,996	\$ 63,297

10. COMMITMENTS

The Company entered into a lease agreement in 2017 for office space in Vancouver with an annual expense of approximately \$206,000. The remaining terms of the lease is for 39 months. See Note 6.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

11. FINANCIAL INSTRUMENTS

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

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

Credit risk is the risk of loss associated with 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 \$1,659,236 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, 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 shares by approximately \$51,163.

Foreign exchange risk

As at December 31, 2019, the Company has investments in companies who operate in Japan, Serbia, United States and Indonesia. As the Company does not directly operate in these countries, the Company's exposure to foreign currency fluctuations is limited.

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 and the call option issued by the Company on Tethyan common shares were recognized at fair value using level 2 inputs. The fair value of the warrants and the call option derivative liability were determined using a Black-Sholes option pricing formula. The carrying value of cash, receivables, accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 and 2018

(Unaudited - Expressed in Canadian dollars)

12. SUBSEQUENT EVENTS

Subsequent to the period ended December 31, 2019, the Company closed the second and final tranche of its previously announced non-brokered private placement. The Company sold 850,000 common shares at a price of \$0.35 per share for gross proceeds of \$297,500.