



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED
MARCH 31, 2020 AND 2019**

(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 nine months ended March 31, 2020, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

SOUTHERN ARC MINERALS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Expressed in Canadian dollars)

As at	March 31, 2020	June 30, 2019
Assets		
Current		
Cash	\$ 495,023	\$ 435,968
Receivables	61,330	64,211
Prepaid expenses and other deposits	21,987	45,041
Loan receivable (Note 3)	1,000,000	-
Investments (Note 4)	574,200	1,515,900
	<u>2,152,540</u>	<u>2,061,120</u>
Investments (Note 4)	3,756,323	8,584,045
Investments in associates (Note 3, 4)	6,508,427	6,795,954
Property and equipment (Note 5)	8,602	14,270
Right-of-use asset (Note 6)	504,770	-
	<u>\$ 12,930,662</u>	<u>\$ 17,455,389</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 65,700	\$ 50,636
Derivative liability (Note 4)	410	1,539,137
Lease liabilities (Note 6)	50,616	-
	<u>116,726</u>	<u>1,589,773</u>
Lease liabilities (Note 6)	434,637	-
	<u>551,363</u>	<u>1,589,773</u>
Shareholders' equity		
Capital stock (Note 7)	77,022,566	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)	(4,524,183)	655,170
Deficit	(71,519,986)	(71,627,989)
Equity attributable to shareholders	<u>12,379,299</u>	<u>15,865,616</u>
Total shareholders' equity	12,379,299	15,865,616
	<u>\$ 12,930,662</u>	<u>\$ 17,455,389</u>

Nature of operations and going concern (Note 1)

Subsequent events (Note 13)

Approved by the Board of Directors and authorized for issuance on May 29, 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, March 31, 2020	Three months ended, March 31, 2019	Nine months ended, March 31, 2020	Nine months ended, March 31, 2019
Expenses				
Depreciation	\$ 43,955	\$ 5,596	\$ 131,861	\$ 17,824
Consulting	-	-	-	447,987
Office and miscellaneous	19,149	23,181	74,681	182,834
Financing expense	-	-	-	26,112
Management fees (Note 8)	105,000	120,000	340,000	627,000
Exploration expenses	-	-	-	51,679
Foreign exchange loss (gain)	(12,099)	399,422	(13,622)	14,482
Investor relations	1,661	26,013	3,933	88,514
Professional fees	34,035	23,608	129,765	304,315
Rent	-	12,042	-	145,632
Salaries and benefits	-	-	-	233,113
Interest expense	3,327	-	5,423	-
Transfer agent and filing fees	13,023	10,837	29,168	72,679
Travel	-	-	449	81,889
Share-based compensation	-	-	-	251,245
Loss before other items	(208,051)	(620,699)	(701,658)	(2,545,305)
Other income (expense)				
Interest and other income	82,351	3,848	148,530	14,876
Realized and unrealized gain (loss) on investments (Note 3, 4)	(347,949)	645,612	(590,069)	346,847
Equity loss from investment in associate (Note 3)	(273,432)	(373,064)	(891,467)	(800,764)
Gain on disposition of investment in associate (Note 4)	-	654,651	-	654,651
Gain (loss) on fair value adjustment on derivative liability	43,088	(2,509,634)	1,538,727	(2,509,634)
Gain on disposition of subsidiary (Note 3)	-	6,700,991	-	6,700,991
Gain on sale of property	-	-	-	1,629,375
Gain on dilution of investment in associate (Note 3)	-	-	603,940	148,032
	(495,942)	5,122,404	809,661	6,184,374
Net income (loss) before income taxes	\$ (703,993)	\$ 4,501,705	\$ 108,003	\$ 3,639,069
Income tax expense	-	708,015	-	708,015
Net income (loss) for the period	\$ (703,993)	\$ 5,209,720	\$ 108,003	\$ 4,347,084
Net income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	\$ (703,993)	\$ 5,209,720	\$ 108,003	\$ 5,536,936
Non-controlling interests	-	-	-	(1,189,852)
	\$ (703,993)	\$ 5,209,720	\$ 108,003	\$ 4,347,084
Basic income per share	\$ (0.04)	\$ 0.36	\$ 0.01	\$ 0.38
Diluted income per share	\$ (0.04)	\$ 0.26	\$ 0.01	\$ 0.28
Weighted average shares outstanding	16,549,562	14,389,616	16,650,598	14,389,616
Diluted weighted average shares outstanding	16,549,562	19,922,283	17,125,120	19,922,283

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, March 31, 2020	Three months ended, March 31, 2019	Nine months ended, March 31, 2020	Nine months ended, March 31, 2019
Net income (loss) for the period	\$ (703,963)	\$ 5,209,720	\$ 108,003	\$ 4,347,084
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments	(1,952,387)	5,905,791	(5,179,353)	5,766,891
Cumulative foreign currency translation adjustment	-	(432,394)	-	(584,491)
Net income tax expense related to available for sale investments	-	(708,015)	-	(708,015)
	(1,952,387)	4,765,382	(5,179,353)	4,474,385
Total comprehensive income (loss) for the period	\$ (2,656,350)	\$ 9,975,102	\$ (5,071,350)	\$ 8,821,469
Comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	\$ (2,656,350)	\$ 9,975,102	\$ (5,071,350)	\$ 10,384,734
Non-controlling interests	-	-	-	(1,563,265)
	\$ (2,656,350)	\$ 9,975,102	\$ (5,071,350)	\$ 8,821,469

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 nine months ended	March 31, 2020	March 31, 2019
Cash flows from operating activities		
Net income (loss) for the period	\$ 108,003	\$ 4,347,084
Items not affecting cash:		
Depreciation	131,861	17,824
Income tax recovery	-	(708,015)
Equity loss from investment in associate (Note 3)	891,467	800,764
Realized and unrealized loss (gain) on investments (Note 4)	590,069	(346,847)
Gain on disposition of subsidiary (Note 3)	-	(6,700,991)
Gain on disposition of investment in associate (Note 4)	-	(654,651)
Loss (gain) on fair value adjustment on derivative liability	(1,538,727)	2,509,634
Gain on dilution of investment in associate (Note 3)	(603,940)	(148,032)
Foreign exchange loss (gain)	-	387,780
Interest expense	5,423	-
Share-based compensation	-	251,245
Changes in non-cash working capital items:		
Receivables and prepaid expenses	25,935	(208,343)
Accounts payable, accrued liabilities and other long-term liabilities	15,064	167,944
Net cash provided by (used in) operating activities	(374,845)	(284,604)
Cash flows from investing activities		
Repayment (advance) of loan	(1,000,000)	1,174,446
Cash used to acquire investments	-	(750,000)
Redemption of short-term investment	-	600,000
Exploration and evaluation assets	-	(1,278,854)
Net cash used in investing activities	(1,000,000)	(254,408)
Cash flows from financing activities		
Cash received from private placement	1,036,433	-
Cash received from exercise of options	99,000	-
Cash received from exercise of warrants	449,600	-
Lease payments	(151,133)	-
Net cash provided by financing activities	1,433,900	-
Change in cash during the period	59,055	(539,012)
Cash, beginning of the period	435,968	1,173,385
Cash, end of the period	\$ 495,023	\$ 634,373

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	-	-	-	-	5,536,936	5,536,936	(1,189,852)	4,347,084	
Share-based compensation	-	-	251,245	-	-	251,245	(130,236)	121,009	
Other comprehensive loss	-	-	-	4,474,385	-	4,474,385	-	4,474,385	
Balance, March 31, 2019	\$ 75,437,533	\$ (1,170,000)	\$ 14,177,632	\$ 3,859,956	\$ (71,938,141)	\$ 20,366,980	\$ -	\$ 20,366,980	
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	-	-	-	-	108,003	108,003	-	108,003	
Shares issued for private placement, net of issuance cost	1,036,433	-	-	-	-	1,036,433	-	1,036,433	
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	-	-	-	(5,179,353)	-	(5,179,353)	-	(5,179,353)	
Balance, March 31, 2020	\$ 77,022,566	\$ (1,170,000)	\$ 12,570,902	\$ (4,524,183)	\$ (71,519,986)	\$ 12,379,299	\$ -	\$ 12,379,299	

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

(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.

On March 11, 2020, the novel coronavirus outbreak (“COVID-19”) outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Company’s business are not known at this time. These impacts could include an impact on the Company’s ability to obtain debt and equity financing to fund ongoing exploration activities as well as our ability to explore and conduct business. These conditions result in significant uncertainties that may cast substantial doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These condensed 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 May 29, 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

March 31, 2020 and 2019

(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

March 31, 2020 and 2019

(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

March 31, 2020 and 2019

(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**

March 31, 2020 and 2019

(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:

		March 31, 2020
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		(891,467)
Gain on dilution of investment in associate		603,940
Balance - March 31, 2020	\$	6,508,427

As at March 31, 2020, the fair value of the common shares owned by the Company was \$9,062,500 based on the quoted market price.

During the period ended March 31, 2020, the Company agreed to advance an unsecured loan to Japan Gold in the principal amount of \$1,000,000. This loan has a six-month term maturing on September 9, 2020. In consideration for the Loan, the Company received a cash fee of 5% of the amount of the loan (\$50,000) and 500,000 non-transferable share purchase warrants. Each warrant will entitle the Company to purchase one common share of Japan Gold at \$0.40 per share until March 9, 2021. The fair value of these warrants was determined to be \$35,609 using the Black-Scholes pricing model and the following weighted average assumptions: Risk-free interest rate – 1.58%; expected volatility – 75%; share price of \$0.32 and strike price - \$0.40; expected life of warrants – 1 year.

4. INVESTMENTS

The following table summarizes the Company's investments as at March 31, 2020 and June 30, 2019:

	March 31, 2020		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	\$ 1,787,500	27,500,000	\$ 1,512,500
Investment in warrants of Rise Gold Corp. (Note 4a)	2,462,500	118,702	24,625,000	175,818
Investment in shares of PT Ancora Indonesia Resources Tbk. (Note 4b)	100,000,000	574,200	100,000,000	1,515,900
Investment in shares of Tethyan Resources Plc. (Note 4c)	10,028,119	802,250	10,028,119	5,314,903
Investment in warrants of Tethyan Resources Plc. (Note 4c)	754,949	1,630	754,949	215,032
Investment in warrants of Japan Gold Corp.	13,824,100	1,046,241	12,500,000	1,365,792
Total investments		\$ 4,330,523		\$ 10,099,945
Classified as current		\$ (574,200)		\$ (1,515,900)
Total non-current investment		\$ 3,756,323		\$ 8,584,045

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2020 and 2019

(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 March 31, 2020, the fair value of the Company’s investment in shares of Rise Gold was \$1,787,500 based on quoted market price of \$0.65 per share for 2,750,000 shares (June 30, 2019: \$1,512,500). As a result, the Company recorded an unrealized gain of \$275,000 in accumulated other comprehensive income for the period ended March 31, 2020 (June 30, 2019: \$737,500).

As at March 31, 2020, the fair value of Rise Gold’s warrants (total of 2,462,500 warrants) is \$118,702 (June 30, 2019: \$175,818). During the period ended March 31, 2020, the Company recorded an unrealized loss on Rise Gold warrants of \$57,116 (March 31, 2019: \$3,165) in net income (loss). The following assumptions have been used to calculate the fair value of Rise warrants using the Black-Scholes model:

	March 31, 2020	June 30, 2019
Risk-free interest rate	1.59%	1.62%
Expected life of options (in years)	1.05	1.80
Annualized volatility	75.00%	75.00%
Share price	\$ 0.650	\$ 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.

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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 March 31, 2020, these shares had a fair market value of \$574,200 (June 30, 2019: \$1,515,900) based on the then quoted market price of these shares resulting in the recognition of an unrealized loss of \$941,700 (June 30, 2019: loss of \$434,500) in other comprehensive income (loss).

c) Tethyan Resources Plc.

As at March 31, 2020, 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 March 31, 2020, the fair value of this derivative liability decreased to \$410 from \$1,539,137 as at June 30, 2019, resulting in a gain on fair value adjustment of derivative liability of \$1,538,727 recognized in profit or loss for the period ended March 31, 2020 (March 31, 2019: loss of \$2,509,634). As at March 31, 2020, the fair value of Tethyan shares was \$802,250 (June 30, 2019: \$5,314,903). As a result, the Company recorded an unrealized loss of \$4,512,653 in accumulated other comprehensive income for the period ended March 31, 2020.

SOUTHERN ARC MINERALS INC.

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(Unaudited - Expressed in Canadian dollars)

4. INVESTMENTS (continued)

The following parameters were used to calculate the fair value of the derivative liability on March 31, 2020 and June 30, 2019:

	March 31, 2020	June 30, 2019
Risk-free interest rate	1.59%	1.62%
Expected life of options (in years)	0.33	1.09
Annualized volatility	75%	75%
Share price	\$ 0.08	\$ 0.53
Exercise price	\$ 0.25	\$ 0.25
Forfeiture rate and dividend rate	0.00%	0.00%

As at March 31, 2020 the fair value of the Tethyan warrants is \$1,630 resulting in an unrealized loss of \$213,402 (March 31, 2019: gain of \$341,762) on Tethyan warrants recorded in net income for the period ended March 31, 2020. The following assumptions have been used to calculate the fair value of Tethyan warrants using the Black-Scholes model:

	March 31, 2020	June 30, 2019
Risk-free interest rate	1.59%	1.62%
Expected life of options (in years)	1.25	2
Annualized volatility	75.00%	75.00%
Share price	\$ 0.08	\$ 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 - March 31, 2020 and June 30, 2019	\$	-

SOUTHERN ARC MINERALS INC.
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4. INVESTMENTS (continued)
d) Japan Gold Corp.

As at March 31, 2020, the Company valued the 13,824,100 warrants of Japan Gold at \$1,046,241 (June 30, 2019 - 12,500,000 warrants of Japan Gold at \$1,365,792) and recorded an unrealized loss on these warrants of \$319,551 in net income for the period ended March 31, 2020. The following assumptions were used to fair value these warrants:

	March 31, 2020	June 30, 2018	December 21, 2018
Risk-free interest rate	1.59%	1.62%	1.62%
Expected life of options (in years)	0.94-2.36	3.00	3.11
Annualized volatility	75.00%	75.00%	75.00%
Share price	\$ 0.250	\$ 0.270	\$ 0.27
Exercise 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 March 31, 2020	\$ -	\$ 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 eval	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	-	5,668	-	-	5,668
At March 31, 2020	\$ -	\$ 21,620	\$ 29,660	\$ -	\$ 51,280
Total carrying value, June 30, 2019	\$ -	\$ 14,270	\$ -	\$ -	\$ 14,270
Total carrying value, March 31, 2020	\$ -	\$ 8,602	\$ -	\$ -	\$ 8,602

SOUTHERN ARC MINERALS INC.

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(Unaudited - Expressed in Canadian dollars)

6. LEASES

Right-of-use assets	
Balance, - July 1, 2019	\$ 630,963
Depreciation for the period	(126,193)
Balance - March 31, 2020	\$ 504,770
Lease liabilities	
Balance, - July 1, 2019	\$ 630,963
Lease payments	(151,133)
Interest	5,423
Balance - March 31, 2020	\$ 485,253
Less: current portion	(50,616)
Non-current lease liabilities	\$ 434,637

7. SHAREHOLDERS' EQUITY

On November 1, 2019, the Company closed the first tranche of a non-brokered private placement through the issuance of 2,150,000 common shares at a price of \$0.35 per share for gross proceeds of \$752,500. No finder's fees were paid in connection with the financing. On January 6, 2020, the Company closed the final tranche of this non-brokered private placements through the issuance of 850,000 common shares at a price of \$0.35 per share for gross proceeds of \$297,500. No finder's fees were paid in connection with the financing. Out of the 3,000,000 share issued as part of this private placement, 2,000,000 shares were issued to a related party.

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at March 31, 2020, 19,224,616 (June 30, 2019 – 14,519,616) are issued of which 19,094,616 (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 March 31, 2020 and 2019 are as follows:

	2020	2019
Basic weighted average number shares outstanding	16,650,598	14,389,616
Dilutive securities:		
Options	114,838	-
Warrants	359,685	-
Diluted weighted average number of shares outstanding	17,125,121	14,389,616

For the period ended March 31, 2019, the Company incurred a loss and all options and warrants were anti-dilutive.

SOUTHERN ARC MINERALS INC.

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7. SHAREHOLDERS' EQUITY (continued)**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, 2017 and June 30, 2018	899,000	\$ 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 March 31, 2020	1,136,000	\$ 0.33

As at March 31, 2020, 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 March 31, 2020, 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.

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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 March 31, 2020	Three months ended March 31, 2019	Nine months ended March 31, 2020	Nine months ended March 31, 2019
Management fees	\$ 105,000	\$ 120,000	\$ 340,000	\$ 627,000
Share-based compensation	\$ -	\$ 161,659	\$ -	\$ 161,659

During the period ended March 31, 2020, the Company paid \$340,000 (March 31, 2019: \$627,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Of this amount, \$Nil (March 31, 2019: \$282,000) relates to management fees incurred by the previous subsidiary, Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

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**

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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 March 31, 2020 and June 30, 2019 are as follows:

As at March 31, 2020	Indonesia	Japan	Canada	Total
Current assets	\$ -	\$ -	\$ 2,152,540	\$ 2,152,540
Investment	-	-	3,756,323	3,756,323
Investment in associate	-	-	6,508,427	6,508,427
Property, plant and equipment	-	-	8,602	8,602
Right-of-use asset	-	-	504,770	504,770
Total liabilities	-	-	(551,363)	(551,363)
	\$ -	\$ -	\$ 12,379,299	\$ 12,379,299

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 March 31,	2020	2019
Net income for the period - Canada	\$ 108,003	\$6,094,695
Net loss for the period – Japan	-	(1,747,611)
Net income (loss) for the period	\$ 108,003	\$4,347,084

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 36 months. See Note 6.

Subsequent to the period ended March 31, 2020, the Company opted to terminate its lease agreement for its office space with the duration of the lease ending on September 30, 2020.

SOUTHERN ARC MINERALS INC.

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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. The Company currently does not have any significant credit risk.

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1.

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal. The 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 \$31,639.

Foreign exchange risk

As at March 31, 2020, 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.

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12. SUBSEQUENT EVENTS

Subsequent to the period ended March 31, 2020, the Company converted the principal amount of the bridge loan provided to Japan Gold in the aggregate amount of \$1,000,000 into subscription proceeds under a non-brokered private placement of Japan Gold ("Private Placement") previously announced by Japan Gold on April 20, 2020. The Company converted this loan into 4,000,000 units of Japan Gold (each, a "Unit") and subscribed for an additional 1,000,000 Units (the "Additional Units") under the Private Placement at a price of \$0.25 per Unit for gross proceeds to Japan Gold of \$250,000. Each Unit consists of one common share of Japan Gold (each, a "Common Share") and one half of one transferable common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the Company to purchase one Common Share at an exercise price of C\$0.40 per Common Share until May 8, 2022, subject to acceleration in certain circumstances. The Company funded the acquisition of the Additional Units through the sale of an equal number of Common Share through the facilities of the TSX Venture Exchange.