



CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2021 AND 2020**

(Expressed in Canadian dollars)



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Southern Arc Minerals Inc.

Opinion

We have audited the consolidated financial statements of Southern Arc Minerals Inc. ("the Company"), which comprise:

- the consolidated statements of financial position as at June 30, 2021 and June 30, 2020;
 - the consolidated statements of net income, comprehensive income (loss), cash flows and changes in equity for the years then ended; and
 - notes to the consolidated statements, including a summary of significant accounting policies
- (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2021 and June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to note 1 in the financial statements which describes that the Company has no current sources of revenue and does not have sufficient cash to fund future investing activities. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is James Barron, CPA, CA.

Vancouver, Canada

October 26, 2021

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at	June 30, 2021	June 30, 2020
Assets		
Current		
Cash	\$ 630,070	\$ 349,773
Receivables	12,381	61,358
Prepaid expenses and other deposits	19,778	29,130
Investments (Note 4)	851,988	1,122,690
	1,514,217	1,562,951
Investments (Note 4)	1,045,930	6,111,198
Investments in associates (Note 3, 4)	-	7,628,221
Furniture and equipment (Note 5)	4,243	6,713
Right-of-use asset (Note 6)	-	19,087
	-	19,087
Total assets	\$ 2,564,390	\$ 15,328,170
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 61,242	\$ 143,882
Lease liabilities (Note 6)	-	25,633
	61,242	169,515
Total liabilities	61,242	169,515
Shareholders' equity		
Capital stock (Note 7)	78,577,429	77,171,731
Treasury stock (Note 7)	(1,170,000)	(1,170,000)
Equity reserve	12,204,724	12,447,338
Accumulated other comprehensive loss	(1,585,431)	(1,715,892)
Deficit	(85,523,574)	(71,574,522)
	2,503,148	15,158,655
Total shareholders' equity	2,503,148	15,158,655
Total liabilities and shareholders' equity	\$ 2,564,390	\$ 15,328,170

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

Approved by the Board of Directors and authorized for issuance on October 26, 2021:

On behalf of the Board of Directors

“John Proust” Director

“Morris Klid” Director

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF NET INCOME
(Expressed in Canadian dollars)

For the years ended	June 30, 2021	June 30, 2020
Expenses		
Depreciation	\$ 26,407	\$ 93,876
Office and miscellaneous (Note 8)	115,356	206,763
Management fees (Note 8)	280,000	430,000
Foreign exchange loss (gain)	14,742	(7,984)
Investor relations	4,794	5,244
Professional fees	297,691	211,836
Transfer agent and filing fees	66,278	42,257
Travel	-	449
Loss before other items	(805,268)	(982,441)
Other income (expense)		
Interest and other income	28,785	340,783
Interest expense	-	(24,470)
Realized and unrealized loss on investments (Note 3, 4)	(721,458)	(236,613)
Equity loss from investment in associate (Note 3)	(152,362)	(1,200,903)
Gain on fair value adjustment on derivative liability (Note 4)	-	1,539,137
Gain on dilution of investment in associate (Note 3)	-	901,293
Gain on return of capital transaction (Note 7)	6,743,518	-
	5,898,483	1,319,227
Net income before income taxes	\$ 5,093,215	\$ 336,786
Income tax recovery (expense) (Note 9)	176,820	(283,319)
Net income for the year	\$ 5,270,035	\$ 53,467
Basic income per share	\$ 0.24	\$ 0.00
Diluted income per share	\$ 0.24	\$ 0.00
Weighted average shares outstanding (Note 7)	21,797,371	17,261,105
Diluted weighted average shares outstanding (Note 7)	21,797,371	17,786,686

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

SOUTHERN ARC MINERALS INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Expressed in Canadian dollars)

Year ended		June 30, 2021		June 30, 2020
Net income for the year	\$	5,270,035	\$	53,467
Other comprehensive income (loss)				
Items that may not be subsequently reclassified to income (loss):				
Change in fair value of investments		1,308,820		(2,786,258)
Net income tax recovery (expense) related to available for sale investments		(176,820)		283,319
Items that may be subsequently reclassified to income (loss):				
Reclassification of cumulative translation adjustment to net income upon loss of significant influence		(137,083)		-
Cumulative foreign currency translation adjustment		5,206		131,877
		1,000,123		(2,371,062)
Total comprehensive income (loss) for the year	\$	6,270,158	\$	(2,317,595)

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

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

Year ended	June 30, 2021	June 30, 2020
Cash flows from operating activities		
Net income for the year	\$ 5,270,035	\$ 53,467
Items not affecting cash:		
Depreciation	26,407	93,876
Income tax expense (recovery)	(176,820)	283,319
Gain on debt settlement	-	(156,813)
Equity loss from investment in associate (Note 3)	152,362	1,200,903
Realized and unrealized loss on investments (Note 4)	721,458	236,613
Gain on return of capital transaction	(6,743,518)	-
Gain on fair value adjustment on derivative liability	-	(1,539,137)
Gain on dilution of investment in associate (Note 3)	-	(901,293)
Interest expense	-	24,470
Changes in non-cash working capital items:		
Receivables and prepaid expenses	58,330	18,762
Accounts payable, accrued liabilities and other long-term liabilities	(82,640)	93,247
Net cash used in operating activities	(774,386)	(592,586)
Cash flows from (used in) investing activities		
Advances to associate	-	(1,100,000)
Proceeds from repayment of loans receivable advances from associates	-	100,000
Investment in subsidiary/associate	-	(1,575,014)
Acquisition of investment	(266,062)	-
Property and equipment	(4,849)	-
Proceeds from sale of available for sale investment	188,143	-
Sale of shares of subsidiary/associate	-	1,575,014
Net cash used in investing activities	(82,768)	(1,000,000)
Cash flows from financing activities		
Cash received from private placement	-	1,036,433
Cash received from exercise of options and warrants	1,163,084	574,200
Lease payments	(25,633)	(104,243)
Net cash provided by financing activities	1,137,451	1,506,390
Change in cash during the year	280,297	(86,195)
Cash, beginning of the year	349,773	435,968
Cash, end of the year	\$ 630,070	\$ 349,773

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

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

	Capital Stock	Treasury Stock	Equity Reserve	Accumulated Other Comprehensive Income (loss)	Deficit	Total Equity
	Number of shares	Capital Stock				
Balance, June 30, 2019	14,389,616	\$75,437,533	\$ (1,170,000)	\$ 12,570,902	\$ 655,170	\$ (71,627,989) \$ 15,865,616
Net income for the year	-	-	-	-	53,467	53,467
Shares issued for private placement, net of issuance cost	3,000,000	1,036,434	-	-	-	1,036,434
Shares issued for exercise of options and warrants	1,785,000	697,764	-	(123,564)	-	574,200
Other comprehensive loss	-	-	-	(2,371,062)	-	(2,371,062)
Balance, June 30, 2020	19,174,616	\$77,171,731	\$ (1,170,000)	\$ 12,447,338	\$ (1,715,892)	\$ (71,574,522) \$ 15,158,655
Return of capital	-	-	-	-	(20,088,749)	(20,088,749)
Net income for the year	-	-	-	-	5,270,035	5,270,035
Shares issued for exercise of options and warrants	3,593,667	1,405,698	-	(242,614)	-	1,163,084
Accumulated other comprehensive income transferred to deficit	-	-	-	(869,662)	869,662	-
Other comprehensive income	-	-	-	1,000,123	-	1,000,123
Balance, June 30, 2021	22,768,283	\$78,577,429	\$ (1,170,000)	\$ 12,204,724	\$ (1,585,431)	\$ (85,523,574) \$ 2,503,148

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(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 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.

On October 16, 2020 (the “Distribution Date”), the Company distributed certain of its investment securities with a carrying value of \$13,345,231 to the shareholders of the Company (note 7). Subsequent to the distribution, the Company’s business plan is to continue making strategic investments in resource companies with a focus on gold and copper-gold. Based on current plans, the Company has sufficient cash to finance its general and administrative expenses and other current obligations for the twelve-month period. However, the Company will be required to obtaining additional financing in order to fund additional investments or exploration projects. While the Company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These consolidated financial statements are presented on a historical cost basis, except for financial assets classified as fair value through other comprehensive income, or derivatives, including warrants, which are recorded at fair value.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company balances and transactions have been eliminated on consolidation. The Company does not currently have material operating subsidiaries.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

The preparation of these financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These interim financial statements include estimates which, by their nature, are uncertain. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future conditions and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, the valuation of investments in warrants which requires estimates of volatility and discount rates. These assumptions affect the fair value of these investments in warrants and the related unrealized gains (losses) on investments.

Critical accounting judgements

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments. The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained as required. See Note 1.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture and equipment

Furniture, computers, and equipment are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets currently estimated to be four years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease or the life of the underlying asset.

Foreign currency translation

The functional and reporting currency of the Company and its subsidiaries is the Canadian dollar, except Japan Gold's wholly owned subsidiary in Japan prior to the loss of control which had a Japanese Yen functional currency. Transactions in currencies other than the functional currency of an entity are recorded at the exchange rates prevailing on dates of transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign currency translation differences are recognized in profit or loss.

The assets and liabilities for entities whose functional currency is other than the Canadian dollar are translated at the exchange rate in effect on the balance sheet date and revenues and expenses are translated at the exchange rates prevailing on dates of transactions. Exchange gains and losses resulting from such translation are included in a separate component of shareholders' equity.

Income (Loss) per share

The Company presents basic per share data for its common shares, calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutive and, therefore, basic and diluted loss per share are the same.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

At the inception of a contract, an assessment is made as to whether a contract is or contains a lease. A contract is or contains a lease if the contract offers the right to control the use of a specific asset, for a period of time, in exchange for consideration. To determine whether a contract conveys the right to control the use of an identified asset, the following criteria are considered:

- The contract involves the use of an identified asset that is physically distinct or represents substantially all of the capacity of a physically distinct asset. No asset is identified if the supplier of the assets has substantive substitution rights;
- Whether the Company has the right to obtain substantially all of the economic benefits from the asset throughout the agreement term; and
- Whether the Company has the right to direct the use of the asset and change how and for what purpose the asset is used.

A right-of-use asset and a corresponding lease liability are recognized on the date a leased asset is available for use by the Company. Assets and liabilities arising from the lease determination are initially measured on a present value basis of the following payments:

- Fixed payments, less any lease incentives receivable;
- Amounts expected to be payable by the lessee under any residual value guarantees;
- The exercise of a purchase option if the lessee is reasonably certain to exercise that option;
- Restoration costs; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate is used to calculate the present value. The Company's borrowing rate is the rate that the Company, as the lessee, would pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease term is comprised of the non-cancellable period of the lease contract, as well as options to terminate or extend the lease term if the exercise of either option is reasonably certain.

Right-of-use assets are subsequently measured at cost less depreciation on a straight-line basis and reduced to reflect impairment losses (if any) and adjusted for any remeasurement of the lease liability. After the lease commencement date, lease liabilities are measured at amortized cost using the effective interest method, which increases the liability amount to reflect interest on the lease liability and reduced the lease liability by lease payments made, and also reflects any remeasurement or lease modifications. If a remeasurement to the lease liability is deemed necessary, a corresponding adjustment is also made to the carrying value of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Right-of-use assets are depreciated over the shorter of lease term and useful life of the underlying asset.

Payments related to short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss over the respective lease terms. Short-term leases are leases with a lease term of 12 months or less.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Short term employee benefits are expensed as the related services are performed. The Company has no other employee benefit plans other than share-based payment transactions.

Share-based payment transactions

The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which these deductions can be applied. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. On initial recognition, all financial assets and financial liabilities are recorded at fair value. The Company determines each financial instrument's classification upon initial recognition. Measurement in subsequent periods depends on the financial instrument's classification.

Financial assets

Financial assets are classified as: Fair value through profit and loss ("FVTPL"), Fair value through other comprehensive income ("FVTOCI") and financial assets subsequently measured at amortized cost.

a) Amortized cost

The Company classifies financial assets as subsequently measured at amortized cost if both of the following conditions are met:

- the financial asset is held with the objective to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI"). This is referred to as the SPPI test.

Financial assets measured at amortized cost are recognized using the effective interest rate ("EIR") method and are subject to impairment. Interest received is recognized as part of finance income. Gains and losses are recognized when the asset is derecognized, modified or impaired.

The Company's financial assets subsequently measured at amortized cost include cash, receivables and deposits.

b) Fair value through other comprehensive income

Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income ("OCI"). Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company classifies its investment in common shares of Japan Gold Corp., Adriatic Metals Plc., PT Ancora Indonesia Resources Tbk and Rise Gold Corp. as FVTOCI.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets at fair value through profit and loss

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at FVTPL are recognized in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

The Company classifies its investments in warrants as FVTPL.

Financial liabilities

Derivative liabilities are measured at fair value initially and on each reporting date with changes in fair value recognized in profit or loss. All other financial liabilities of the Company are initially measured at fair value net of issue costs and are subsequently measured at amortized cost using the effective interest rate method.

A financial liability is derecognized when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Investments in associates

Associates are entities over which the Company has significant influence but not control, generally when the Company's shareholding is between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss and other equity changes of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Company's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate is equal to or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises the amount in profit or loss. Subsequently, if there is objective evidence that the circumstances that led to the impairment have reversed, an impairment charge may be reversed but only to an amount equal to the original cost of the investment less the Company's share of accumulated losses.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

Profits and losses resulting from upstream and downstream transactions between the Company and its associates are recognised in the Company's consolidated financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognised in profit or loss.

New standards and interpretations not yet adopted

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended June 30, 2021, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

SOUTHERN ARC MINERALS INC.

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3. INVESTMENT IN ASSOCIATE

Japan Gold Corp.

Japan Gold Corp. (“Japan Gold”) is a mineral exploration company which focuses on the acquisition and exploration of resources properties in northern Hokkaido, northern Honshu and Kyushu, Japan.

On August 22, 2019, Japan Gold completed a private placement 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 common shares at \$0.27 per share. As a result of the private placement, the Company’s ownership in Japan Gold decreased from 31.90% to 25.87%.

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

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

A gain on dilution of \$901,293 was recognized in net income for the year ended June 30, 2020 in respect of the decreases in the Company’s interest in Japan Gold.

On the Distribution Date the Company completed the return of capital transaction and distributed 40,250,000 common shares of Japan Gold to the Company’s shareholders (note 7). As the Company held 130,000 of its own shares in treasury, it received distribution of 228,511 common shares of Japan Gold Corp.

Subsequent to the Distribution Date, the Company no longer has significant influence over Japan Gold and the investment in the remaining 228,511 shares was reclassified to investments and accounted for at FVTOCI (note 4).

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

Balance - June 30, 2019	\$	6,795,954
Share of net loss for the year		(1,200,903)
Share of net comprehensive income for the year		131,877
Additional investment		1,000,000
Gain on dilution of investment in associate		901,293
Balance - June 30, 2020	\$	7,628,221
Share of net comprehensive loss for the period (July 1 to October 16, 2020)		(364,218)
Carrying value of investment in associate prior to distribution		7,264,003

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

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4. INVESTMENTS

The following table summarizes the Company's investments as at June 30, 2021 and June 30, 2020:

	June 30, 2021		June 30, 2020	
	Number of securities	Fair Value	Number of securities	Fair Value
Investment in shares of Rise Gold Corp. (Note 4a)	15,612	\$ 11,709	2,750,000	\$ 2,585,000
Investment in warrants of Rise Gold Corp. (Note 4a)	-	-	2,462,500	\$ 287,134
Investment in shares of PT Ancora Indonesia Resources Tbk. (Note 4b)	77,560,000	\$ 553,778	100,000,000	\$ 816,000
Investment in shares of Adriatic Metals Plc. (Note 4c)	134,803	\$ 298,210	10,028,119	\$ 2,156,045
Investment in warrants of Adriatic Metals Plc. (Note 4c)	-	-	754,949	\$ 19,556
Investment in shares of Japan Gold	228,511	\$ 78,836	-	-
Investment in warrants of Japan Gold Corp.	17,584,100	\$ 955,385	18,084,100	\$ 1,370,153
Total investments		\$ 1,897,918		\$ 7,233,888
Classified as current		(851,988)		(1,122,690)
Total non-current investments		\$ 1,045,930		\$ 6,111,198

a) Rise Gold Corp.

On the Distribution Date, the Company completed the return of capital transaction and distributed 2,750,000 Rise Gold common shares to the Company's shareholders (note 7). As the Company held 130,000 of its own shares in treasury, it received 15,612 common shares of Rise Gold.

As at June 30, 2021, the Company holds no more Rise warrants as they all expired during the year. During the year ended June 30, 2021, the Company recorded an unrealized loss on Rise Gold warrants of \$287,134 (June 30, 2020: \$111,316) in net income. The following assumptions have been used to calculate the fair value of Rise warrants using the Black-Scholes model:

	June 30, 2021	June 30, 2020
Risk-free interest rate	1.59%	0.25%
Expected life of options (in years)	-	0.35-0.80
Annualized volatility	75.00%	78%-91%
Share price	\$ 0.62	\$ 0.94
Exercise price	\$ 1.50	\$1.30-\$1.50
Forfeiture rate and dividend rate	0.00%	0.00%

b) PT Ancora Indonesia Resources, Tbk.

As at June 30, 2021, the Company owns 77,560,000 shares of PT Ancora Indonesia Resources, Tbk ("PT Ancora") representing 4.81% of PT Ancora's issued and outstanding common shares. PT Ancora is an Indonesian company listed on the Indonesia Stock Exchange (OKAS:IJ). During the year ended June 30, 2021, the Company sold 22,440,000 shares in PT Ancora for proceeds of \$188,143.

SOUTHERN ARC MINERALS INC.

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4. INVESTMENTS (continued)**b) PT Ancora Indonesia Resources, Tbk. (continued)**

As at June 30, 2021, these shares had a fair market value of \$553,778 (June 30, 2020: \$816,000) based on the then quoted market price resulting in the recognition of an unrealized gain of \$74,080 (June 30, 2020: loss of \$699,900) in other comprehensive income (loss).

Subsequent to the year ended June 30, 2021, the Company sold all of its remaining shares in PT Ancora for proceeds of \$564,042.

c) Adriatic Metals plc (formerly “Tethyan Resource Corp.”)

During the year ended June 30, 2020, the Company and Augusta Investments Inc. (“Augusta”) agreed to terminate the exclusive call option to Augusta, to purchase up to 5,000,000 of Tethyan common shares held by the Company, for no consideration. The Company recognized a gain of \$1,539,137 during the year ended June 30, 2020 in net income related to the change in fair value of the call option.

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

On the Distribution Date, the Company completed the return of capital transaction and distributed 1,664,668 Adriatic common shares to the Company’s shareholders (note 7). As the Company held 130,000 of its own shares in treasury, it received distribution of 9,481 ordinary shares of Adriatic Metals plc.

On June 28, 2021, the Company exercised 125,322 warrants of Adriatic to purchase 125,322 shares of Adriatic for a total of \$266,062. As at June 30, 2021, the fair value of 134,803 Adriatic shares was \$298,210 based on the then quoted market price resulting in an unrealized gain of \$12,581 in other comprehensive income (loss).

Subsequent to the year ended June 30, 2021, the Company sold all of its shares in Adriatic for proceeds of \$298,197.

The following assumptions have been used to calculate the fair value of Adriatic warrants using the Black-Scholes model:

	June 30, 2021	June 30, 2020
Risk-free interest rate	1.59%	0.25%
Expected life of options (in years)	-	1.00
Annualized volatility	75%	69.00%
Share price	\$ 1.93	\$ 0.22
Exercise price	\$ 2.11	\$ 0.35
Forfeiture rate and dividend rate	0.00%	0.00%

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

June 30, 2021 and 2020

(Expressed in Canadian dollars)

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

As at June 30, 2021, the Company owns 17,584,100 warrants of Japan Gold which have a fair value of \$955,385 (June 30, 2020 – 18,084,100 warrants valued at \$1,370,153) and recorded an unrealized loss on these warrants of \$414,768 in net income for the year ended June 30, 2021. The following assumptions were used to fair value these warrants:

	June 30, 2021	June 30, 2020
Risk-free interest rate	0.43%	0.25%
Expected life of options (in years)	0.14-1.11	0.42-2.11
Annualized volatility	32%-55%	63% - 75%
Share price	\$ 0.36	\$ 0.30
Exercise price	\$ 0.40 - 0.42	\$ 0.40 - 0.42
Forfeiture rate and dividend rate	0.00%	0.00%

5. PROPERTY AND EQUIPMENT

Cost	Leasehold		Total
	Office furniture	Improvements	
At June 30, 2019 and 2020	\$ 30,222	\$ 29,660	\$ 59,882
Addition	4,849	-	4,849
At June 30, 2021	\$ 35,071	\$ 29,660	\$ 64,731
Accumulated depreciation			
At June 30, 2019	\$ 15,952	\$ 29,660	\$ 45,612
Depreciation expenses	7,557	-	7,557
At June 30, 2020	\$ 23,509	\$ 29,660	\$ 53,169
Depreciation expenses	7,319	-	7,319
At June 30, 2021	\$ 30,828	\$ 29,660	\$ 60,488
Total carrying value, June 30, 2020	\$ 6,713	\$ -	\$ 6,713
Total carrying value, June 30, 2021	\$ 4,243	\$ -	\$ 4,243

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

6. LEASES

Right-of-use assets	
Balance, - July 1, 2019	\$ -
Adoption of IFRS 16	336,164
Lease modification	(230,758)
Depreciation for the year	(86,319)
Balance - June 30, 2020	\$ 19,087
Depreciation for the year	(19,087)
Balance - June 30, 2021	\$ -
Lease liabilities	
Balance, - July 1, 2019	\$ -
Adoption of IFRS 16	336,164
Lease payments	(104,243)
Lease modification	(230,758)
Interest	24,470
Balance - June 30, 2020	\$ 25,633
Lease payments	(25,633)
Balance - June 30, 2021	\$ -

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

7. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of Class A common shares without par value. As at June 30, 2021, 22,898,283 (June 30, 2020 – 19,304,616) are issued of which 22,768,283 (June 30, 2020 – 19,174,616) are outstanding and 130,000 (June 30, 2020 – 130,000) are in treasury.

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

SOUTHERN ARC MINERALS INC.

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7. SHAREHOLDERS' EQUITY (continued)

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

	# of securities	Carrying value – October 16, 2020
Common shares of Japan Gold Corp.	40,021,489	\$ 7,264,003
Common shares of Rise Gold Corp.	2,734,388	2,654,385
Common shares of Adriatic Metals Plc	1,655,187	3,426,843
		<u>\$13,345,231</u>

The distribution was recognized at the fair value of the assets distributed of \$20,088,749 resulting in a gain on distribution of \$6,743,518 which is recognized in net income. The fair value of the shares distributed was based on the quoted market value of those shares, a level one input.

Earnings per share

Basic income 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 per share for the effects of potential dilutive common shares.

The calculations of diluted weighted average number of shares outstanding as at June 30, 2021 and June 30, 2020 are as follows:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Basic weighted average number shares outstanding	21,797,371	17,261,105
Dilutive securities:		
Options	-	134,254
Warrants	-	391,327
Diluted weighted average number of shares outstanding	<u>21,797,371</u>	<u>17,786,686</u>

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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, 2019	1,436,000	\$ 0.33
Exercised	(300,000)	0.33
Outstanding at June 30, 2020	1,136,000	\$ 0.33
Exercised	(1,012,000)	0.33
Cancelled	(24,000)	0.33
Expired	(100,000)	0.33
Outstanding at June 30, 2021	-	-

During the year ended June 30, 2021, 1,012,000 were exercised for total proceeds of \$336,950 to the Company. Out of the options exercised, 755,000 options were exercised by related parties.

Share purchase warrants

During the year ended June 30, 2021, 2,581,667 warrants with an exercise price of \$0.32 were exercised for proceeds of \$826,134. As at June 30, 2021, no warrants remain outstanding (June 30, 2020: 2,581,677).

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

Key management personnel include the directors and officers of the Company.

Key management compensation for the year ended June 30, 2021, consisted of management fees of \$280,000 (2020- \$430,000) paid to two private companies controlled by the Chief Executive Officer and Chairman of the Company. Management fees include administrative, finance, accounting, investor relations and consulting services.

The Company also reimbursed a private company controlled by the Chief Executive Officer and Chairman of the Company \$22,500 in occupancy costs (2020 - \$Nil).

The above transactions 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. INCOME TAXES

A reconciliation of income taxes at statutory rates of 27% with reported taxes is as follows:

	2021	2020
Income for the year, before income taxes	\$ 5,093,215	\$ 336,786
Expected income tax expense	\$ 1,375,168	\$ 90,932
Items not taxable for income tax purposes	(792,983)	(135,393)
Adjustment for prior year losses	(3,149,701)	-
Tax benefits unrecognized	2,390,696	327,780
Total income tax expense (recovery)	\$ (176,820)	\$ 283,319

Deferred income tax assets have not been recognized for the following temporary differences as management does not believe, based on estimated future taxable income that it is probable that the benefit of these temporary differences will be realized:

	2021	2020
Non-capital loss carry forwards	\$ 23,057,848	\$ 18,831,112
Capital loss carry forwards	10,845,914	-
Lease liability	-	25,633
Share issuance costs	-	-
Cumulative exploration expenses	4,714,334	5,238,148
Investment	5,281,131	4,546,135
Property and equipment	54,601	13,029
	\$ 43,953,828	\$ 28,654,057

The Company has accumulated losses for deduction against future years' Canadian taxable income, which expire as follows:

2032	\$ 3,451,798
2033	3,103,710
2034	3,298,960
2035	2,079,608
2036	1,493,116
2037	7,964,922
2038	1,058,953
2039	120,032
2040	486,749
2041	-
	<u>\$ 23,057,848</u>

The capital losses have no expiry date.

SOUTHERN ARC MINERALS INC.

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10. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment focused on the acquisition and exploration of resource properties and investments. As at June 30, 2021 and June 30, 2020, all of the Company's assets and liabilities and income are in Canada.

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 Company is not currently exposed to material foreign currency risk. The quoted market price of Japan Gold, Rise Gold, Adriatic and PT Ancora shares are subject to fluctuations and this impacts other comprehensive income. A 1% change (plus or minus) in the price of these shares would change the fair value of the common shares and other comprehensive income by approximately \$9,425. A 1% change (plus or minus) in the market price used in the valuation of the Company's investment in warrants would change the fair value of the warrants and net income by \$34,768.

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 Japan Gold, Rise Gold, Adriatic 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, Adriatic and Japan Gold warrants were recognized at fair value using level 2 inputs. The fair value of the Japan Gold warrants was determined using a Black-Scholes option pricing formula. The carrying value of cash, receivables, deposits and accounts payable and accrued liabilities approximate their fair value due to their short-term nature.