



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2018 AND 2017**

*(Unaudited - Expressed in Canadian dollars)*

**NOTICE TO READER**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three months ended September 30, 2018, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

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

<b>As at</b>	<b>September 30, 2018</b>	<b>June 30, 2018</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 694,366	\$ 573,385
Short-term deposits	-	600,000
Receivables	58,224	74,015
Loan receivable (Note 5)	14,932	14,932
Prepaid expenses and other deposits	125,113	99,799
Investments (Note 4)	2,913,900	3,750,400
	<b>3,806,535</b>	<b>5,112,531</b>
<b>Investments (Note 4)</b>	<b>308,576</b>	<b>678,012</b>
<b>Investment in associate (Note 5)</b>	<b>1,320,107</b>	<b>1,356,402</b>
<b>Deposits</b>	<b>37,850</b>	<b>15,785</b>
<b>Exploration and evaluation assets (Note 7)</b>	<b>4,221,704</b>	<b>4,076,676</b>
<b>Property and equipment (Note 8)</b>	<b>611,598</b>	<b>694,430</b>
<b>Total assets</b>	<b>\$ 10,306,370</b>	<b>\$ 11,933,836</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 566,886	\$ 509,334
Related party loan (Note 10)	679,612	-
<b>Total liabilities</b>	<b>1,246,498</b>	<b>509,334</b>
<b>Shareholders' equity</b>		
Capital stock (Note 9)	75,437,533	75,437,533
Treasury stock (Note 9)	(1,170,000)	(1,170,000)
Equity reserve (Note 9)	13,926,387	13,926,387
Accumulated other comprehensive income	(1,470,684)	(614,429)
Deficit	(78,568,584)	(77,475,077)
Equity attributable to shareholders	8,154,652	10,104,414
Non-controlling interest	905,220	1,320,088
<b>Total shareholders' equity</b>	<b>9,059,872</b>	<b>11,424,502</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,306,370</b>	<b>\$ 11,933,836</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 14)

Approved by the Board of Directors and authorized for issuance on November 28, 2018:

**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)

For the three months ended	September 30, 2018	September 30, 2017
<b>Expenses</b>		
Depreciation	\$ 6,056	\$ 12,689
Consulting	184,098	427,363
Office and miscellaneous	131,815	156,924
Financing expense	32,362	-
Management fees (Note 10)	259,000	153,000
Exploration expenses (Note 7)	3,984	182,848
Foreign exchange loss	197,999	8,866
Investor relations	30,399	46,498
Professional fees	181,438	49,340
Rent	23,700	66,195
Salaries and benefits	-	74,880
Transfer agent and filing fees	4,732	40,989
Travel	55,049	139,229
<b>Loss before other items</b>	<b>(1,110,632)</b>	<b>(1,358,821)</b>
<b>Other income (expense)</b>		
Interest and other income	7,988	4,428
Realized and unrealized gains on investments (Note 4, 5)	(369,436)	134,041
Equity loss from investment in associate (Note 5)	(184,327)	(181,879)
Gain on dilution of investment in associate (Note 5)	148,032	-
	(397,743)	(43,410)
<b>Net loss before income taxes</b>	<b>\$ (1,508,375)</b>	<b>\$ (1,402,231)</b>
Income tax expense	-	(120)
<b>Net loss for the period</b>	<b>\$ (1,508,375)</b>	<b>\$ (1,402,351)</b>
<b>Net loss attributable to:</b>		
Shareholders of Southern Arc Minerals Inc.	\$ (1,093,507)	\$ (895,726)
Non-controlling interests	(414,868)	(506,625)
	<b>\$ (1,508,375)</b>	<b>\$ (1,402,351)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.06)</b>
<b>Weighted average shares outstanding</b>	<b>14,389,616</b>	<b>14,954,817</b>
<b>Diluted weighted average shares outstanding</b>	<b>14,389,616</b>	<b>14,954,817</b>

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)

	September 30, 2018	September 30, 2017
<b>Net loss for the period</b>	\$ (1,508,375)	\$ (1,402,351)
<b>Other comprehensive income (loss)</b>		
Items that may be subsequently reclassified to profit/loss:		
Change in fair value of available-for-sale investments	(836,500)	(404,380)
Gain on available-for-sale investments classified to net loss	-	403,397
Cumulative foreign currency translation adjustment	(19,755)	-
Net income tax expense related to available for sale investments	-	120
	(856,255)	(863)
<b>Total comprehensive loss for the period</b>	<b>\$ (2,364,630)</b>	<b>\$ (1,403,214)</b>
<b>Comprehensive loss attributable to:</b>		
Shareholders of Southern Arc Minerals Inc.	\$ (1,930,007)	\$ (896,589)
Non-controlling interests	(434,623)	(506,625)
	<b>\$ (2,364,630)</b>	<b>\$ (1,403,214)</b>

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 periods ended	September 30, 2018	September 30, 2017
<b>Cash flows from operating activities</b>		
Net loss for the period	\$ (1,508,375)	\$ (1,402,351)
Items not affecting cash:		
Depreciation	6,056	12,689
Income tax recovery	-	120
Exploration expense	-	182,484
Equity loss from investment in associate (Note 5)	184,327	181,879
Realized and unrealized gain on investments (Note 4)	369,436	(134,041)
Gain on dilution of equity investment (Note 5)	(148,032)	-
Foreign exchange loss	87,845	7,959
Financing expense	32,363	-
Changes in non-cash working capital items:		
Receivables and prepaid expenses	(61,723)	76,961
Accounts payable, accrued liabilities and other long-term liabilities	87,687	24,082
<b>Net cash used in operating activities</b>	<b>(950,416)</b>	<b>(1,050,218)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments, net (Note 4)	-	3,647,400
Cash used to acquire investments (Note 4)	-	(3,200,000)
Redemption of short-term investment	600,000	550,000
Purchase of short-term investment	-	(4,550,000)
Investment in exploration property	-	(182,484)
Property and equipment	-	(617,949)
Exploration and evaluation assets	(175,853)	(652,407)
<b>Net cash (used in) from investing activities</b>	<b>424,147</b>	<b>(5,005,440)</b>
<b>Cash flows from financing activities</b>		
Loan from related party	647,250	-
Cash used to repurchase common shares	-	(175,042)
<b>Net cash (used in) from financing activities</b>	<b>647,250</b>	<b>(175,042)</b>
<b>Change in cash during the period</b>	<b>120,981</b>	<b>(6,230,700)</b>
Cash, beginning of the period	573,385	11,763,403
<b>Cash, end of the period</b>	<b>\$ 694,366</b>	<b>\$ 5,532,703</b>

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

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

	Attributable to shareholders of Southern Arc Minerals Inc.							
	Capital Stock	Treasury Stock	Equity Reserve	Accumulated Other Comprehensive Loss	Deficit	Total	Non-controlling Interest	Total Equity
<b>Balance, June 30, 2017</b>	\$ 75,842,885	\$ (1,170,000)	\$ 13,926,387	\$ 863	\$ (73,395,553)	\$ 15,204,582	\$ (1,166,924)	\$ 14,037,658
Net loss for the period	-	-	-	-	(895,726)	(895,726)	(506,625)	(1,402,351)
Common shares repurchase	(175,042)	-	-	-	-	(175,042)	-	(175,042)
Other comprehensive loss	-	-	-	(863)	-	(863)	-	(863)
<b>Balance, September 30, 2017</b>	\$ 75,667,843	\$ (1,170,000)	\$ 13,926,387	\$ -	\$ (74,291,279)	\$ 14,132,951	\$ (1,673,549)	\$ 12,459,402
<b>Balance, June 30, 2018</b>	\$ 75,437,533	\$ (1,170,000)	\$ 13,926,387	\$ (614,429)	\$ (77,475,077)	\$ 10,104,414	\$ 1,320,088	\$ 11,424,502
Net loss for the period	-	-	-	-	(1,093,507)	(1,093,507)	(414,868)	(1,508,375)
Other comprehensive loss	-	-	-	(856,255)	-	(856,255)	-	(856,255)
<b>Balance, September 30, 2018</b>	\$ 75,437,533	\$ (1,170,000)	\$ 13,926,387	\$ (1,470,684)	\$ (78,568,584)	\$ 8,154,652	\$ 905,220	\$ 9,059,872

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

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

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

These consolidated interim financial statements (which includes the consolidation of Japan Gold Corp. (Note 3)) have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company is in the process of evaluating its exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The Company does not currently generate any revenues or have operations that generate cash flows. Accordingly, the Company relies on funding received from the sale of investments and financing received from the issuance of common shares or loans and borrowings to finance its exploration activities and general and administrative costs. Based on current plans, budgeted expenditures, and cash requirements, the Company does not have sufficient cash to finance its planned activities for the twelve months from the date of approval of the consolidated financial statements. As a result, the Company will require cash injections by way of selling its investments or obtaining additional financing in order to fund exploration activities and required general and administrative expenses. While the Company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of presentation**

These condensed consolidated interim financial statements have been prepared in accordance with IFRS, as applicable to interim financial reports including IAS 34, “Interim Financial Reporting”, and should be read in conjunction with the Company’s annual financial statements for the year ended June 30, 2018, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issuance by the Company’s Board of Directors on November 28, 2018.

##### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and:

- i) its wholly-owned Canadian subsidiary West Indonesia Mining Holdings Inc.;
- ii) its 53.06%-owned Japan subsidiary Japan Gold Corp. and its wholly owned subsidiary Southern Arc Minerals Japan KK

Significant intercompany balances and transactions have been eliminated upon consolidation.



## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

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## **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Significant accounting judgements and estimates**

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

#### *Critical accounting estimates*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited, to the following:

- i) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices related to the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.
- ii) The determination of fair value of investments in non-tradable warrants, which are derivative instruments, requires assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact mark to market gains and losses recognized in profit or loss.

#### *Critical accounting judgements*

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

- i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained in the near term. See Note 1.
- ii) The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.
- iii) The Company's assessment of the economic recoverability and probability of future economic benefits of exploration and evaluation costs capitalized, subject to impairment analysis.
- iv) The classification of the Company's investments as an investment in associate or investment held as available for sale is determined by reviewing whether the Company has significant influence based on the percentage of holdings and other qualitative factors. The Company's investments held as available for sale and investment in associate is subject to evaluation of significant and prolonged declines in value. The Company considers an investment to be impaired if there is a decline of 20% or more of an investment's quoted market price that persists for period of nine months or more.

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **New accounting standards and pronouncements**

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

- IFRS 9 - Financial Instruments. This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, de-recognition of financial assets and financial liabilities. The required adoption date for IFRS 9 is July 1, 2018. Other than changes to the classification of financial instruments to conform to classifications of IFRS 9 and additional disclosures, the Company does not expect any material impacts on the financial statements on adoption of IFRS 9.
- IFRS 15 - Revenue from Contracts with Customers contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 will be effective for the Company on July 1, 2018. As the Company does not currently earn revenues, adoption of this standard will not have any impact on the consolidated financial statements.
- IFRS 16 – Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for the Company on July 1, 2019. The Company does not expect that adoption of this standard will have a material impact on the consolidated financial statements.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

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### 3. ACQUISITION AND REORGANIZATION

#### Japan Gold Corp.

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

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

On August 9, 2017, the Company completed a financing with Japan Gold where it acquired 12,500,000 units of Japan Gold at a price of \$0.40 for total cost of \$5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of Japan Gold. Each warrant is exercisable into one additional common share of Japan Gold at a price of \$0.40 per share for a period of 5 years. The Company owns 53.06% of Japan Gold's issued and outstanding common shares as at September 30, 2018. As the Company controls Japan Gold before and after the transaction, the impact of the additional investment was accounted for as an equity transaction and resulted in an increase in non-controlling interest of \$1,971,421 and a corresponding increase in deficit.

As at September 30, 2018, Japan Gold's net assets consisted primarily of cash and cash equivalents of \$172,335, short-term deposits of \$Nil, other current assets of \$117,601, property, plant and equipment of \$582,598, exploration and evaluation assets of \$4,221,704, deposits of \$37,850 and current liabilities of \$840,114. Japan Gold had no revenues for the period from July 1, 2018 to September 30, 2018 and net loss of Japan Gold for this period was \$883,893 excluding certain inter-company eliminations.

On September 30, 2018, the fair value of the 36,250,000 shares of Japan Gold owned by the Company is \$3,262,500 based on the then quoted market price of \$0.09 per share.

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

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#### **4. INVESTMENTS**

##### **a) Rise Gold Corp.**

On April 18, 2018, the Company participated in a non-brokered private placement of Rise Gold Corp. (“Rise Gold”), a company listed on the Canadian Securities Exchange. The Company purchased 20,000,000 units of Rise Gold at a price of \$0.10 per unit for \$2,000,000. Each unit consists of one share of common stock and one share purchase warrant. Each warrant is exercisable into one share at a price of \$0.15 per share for a period of 36 months from the date of issuance. The Company recognized a gain of \$1,453,301 on initial recognition of the common shares and warrants as their fair value exceeded the cost to acquire these securities.

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

During the period ended September 30, 2018, the Company recorded an unrealized loss of \$600,000 in accumulated other comprehensive loss (\$600,000 for the year ended June 30, 2018) relating to the investment in common shares of Rise Gold. In addition, during the period ended September 30, 2018 the Company recorded an unrealized loss on Rise Gold warrants of \$351,795 (\$427,099 for the year ended June 30, 2018) in net loss. As at September 30, 2018, the Company owned approximately 16.53% of Rise Gold.

##### **b) PT Ancora Indonesia Resources, Tbk.**

On December 12, 2017, the Company acquired 100 million shares of PT Ancora Indonesia Resources, Tbk (“PT Ancora”), representing 5.66% of PT Ancora’s issued and outstanding, at a cost of (US\$2,000,000 or \$2,549,200) from third parties in a private transaction. PT Ancora is an Indonesian company listed on the Indonesia Stock Exchange (OKAS:IJ). The Company has classified its investment in PT Ancora as a financial assets that are available-for-sale with changes in fair value recorded in other comprehensive income (loss). As at September 30, 2018, these shares had a fair market value of \$1,713,900 (June 30, 2018: \$1,950,400) based on the then quoted market prices of these shares resulting in the recognition of an unrealized loss of \$236,500 (June 30, 2018: \$598,801) in other comprehensive income (loss).

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

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

**5. INVESTMENT IN ASSOCIATE**

As at September 30, 2018, the Company holds a total of 9,983,068 (June 30, 2018: 9,983,068) common shares of Tethyan Resources Plc (“Tethyan”), which represents 19.84% (June 30, 2018: 22.53%) of Tethyan’s issued and outstanding shares. Tethyan is a TSX Venture quoted junior exploration company with a focus on exploring for copper and gold within the Western Tethyan Orogenic Belt in Serbia.

During the period ended September 30, 2018, the Company’s interest in Tethyan decreased from 22.53% to 19.84% as a result of dilution related to an equity financing that was undertaken by Tethyan in which the Company did not participate. As a result, the Company recognized a gain on dilution on its equity investment in Tethyan of \$148,032.

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

Investment in Tethyan is accounted for as an equity investment by the Company and is subject to evaluation of significant and prolonged declines in value. The fair value of the Company’s investment in Tethyan as at September 30, 2018 is \$1,497,460 based on the publicly traded closing share price of \$0.15 per share, which is greater than its carrying value.

During the year ended June 30, 2018, the Company advanced \$400,000 to Tethyan which earned interest at LIBOR plus 4% per annum. On June 29, 2018, the Company converted the \$400,000 that was advanced to Tethyan into 1,600,000 units of Tethyan. Each unit is comprised of one ordinary share and one-half of one share purchase warrant of Tethyan. Each whole warrant is exercisable into one ordinary share of Tethyan at an exercise price of C\$0.35 per share for a period of three years. The Company valued the warrants at \$51,810 and classified these as derivatives and \$348,190 was allocated to the shares acquired on conversion of the loan receivable. As at September 30, 2018 the fair value of these warrants is \$34,169 resulting in an unrealized loss of \$17,641 on Tethyan warrants to be recorded in net loss.

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

	<b>September 30, 2018</b>
Balance - July 1, 2016	\$ -
Acquisition of investment	2,075,657
Share of net loss for the year	(578,845)
Balance - June 30, 2017	\$ 1,496,812
Conversion of loan receivable	348,190
Gain on dilution of equity investment	731,368
Share of net loss for the year	(1,219,968)
Balance - June 30, 2018	\$ 1,356,402
Gain on dilution of equity investment	148,032
Share of net loss for the period	(184,327)
Balance - September 30, 2018 (quoted market value - \$1,497,460)	\$ 1,320,107

As at September 30, 2018, \$14,932 (June 30, 2018: \$14,932) of interest remains in loan receivable in connection with the \$400,000 advance.

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

**6. SUPPLEMENTAL INFORMATION**

For the purposes of providing additional information regarding the net assets and working capital available to Southern Arc, below is a summary of the non-consolidated standalone net assets of Southern Arc Minerals Inc. as at September 30, 2018. For purposes of this supplementary information, the Company has reflected its investment in common shares and warrants of Japan Gold and Tethyan Resources Plc (Note 5) at their fair value at the September 30, 2018.

	<b>Southern Arc</b>
Cash	\$ 522,031
Receivables	31,791
Loan receivable	14,932
Prepaid expense and other deposits	33,945
Investment in PT Ancora Indonesia Resources Tbk. (Note 4b)	1,713,900
Investment in Rise Gold Corp (Note 4a)	1,200,000
Investment in Rise Gold Corp. warrants (Note 4a)	274,407
Investment in Tethyan Resources Plc shares (at quoted market price)	1,497,460
Investment in Tethyan Resources Plc. warrants (at fair value)	34,169
Investment in Japan Gold Corp. shares (at quoted market price)	3,262,500
Investment in Japan Gold Corp warrants (at fair value)	252,380
<b>Total assets</b>	<b>\$ 8,837,515</b>
<b>Total liabilities</b>	<b>\$ (760,145)</b>
<b>Net assets</b>	<b>\$ 8,077,370</b>

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2018 and 2017

(Unaudited - Expressed in Canadian dollars)

**7. EXPLORATION AND EVALUATION ASSETS****Japan Gold Corp.**

As at September 30, 2018, the Company's subsidiary Japan Gold owned 68 prospecting rights related to its interests in Japan. These prospecting rights provide the Company with the right to explore the areas of interest covered by these rights. Japan Gold's project portfolio also consists of 216 prospecting license applications for a combined area of 71,529 hectares over 17 separate projects on the three main islands of Japan.

	<b>Ikutahara project</b>	<b>Eboshi project</b>	<b>Total</b>
<b>Balance, June 30, 2017</b>	<b>\$ 83,803</b>	<b>\$ 19,459</b>	<b>\$ 103,262</b>
Consulting	1,178,255	45,727	1,223,982
Supply stock and material	866,314	-	866,314
Depreciation	335,922	-	335,922
Drilling	617,357	-	617,357
Geochemistry	40,761	8,331	49,092
Geophysics	7,947	1,449	9,396
Insurance	13,088	-	13,088
Travel	161,453	3,562	165,015
Field supplies	414,059	13,747	427,806
Foreign currency translation adjustmer	251,661	13,781	265,442
<b>Balance, June 30, 2018</b>	<b>\$ 3,970,620</b>	<b>\$ 106,056</b>	<b>\$ 4,076,676</b>
Consulting	164,808	4,926	169,734
Insurance	7,113	-	7,113
Depreciation	54,141	-	54,141
Travel	36,420	2,248	38,668
Field Supplies	31,836	6,330	38,166
Foreign currency translation adjustmer	(158,695)	(4,099)	(162,794)
<b>Balance, September 30, 2018</b>	<b>\$ 4,106,243</b>	<b>\$ 115,461</b>	<b>\$ 4,221,704</b>

**West Lombok property**

The Company, through a 90%-owned subsidiary, holds the exploration permit for the West Lombok property located on Lombok Island, Indonesia. During the year ended June 30, 2013, the Company conducted a review of the value of its West Lombok property and determined that its value had been impaired. As a result, the Company wrote off the carrying value. During the year ended September 30, 2018, the Company incurred an additional \$3,984 (June 30, 2018: \$65,576) of exploration costs relating to the West Lombok property.

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

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**7. EXPLORATION AND EVALUATION ASSETS (continued)****West Lombok property (continued)**

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

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

**8. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>Equipment</b>	<b>Office furniture</b>	<b>Leasehold Improvements</b>	<b>Land and buildings</b>	<b>Total</b>
At June 30, 2017	\$ -	\$ 26,716	\$ 16,461	\$ 140,565	\$ 183,742
Purchases	798,775	3,506	13,199	27,603	843,083
Foreign currency translation adjustment	43,345	-	-	14,100	57,445
At June 30, 2018	\$ 842,120	\$ 30,222	\$ 29,660	\$ 182,268	\$ 1,084,270
Purchases	-	-	-	-	-
Foreign currency translation adjustment	(11,250)	-	-	(11,375)	(22,625)
At September 30, 2018	\$ 830,870	\$ 30,222	\$ 29,660	\$ 170,893	\$ 1,061,645
<b>Accumulated depreciation</b>					
At June 30, 2017	\$ -	\$ 1,669	\$ 2,058	\$ 19,442	\$ 23,169
Depreciation capitalized in exploration and evaluation assets	301,737	-	-	34,185	335,922
Depreciation expenses	-	6,728	14,829	9,192	30,749
At June 30, 2018	\$ 301,737	\$ 8,397	\$ 16,887	\$ 62,819	\$ 389,840
Depreciation capitalized in exploration and evaluation assets	54,151	-	-	-	54,151
Depreciation expenses	-	1,889	3,705	462	6,056
At September 30, 2018	\$ 355,888	\$ 10,286	\$ 20,592	\$ 63,281	\$ 450,047
<b>Total carrying value, June 30, 2018</b>	<b>\$ 540,383</b>	<b>\$ 21,825</b>	<b>\$ 12,773</b>	<b>\$ 119,449</b>	<b>\$ 694,430</b>
<b>Total carrying value, September 30, 2018</b>	<b>\$ 474,982</b>	<b>\$ 19,936</b>	<b>\$ 9,068</b>	<b>\$ 107,612</b>	<b>\$ 611,598</b>

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



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**9. SHAREHOLDERS' EQUITY**

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

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

**Share options**

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price, are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's shares on the date of grant. The share options granted are exercisable for a period of up to ten years, as determined by the board of directors at the time of grant. A summary of the Company's outstanding share options granted is presented in the following table.

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2016 (remaining average contractual life is 4.16 years)	959,000	\$ 0.32
Exercised	(57,500)	0.32
Expired	(12,500)	0.32
Outstanding at June 30, 2017 and June 30, 2018 (remaining average contractual life is 2.41 years)	889,000	\$ 0.32
Number of options exercisable at September 30 and June 30, 2018	889,000	\$ 0.32

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**9. SHAREHOLDERS' EQUITY (continued)****Share purchase warrants**

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

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

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

	September 30, 2018	September 30, 2017
Management fees	\$ 259,000	\$ 153,000

During the period ended September 30, 2018, the Company and Japan Gold paid \$259,000 (September 30, 2017: \$153,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Out of this amount, \$144,000 relates to management fees incurred by Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

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

On August 29, 2018, the Company entered into a loan agreement with Promincon Pte, a company controlled by a director of the Company, for US\$500,000. The loan matures three months after its issue and the Company will pay a one-time fee of 5% of the principal amount. The loan is secured by the shares of Tethyan owned by the Company. As at September 30, 2018, the balance of this loan including the fee payable is \$679,612.

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**11. SEGMENTED INFORMATION**

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

<b>As at September 30, 2018</b>	<b>Indonesia</b>	<b>Japan</b>	<b>Canada</b>	<b>Total</b>
Current assets	\$ -	\$ 289,936	\$ 3,516,599	\$ 3,806,535
Investment	-	-	308,576	308,576
Investment in associate	-	-	1,320,107	1,320,107
Property, plant and equipment	-	582,598	29,000	611,598
Deposits	-	37,850	-	37,850
Exploration and evaluation assets	-	4,221,704	-	4,221,704
Total liabilities	-	(486,354)	(760,144)	(1,246,498)
	\$ -	\$ 4,645,734	\$ 4,414,138	\$ 9,059,872

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

<b>For the period ended September 30,</b>	<b>2018</b>	<b>2017</b>
Net loss for the period – Canada	\$ (624,482)	\$ (231,036)
Net loss for the period – Japan	(883,893)	(1,058,081)
Net loss for the period – Singapore	-	(113,234)
Net loss for the period	\$ (1,508,375)	\$ (1,402,351)

**12. COMMITMENTS**

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

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 13. FINANCIAL INSTRUMENTS

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

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

**Credit risk** is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Accounts receivable consists of amounts receivable from the Canadian federal government for the refundable GST amounts. The Company assesses the collectability and fair value of this receivable at each reporting period. The carrying value of cash, short term deposits and receivables totaling \$1,247,400 represents the Company's maximum exposure to credit risk.

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

**Market risk** is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal. The quoted market price of Rise Gold Corp and PT Ancora Indonesia Resources, Tbk shares are subject to fluctuations and this impacts other comprehensive income. A 1% change (plus or minus) in the price of PT shares would change the fair value of the shares by approximately \$17,139.

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

At September 30, 2018, the Company had ¥2,553,375 (approximately CDN\$29,108) in cash, and ¥22,336,366 (approximately CDN\$254,635) in accounts payable and accrued liabilities. As at September 30, 2018, Yen amounts were converted at a rate of ¥0.01140 to CDN\$1. A 10% fluctuation in foreign exchange would result in a net change of approximately CDN\$22,553.

#### **Fair value**

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

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

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

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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#### **14. SUBSEQUENT EVENTS**

On October 23, 2018, the Company's subsidiary, Japan Gold entered into a binding letter agreement with First Quantum Minerals Ltd. ("FQML") to explore four of its lithocap projects (collectively, the "Lithocap Projects" and each a "Project") in Japan. FQML has committed to manage and oversee a systematic surface exploration reconnaissance program on each project prior to June 30, 2019. Upon completion of the initial exploration programs, FQML will have the option to enter into a formal earn-in agreement ("Option Agreement") on any Project individually, pursuant to which FQML may earn-in to 51% of a Project by completing a minimum of US\$5 million in total exploration expenditures prior to June 30, 2022. For any project that FQML options, it will endeavor to maintain minimum average annual expenditures of US\$1 million per year during the initial earn-in period. Upon earning a 51% interest in a Project, FQML would have the right to earn an additional 29% interest in a Project by solely funding the Project until FQML makes a "Decision to Mine", increasing FQML's ownership in a Project to 80%.

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

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