



CONDENSED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2020 AND 2019**

(Unaudited - Expressed in Canadian dollars)

NOTICE TO READER
CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three and six months ended December 31, 2020, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

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

As at	December 31, 2020	June 30, 2020
Assets		
Current		
Cash	\$ 907,015	\$ 349,773
Receivables	53,591	61,358
Prepaid expenses and other deposits	34,974	29,130
Investments (Note 4)	1,031,251	1,122,690
	2,026,831	1,562,951
Investments (Note 4)	1,854,844	6,111,198
Investments in associates (Note 3, 4)	-	7,628,221
Property and equipment (Note 5)	7,583	6,713
Right-of-use asset (Note 6)	-	19,087
	-	19,087
Total assets	\$ 3,889,258	\$ 15,328,170
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 57,283	\$ 143,882
Lease liabilities (Note 6)	-	25,633
	-	25,633
Total liabilities	57,283	169,515
Shareholders' equity		
Capital stock (Note 7)	78,334,815	77,171,731
Treasury stock (Note 7)	(1,170,000)	(1,170,000)
Equity reserve (Note 7)	12,447,338	12,447,338
Accumulated other comprehensive loss	(112,120)	(1,715,892)
Deficit	(85,668,058)	(71,574,522)
	3,831,975	15,158,655
Total shareholders' equity	3,831,975	15,158,655
Total liabilities and shareholders' equity	\$ 3,889,258	\$ 15,328,170

Nature of operations and going concern (Note 1)
Subsequent events (Notes 4c and 11)

Approved by the Board of Directors and authorized for issuance on March 1, 2021:

On behalf of the Board of Directors

“John Proust” Director

“Morris Klid” Director

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

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

	Three months ended December 31, 2020	Three months ended December 31, 2019	Six months ended December 31, 2020	Six months ended December 31, 2019
Expenses				
Depreciation	\$ 2,090	\$ 43,952	\$ 23,066	\$ 87,906
Office and miscellaneous	23,858	22,343	68,547	55,532
Management fees (Note 8)	70,000	115,000	160,000	235,000
Foreign exchange loss (gain)	6,635	2,283	8,946	(1,523)
Investor relations	2,561	1,311	3,572	2,272
Professional fees	105,938	80,139	221,642	95,730
Interest expense	-	2,096	-	2,096
Transfer agent and filing fees	43,494	11,015	55,031	16,145
Travel	-	449	-	449
Loss before other items	(254,576)	(278,588)	(540,804)	(493,607)
Other income (expense)				
Interest and other income	(751)	28,608	27,055	66,179
Realized and unrealized gain on investments (Note 3, 4)	(414,592)	(778,230)	162,343	(242,120)
Equity loss from investment in associate (Note 3)	(35,992)	(250,081)	(239,690)	(618,035)
Gain on fair value adjustment on derivative liability	-	297,611	-	1,495,639
Gain on dilution of investment in associate	-	-	-	603,940
Gain on return of capital transaction	6,698,969	-	6,698,969	-
	6,247,634	(702,092)	6,648,677	1,305,603
Net income (loss) for the period	\$ 5,993,058	\$ (980,680)	\$ 6,107,873	\$ 811,996
Basic income per share	\$ 0.27	\$ (0.06)	\$ 0.32	\$ 0.05
Diluted income per share	\$ 0.27	\$ (0.06)	\$ 0.32	\$ 0.05
Weighted average shares outstanding	22,383,877	16,549,562	18,928,779	15,469,589
Diluted weighted average shares outstanding	22,383,877	16,549,562	18,928,779	16,028,405

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

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

	Three months ended, December 31, 2020	Three months ended, December 31, 2019	Six months ended, December 31, 2020	Six months ended, December 31, 2019
Net income (loss) for the period	5,993,058	(980,680)	6,107,873	\$ 811,996
Other comprehensive income (loss)				
Items that may not be subsequently reclassified to profit/loss:				
Change in fair value of investments	15,397	(1,480,593)	1,603,772	(3,226,966)
	15,397	(1,480,593)	1,603,772	(3,226,966)
Total comprehensive income (loss) for the period	6,008,455	(2,461,273)	7,711,645	\$ (2,414,970)
Comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	6,008,455	(2,461,273)	7,711,645	\$ (2,414,970)
	6,008,455	(2,461,273)	7,711,645	\$ (2,414,970)

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

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

For the six months ended	December 31, 2020	December 31, 2019
Cash flows from operating activities		
Net income for the period	\$ 6,107,873	\$ 811,996
Items not affecting cash:		
Depreciation	23,066	87,906
Equity loss from investment in associate (Note 3)	239,690	618,035
Realized and unrealized loss (gain) on investments (Note 4)	(162,343)	242,120
Gain on return of capital transaction	(6,698,969)	-
Gain on fair value adjustment on derivative liability	-	(1,495,639)
Gain on dilution of investment in associate (Note 3)	-	(603,940)
Interest expense	-	2,096
Changes in non-cash working capital items:		
Receivables and prepaid expenses	1,922	29,183
Accounts payable, accrued liabilities and other long-term liabilities	(86,599)	(6,926)
Net cash used in operating activities	(575,360)	(315,169)
Cash flows from (used in) investing activities		
Property and equipment	(4,849)	-
Net cash (used in) provided by investing activities	(4,849)	-
Cash flows from financing activities		
Cash received from private placement	-	1,037,529
Cash received from exercise of options and warrants	1,163,084	548,600
Lease payments	(25,633)	(100,440)
Net cash provided by financing activities	1,137,451	1,485,689
Change in cash during the period	557,242	1,170,520
Cash, beginning of the period	349,773	435,968
Cash, end of the period	\$ 907,015	\$ 1,606,488

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

SOUTHERN ARC MINERALS INC.
STATEMENTS OF CHANGES IN EQUITY
(Unaudited - 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 period	-	-	-	-	-	811,996	811,996
Shares issued for private placement, net of issuance cost	2,150,000	1,037,529	-	-	-	-	1,037,529
Shares issued for exercise of options and warrants	1,705,000	548,600	-	-	-	-	548,600
Other comprehensive loss	-	-	-	-	(3,226,966)	-	(3,226,966)
Balance, December 31, 2019	18,244,616	\$ 77,023,662	\$ (1,170,000)	\$ 12,570,902	\$ (2,571,796)	\$ (70,815,993)	\$ 15,036,775
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	-	-	-	-	-	(20,201,409)	(20,201,409)
Net income for the period	-	-	-	-	-	6,107,873	6,107,873
Shares issued for exercise of options and warrants	3,593,667	1,163,084	-	-	-	-	1,163,084
Other comprehensive loss	-	-	-	-	1,603,772	-	1,603,772
Balance, December 31, 2020	22,768,283	\$ 78,334,815	\$ (1,170,000)	\$ 12,447,338	\$ (112,120)	\$ (85,668,058)	\$ 3,831,975

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company does not currently generate any revenues or have operations that generate cash flows. Accordingly, the Company relies on funding received from the sale of investments and financing received from the issuance of common shares or loans and borrowings to finance its strategic investment activities and general and administrative costs.

On October 30, 2020 (the “Distribution Date”), the Company distributed certain of its investment securities with a carrying value of \$13,302,134 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”) 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 condensed 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, 2020, which have been prepared in accordance with IFRS.

These condensed interim financial statements were approved for issuance by the Company’s Board of Directors on March 1, 2021.

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

(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, but are not limited, to the following:

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

Critical accounting judgements

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

- i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained as required. See Note 1.
- ii) The classification of the Company's investments as an investment in associate or financial assets through other comprehensive income is determined by reviewing whether the Company has significant influence based on the percentage of holdings and other qualitative factors. The Company's investments held as investment in associate is subject to evaluation of significant and prolonged declines in value. The Company considers an investment to be impaired if there is a decline of 20% or more of an investment's quoted market price that persists for period of nine months or more.

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. As at December 31, 2020, the Company holds 228,510 common shares of Japan Gold.

A continuity of the Company’s investment in associate relating to Japan Gold 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 loss for the period (July 1 to October 29, 2020)		(239,690)
Carrying value of investment in associate prior to distribution		7,388,531

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 subsequent to the Distribution Date, the Company no longer has significant influence over Japan Gold, the investment in the remaining 228,510 shares was reclassified to investments and accounted for at fair value through other comprehensive income.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(Expressed in Canadian dollars)

4. INVESTMENTS

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

	December 31, 2020		June 30, 2020	
	Number of securities	Fair Value	Number of securities	Fair Value
Investment in shares of Rise Gold Corp. (Note 4a)	15,612	\$ 12,490	2,750,000	\$ 2,585,000
Investment in warrants of Rise Gold Corp. (Note 4a)	2,000,000	23,563	2,462,500	287,134
Investment in shares of PT Ancora Indonesia Resources Tbk. (Note 4b)	100,000,000	937,300	100,000,000	816,000
Investment in shares of Adriatic Metals Plc. (Note 4c)	9,481	21,711	10,028,119	2,156,045
Investment in warrants of Adriatic Metals Plc.. (Note 4c)	754,949	70,388	754,949	19,556
Investment in shares of Japan Gold	228,510	75,408	-	-
Investment in warrants of Japan Gold Corp.	18,084,100	1,745,235	18,084,100	1,370,153
Total investments		\$ 2,886,095		\$ 7,233,888
Classified as current		(1,031,251)		(1,122,690)
Total non-current investments		\$ 1,854,844		\$ 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).

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Expressed in Canadian dollars)

4. INVESTMENTS (continued)

As at December 31, 2020, the fair value of Rise Gold's warrants (total of 2,000,000 warrants) is \$23,563 (June 30, 2020: \$287,134). During the period ended December 31, 2020, the Company recorded an unrealized loss on Rise Gold warrants of \$263,571 (December 31, 2019: \$13,515) in net income. The following assumptions have been used to calculate the fair value of Rise warrants using the Black-Scholes model:

	December 31, 2020	June 30, 2020
Risk-free interest rate	1.59%	0.25%
Expected life of options (in years)	0.30	0.35-0.80
Annualized volatility	75.00%	78%-91%
Share price	\$ 0.80	\$ 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 December 31, 2020, the Company owns 100 million shares of PT Ancora Indonesia Resources, Tbk ("PT Ancora") representing 5.66% of PT Ancora's issued and outstanding common shares. PT Ancora is an Indonesian company listed on the Indonesia Stock Exchange (OKAS:IJ). The Company has classified its investment in PT Ancora as a financial asset at fair value through other comprehensive income with changes in fair value recorded in other comprehensive income (loss). As at December 31, 2020, these shares had a fair market value of \$937,300 (June 30, 2020: \$816,000) based on the then quoted market price of \$0.01 per share resulting in the recognition of an unrealized gain of \$121,300 (December 31, 2019: gain of \$326,500) in other comprehensive income (loss).

c) Adriatic Metals plc (formerly "Tethyan Resource Corp.")

On October 7, 2020, Tethyan announced the completion of a business combination with Adriatic Metals plc ("Adriatic") where Adriatic has 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 at December 31, 2020, the Company owns 125,322 warrants of Adriatic which have a fair value of \$70,388 resulting in an unrealized gain of \$50,832 (December 31, 2019: loss of \$202,597) on Adriatic warrants recorded in net income for the period ended December 31, 2020.

	December 31, 2020	June 30, 2020
Risk-free interest rate	1.59%	0.25%
Expected life of options (in years)	0.49	1.00
Annualized volatility	75.00%	69.00%
Share price	\$ 2.29	\$ 0.22
Exercise price	\$ 2.11	\$ 0.35
Forfeiture rate and dividend rate	0.00%	0.00%

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(Expressed in Canadian dollars)

4. INVESTMENTS (continued)

d) Japan Gold Corp.

As at December 31, 2020, the Company owns 18,084,100 warrants of Japan Gold which have a fair value of \$1,745,235 (June 30, 2020 – 18,084,100 warrants valued at \$1,370,153) and recorded an unrealized gain on these warrants of \$375,082 in net income for the period ended December 31, 2020. The following assumptions were used to fair value these warrants:

	December 31, 2020	June 30, 2020	June 30, 2019
Risk-free interest rate	1.59%	0.25%	1.62%
Expected life of options (in years)	0.19-1.61	0.42-2.11	3.00
Annualized volatility	75%	63% - 75%	75.00%
Share price	\$ 0.33	\$ 0.30	\$ 0.27
Exercise price	\$ 0.40 - 0.42	\$ 0.40 - 0.42	\$ 0.40
Forfeiture rate and dividend rate	0.00%	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 December 31, 2020	\$ 30,222	\$ 34,509	\$ 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	3,979	-	3,979
At December 31, 2020	\$ 27,488	\$ 29,660	\$ 57,148
Total carrying value, June 30, 2020	\$ 6,713	\$ 4,849	\$ 11,562
Total carrying value, December 31, 2020	\$ 2,734	\$ 4,849	\$ 7,583

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2019
(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 period	(19,087.00)
Balance - December 31, 2020	\$ -
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)
Interest	-
Balance - December 31, 2020	\$ -

The lease liability and right of use asset relate to office space in Vancouver with annual lease payments of approximately \$113,000. The lease was to expire on June 30, 2023.

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.

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2020, 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 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 will 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.	40,250,000	\$ 7,388,531
Common shares of Rise Gold Corp.	2,750,000	2,667,500
Common shares of Adriatic Metals Plc	1,664,668	3,246,103
		\$13,302,134

For each common share of Southern Arc, a shareholder of Southern Arc received:

- 1 Class A of Southern Arc (NEX: SA.H),
- 1.7577751 common shares of Japan Gold Corp. (TSXV: JG),
- 0.12009743 common shares of Rise Gold Corp. (CSE: RISE),
- 0.0726999 ordinary shares of Adriatic Metals plc. (LSE: ADT1)

As the Company held 130,000 of its own shares in treasury, it received distribution of 228,510 common shares of Japan Gold Corp., 15,612 common shares of Rise Gold Corp., and 9,481 ordinary shares of Adriatic Metals plc.

The distribution was recognized at the fair value of the assets distributed of \$20,201,409 resulting in a gain on distribution of \$6,698,969 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 (loss) per share

Basic income (loss) per share is the net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share adjusts basic net income (loss) per share for the effects of potential dilutive common shares.

The calculations of diluted weighted average number of shares outstanding as at December 31, 2020 and December 31, 2019 are as follows:

	December 31, 2020	December 31, 2019
Basic weighted average number shares outstanding	18,928,779	15,469,589
Dilutive securities:		
Options	-	141,711
Warrants	-	417,105
Diluted weighted average number of shares outstanding	18,928,779	16,028,405

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, 2018	899,000	\$ 0.32
Granted	577,000	\$ 0.35
Expired	(30,000)	\$ 0.32
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 December 31, 2020	-	-

During the period ended December 31, 2020, 1,012,000 were exercised for total proceeds of \$336,950 to the Company. Options totaling 100,000 expired unexercised. A total of 24,000 options were cancelled. Out of the options exercised, 755,000 options were exercised by related parties.

As at December 31, 2020, the Company had no options outstanding.

Share purchase warrants

As at December 31, 2020, no (June 30, 2012: 2,581,677) warrants remain outstanding. During the period ended December 31, 2020, 2,581,667 warrants with exercise price of \$0.32 were exercised for proceeds of \$826,133.

8. RELATED PARTY TRANSACTIONS

Key management and personnel compensation

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

	ended December 31, 2020	ended December 31, 2020	ended December 31, 2020	Six month period ended December 31, 2019
Management fees	\$ 70,000	\$ 115,000	\$ 160,000	\$ 235,000

The management fees are paid to a private company controlled by the Chief Executive Officer and Chairman of the Company. Management fees include administrative, finance, accounting, investor relations and consulting services.

The above transactions are recorded at the consideration established and agreed to by the related parties.

SOUTHERN ARC MINERALS INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Expressed in Canadian dollars)

9. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment focused on the acquisition and exploration of resource properties and investments. As at December 31, 2020 and June 30, 2020, all of the Company's assets and liabilities and income are in Canada.

10. 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 PT Ancora shares are subject to fluctuations and this impacts other comprehensive income. A 1% change (plus or minus) in the price of PT Ancora shares would change the fair value of the common shares and other comprehensive income by approximately \$9,373. 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 \$28,985.

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 warrants were determined using a Black-Sholes 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.