



**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
MARCH 31, 2022 AND 2021**

*(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 nine months ended March 31, 2022, 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	March 31, 2022	June 30, 2021
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,121,194	\$ 630,070
Receivables	10,373	12,381
Prepaid expenses and other deposits	12,626	19,778
Investments (Note 3)	251,301	851,988
	1,395,494	1,514,217
<b>Investments (Note 3)</b>	-	1,045,930
<b>Furniture and equipment (Note 4)</b>	3,637	4,243
<b>Total assets</b>	<b>\$ 1,399,131</b>	<b>\$ 2,564,390</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 46,424	\$ 61,242
<b>Total liabilities</b>	46,424	61,242
<b>Shareholders' equity</b>		
Capital stock (Note 5)	78,577,429	78,577,429
Treasury stock (Note 5)	(1,170,000)	(1,170,000)
Equity reserve	12,204,724	12,204,724
Accumulated other comprehensive loss	(138,991)	(1,585,431)
Deficit	(88,120,455)	(85,523,574)
<b>Total shareholders' equity</b>	1,352,707	2,503,148
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,399,131</b>	<b>\$ 2,564,390</b>

Nature of operations and going concern (Note 1)

Approved by the Board of Directors and authorized for issuance on May 11, 2022:

**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 March 31, 2022	Three months ended March 31, 2021	Nine months ended March 31, 2022	Nine months ended March 31, 2021
<b>Expenses</b>				
Depreciation	\$ 202	\$ 2,092	\$ 606	\$ 25,158
Office and miscellaneous (Note 6)	17,224	23,288	58,248	91,835
Management fees (Note 6)	60,000	60,000	180,000	220,000
Foreign exchange loss	34,176	1,354	26,937	10,300
Investor relations	611	611	1,833	4,183
Professional fees	25,000	62,343	86,581	283,985
Transfer agent and filing fees	5,995	9,335	16,930	64,366
<b>Loss before other items</b>	<b>(143,208)</b>	<b>(159,023)</b>	<b>(371,135)</b>	<b>(699,827)</b>
<b>Other income (expense)</b>				
Interest and other income	42	993	585	28,048
Realized and unrealized gain (loss) on investments (Note 3)	(310,016)	(370)	(802,950)	161,973
Equity loss from investment in associate	-	-	-	(239,690)
Gain on return of capital transaction	-	-	-	6,698,969
	(309,974)	623	(802,365)	6,649,300
<b>Net income (loss) for the period</b>	<b>\$ (453,182)</b>	<b>\$ (158,400)</b>	<b>\$ (1,173,500)</b>	<b>\$ 5,949,473</b>
<b>Basic income per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>	<b>\$ 0.30</b>
<b>Diluted income per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>	<b>\$ 0.30</b>
<b>Weighted average shares outstanding (Note 5)</b>	<b>22,768,283</b>	<b>22,768,283</b>	<b>22,768,283</b>	<b>19,544,736</b>
<b>Diluted weighted average shares outstanding (Note 5)</b>	<b>22,768,283</b>	<b>22,768,283</b>	<b>22,768,283</b>	<b>19,544,736</b>

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 March 31, 2022	Three months ended March 31, 2021	Nine months ended March 31, 2022	Nine months ended March 31, 2021
<b>Net income (loss) for the period</b>	(453,182)	(158,400)	(1,173,500)	5,949,473
<b>Other comprehensive income (loss)</b>				
<b>Items that may not be subsequently reclassified to profit/loss:</b>				
Change in fair value of investments	6,425	117,549	23,059	1,721,321
	6,425	117,549	23,059	1,721,321
<b>Total comprehensive income (loss) for the period</b>	<b>(446,757)</b>	<b>(40,851)</b>	<b>(1,150,441)</b>	<b>7,670,794</b>
<b>Comprehensive income (loss) attributable to:</b>				
Shareholders of Southern Arc Minerals Inc.	(446,757)	(40,851)	(1,150,441)	7,670,794
	<b>(446,757)</b>	<b>(40,851)</b>	<b>(1,150,441)</b>	<b>7,670,794</b>

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

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

For the nine months ended	March 31, 2022	March 31, 2021
<b>Cash flows from operating activities</b>		
Net income (loss) for the period	\$ (1,173,500)	\$ 5,949,473
Items not affecting cash:		
Depreciation	606	25,158
Gain on return of capital transaction	-	(6,698,969)
Equity loss from investment in associate (Note 3)	-	239,690
Realized and unrealized loss (gain) on investments (Note 3)	802,950	(161,973)
Changes in non-cash working capital items:		
Receivables and prepaid expenses	9,160	53,859
Accounts payable, accrued liabilities and other long-term liabilities	(14,820)	(100,845)
Net cash used in operating activities	(375,604)	(693,607)
<b>Cash flows from (used in) investing activities</b>		
Proceeds from sale of available for sale investment	866,728	130,891
Property and equipment	-	(4,849)
Net cash provided by (used in) investing activities	866,728	126,042
<b>Cash flows from financing activities</b>		
Cash received from exercise of options and warrants	-	1,163,084
Lease payments	-	(25,633)
Net cash provided by financing activities	-	1,137,451
<b>Change in cash during the period</b>	<b>491,124</b>	<b>569,886</b>
Cash, beginning of the period	630,070	349,773
<b>Cash, end of the period</b>	<b>\$ 1,121,194</b>	<b>\$ 919,659</b>

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					
<b>Balance, June 30, 2020</b>	<b>19,174,616</b>	<b>\$ 77,171,731</b>	<b>\$ (1,170,000)</b>	<b>\$ 12,447,338</b>	<b>\$ (1,715,892)</b>	<b>\$ (71,574,522)</b>	<b>\$ 15,158,655</b>
Return of capital	-	-	-	-	-	(20,201,409)	(20,201,409)
Net income for the period	-	-	-	-	-	5,949,473	5,949,473
Shares issued for exercise of options and warrants	3,593,667	1,163,084	-	-	-	-	1,163,084
Other comprehensive gain	-	-	-	-	1,721,321	(251,488)	1,469,833
<b>Balance, March 31, 2021</b>	<b>22,768,283</b>	<b>\$ 78,334,815</b>	<b>\$ (1,170,000)</b>	<b>\$ 12,447,338</b>	<b>\$ 5,429</b>	<b>\$ (86,077,946)</b>	<b>\$ 3,539,636</b>
<b>Balance, June 30, 2021</b>	<b>22,768,283</b>	<b>\$ 78,577,429</b>	<b>\$ (1,170,000)</b>	<b>\$ 12,204,724</b>	<b>\$ (1,585,431)</b>	<b>\$ (85,523,574)</b>	<b>\$ 2,503,148</b>
Net loss for the period	-	-	-	-	-	(1,173,500)	(1,173,500)
Accumulated other comprehensive income transferred to deficit	-	-	-	-	1,423,381	(1,423,381)	-
Other comprehensive gain	-	-	-	-	23,059	-	23,059
<b>Balance, March 31, 2022</b>	<b>22,768,283</b>	<b>\$ 78,577,429</b>	<b>\$ (1,170,000)</b>	<b>\$ 12,204,724</b>	<b>\$ (138,991)</b>	<b>\$ (88,120,455)</b>	<b>\$ 1,352,707</b>

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

## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2022 and 2021

(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 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 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. 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 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, 2021, 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 May 11, 2022.



## **SOUTHERN ARC MINERALS INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2022 and 2021

(Unaudited - Expressed in Canadian dollars)

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## **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 FINANCIAL STATEMENTS  
March 31, 2022 and 2021  
(Unaudited - Expressed in Canadian dollars)

**3. INVESTMENTS**

The following table summarizes the Company's investments as at March 31, 2022 and June 30, 2021:

	March 31, 2022		June 30, 2021	
	Number of securities	Fair Value	Number of securities	Fair Value
Investment in shares of Rise Gold Corp. (Note 4a)	15,612	\$ 12,333	15,612	\$ 11,709
Investment in shares of PT Ancora Indonesia Resources Tbk. (Note 4b)	-	\$ -	77,560,000	\$ 553,778
Investment in shares of Adriatic Metals Plc. (Note 4c)	9,481	\$ 22,550	134,803	\$ 298,210
Investment in shares of Japan Gold	228,511	\$ 63,983	228,511	\$ 78,836
Investment in warrants of Japan Gold Corp.	16,760,000	\$ 152,435	17,584,100	\$ 955,385
<b>Total investments</b>		<b>\$ 251,301</b>		<b>\$ 1,897,918</b>
Classified as current		(251,301)		(851,988)
<b>Total non-current investments</b>		<b>\$ -</b>		<b>\$ 1,045,930</b>

**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 5). As the Company held 130,000 of its own shares in treasury, it received 15,612 common shares of Rise Gold. As at March 31, 2022, the fair value of these shares was \$12,333 (June 30, 2021 – \$11,709).

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

During the period ended March 31, 2022, the Company sold 77,560,000 shares in PT Ancora for proceeds of \$563,945.

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

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 5). 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.

On July 27, 2021, the Company sold 125,322 shares of Adriatic for net proceeds of \$302,783 and recognized a gain of \$36,721 directly in retained earnings.

As at March 31, 2022, the Company has 9,481 shares of Adriatic with a fair value of \$22,550.

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2022 and 2021

(Unaudited - Expressed in Canadian dollars)

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

On the Distribution Date, the Company completed the return of capital transaction and distributed 40,250,000 Japan Gold common shares to the Company's shareholders (note 5). As the Company held 130,000 of its own shares in treasury, it received 228,511 common shares of Japan Gold. As at March 31, 2022, the fair value of these shares was \$63,983 (June 30, 2021 – \$78,836).

As at March 31, 2022, the Company owns 16,760,000 warrants of Japan Gold which have a fair value of \$152,435 (June 30, 2021 – 17,584,100 warrants valued at \$955,385) and recorded an unrealized loss on these warrants of \$802,950 in net loss for the period ended March 31, 2022. The following assumptions were used to fair value these warrants:

	<b>March 31, 2022</b>	<b>June 30, 2021</b>
Risk-free interest rate	1.96%	0.43%
Expected life of options (in years)	0.10-0.36	0.14-1.11
Annualized volatility	59%-67%	32%-55%
Share price	\$ 0.28	\$ 0.36
Exercise price	\$ 0.40	\$ 0.40 - 0.42
Forfeiture rate and dividend rate	0.00%	0.00%

**4. FURNITURE AND EQUIPMENT**

<b>Cost</b>	<b>Leasehold</b>		<b>Total</b>
	<b>Office furniture</b>	<b>Improvements</b>	
At June 30, 2021	\$ 35,071	\$ 29,660	\$ 64,731
Addition	-	-	-
At March 31, 2022	\$ 35,071	\$ 29,660	\$ 64,731
<b>Accumulated depreciation</b>			
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
Depreciation expenses	\$ 606		\$ 606
At March 31, 2022	\$ 31,434	\$ 29,660	\$ 61,094
<b>Total carrying value, June 30, 2021</b>	<b>\$ 4,243</b>	<b>\$ -</b>	<b>\$ 4,243</b>
<b>Total carrying value, March 31, 2022</b>	<b>\$ 3,637</b>	<b>\$ -</b>	<b>\$ 3,637</b>

**5. SHAREHOLDERS' EQUITY**

The Company's authorized share capital consists of an unlimited number of Class A common shares without par value. As at March 31, 2022, 22,898,283 (June 30, 2021 – 22,898,283) are issued of which 22,768,283 (June 30, 2021 – 22,768,283) are outstanding and 130,000 (June 30, 2021 – 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 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:

	<b># of securities</b>	<b>Carrying value – October 16, 2020</b>
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
		\$13,345,231

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 was recognized in net income during the year ended June 30, 2021. The fair value of the shares distributed was based on the quoted market value of those shares, a level one input.

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2022 and 2021

(Unaudited - Expressed in Canadian dollars)

**5. SHAREHOLDERS' EQUITY (continued)****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 March 31, 2022 and March 31, 2021 are as follows:

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Basic weighted average number shares outstanding	22,768,283	18,928,779
Dilutive securities:		
Options	-	-
Warrants	-	-
Diluted weighted average number of shares outstanding	22,768,283	18,928,779

**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 and March 31, 2022	-	-

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. As at March 31, 2022, no share options remain outstanding.

**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 March 31, 2022, no warrants remain outstanding.

## **6. RELATED PARTY TRANSACTIONS**

### **Key management and personnel compensation**

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

Key management compensation during the three and nine-month period ended March 31, 2022, consisted of management fees of \$60,000 (2021 - \$60,000) and \$180,000 (2021 - \$220,000) respectively which was 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 during the three and nine-month period ended March 31, 2022 of \$7,500 (2021 - \$Nil) and \$22,500 (2021 - \$Nil) respectively in occupancy costs.

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

## **7. 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 March 31, 2022 and June 30, 2021, all of the Company's assets and liabilities and income are in Canada.

## **8. 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 and Adriatic 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 \$989. 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 \$8,612.

**SOUTHERN ARC MINERALS INC.**

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2022 and 2021

(Unaudited - Expressed in Canadian dollars)

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**8. FINANCIAL INSTRUMENTS (continued)**

**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 and Adriatic were recognized at fair value using the quoted market price of these instruments. Accordingly, these are classified as level 1. The 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.