



**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2015 AND 2014**

*(Expressed in Canadian dollars)*



**KPMG LLP**  
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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Southern Arc Minerals Inc.

We have audited the accompanying consolidated financial statements of Southern Arc Minerals Inc., which comprise the consolidated statement of financial position as at June 30, 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Southern Arc Minerals Inc. as at June 30, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes that the Company has no current sources of revenue and a history of losses. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

*Other matters*

The consolidated financial statements as at and for the year ended June 30, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on October 24, 2014.

**KPMG LLP (signed)**

Chartered Professional Accountants

October 26, 2015  
Vancouver, Canada

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

<b>As at</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 53,614	\$ 1,643,966
Receivables	6,974	13,601
Prepaid expenses	24,638	31,086
Assets held for sale (Note 11)	-	1,188,021
	<b>85,226</b>	<b>2,876,674</b>
<b>Loans receivable</b> (Note 5)	-	108,831
<b>Investment in associates</b> (Note 3)	5,475,893	6,258,639
<b>Deposit</b>	19,463	18,731
<b>Equipment</b> (Note 4)	2,989	58,736
<b>Exploration properties</b> (Note 5)	102,068	102,068
<b>Total assets</b>	<b>\$ 5,685,639</b>	<b>\$ 9,423,679</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 284,625	\$ 87,080
Accounts payable and accrued liabilities - held for sale (Note 11)	-	112,118
Due to related party (Note 8)	187,110	-
	<b>471,735</b>	<b>199,198</b>
<b>Other long-term liabilities</b>	125,081	195,649
<b>Total liabilities</b>	<b>596,816</b>	<b>394,847</b>
<b>Shareholders' equity</b>		
Capital stock (Note 6)	74,891,487	74,891,487
Treasury stock (Note 6)	(1,170,000)	(1,170,000)
Share-based payment reserve (Note 6)	11,949,662	11,922,405
Deficit	(78,342,419)	(74,448,441)
Equity attributable to shareholders	7,328,730	11,195,451
Non-controlling interest	(2,239,907)	(2,166,619)
<b>Total shareholders' equity</b>	<b>5,088,823</b>	<b>9,028,832</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,685,639</b>	<b>\$ 9,423,679</b>

Nature of operations and going concern (Note 1)  
Subsequent events (Notes 2, 3 and 15)

Approved by the Board of Directors and authorized for issue on October 26, 2015:

**On behalf of the Board of Directors**

“John G. Proust” Director

“Morris Klid” Director

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

**SOUTHERN ARC MINERALS INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian dollars)

For the years ended	<b>June 30, 2015</b>	June 30, 2014
<b>Expenses</b>		
Depreciation (Note 4)	\$ 8,126	\$ 25,066
Consulting	399,569	136,601
Office and miscellaneous (Note 9)	231,414	274,138
Share-based compensation (Note 6 and 8)	27,257	80,468
Management fees (Note 8)	647,400	979,800
Exploration expenses (Note 5)	542,550	1,464,312
Foreign exchange gain	(37,866)	(63,094)
General exploration	-	42,759
Investor relations	15,381	75,916
Professional fees	146,561	238,122
Rent	100,146	84,129
Salaries and benefits	129,938	143,204
Transfer agent and filing fees	41,534	72,075
Travel	55,601	88,774
<b>Loss before other items</b>	<b>(2,307,611)</b>	<b>(3,642,270)</b>
<b>Other items</b>		
Financing expense (Note 8)	(14,641)	-
Interest income	6,678	60,313
Impairment of other advances (Note 5)	(123,560)	(337,059)
Equity loss on investment in associate (Note 3)	(782,746)	(903,215)
Gain on disposition of equipment	9,727	2,255
Write-down of investment in associate (Note 3)	-	(1,971,720)
Remeasurement of assets held for sale (Note 11)	(755,113)	(1,889,096)
	(1,659,655)	(5,038,522)
<b>Net and comprehensive loss for the year</b>	<b>\$ (3,967,266)</b>	<b>\$ (8,680,792)</b>
<b>Comprehensive loss attributable to:</b>		
Shareholders of Southern Arc Minerals Inc.	\$ (3,893,978)	\$ (8,515,584)
Non-controlling interests	(73,288)	(165,208)
	<b>\$ (3,967,266)</b>	<b>\$ (8,680,792)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.36)</b>	<b>\$ (0.78)</b>
<b>Weighted average number of shares outstanding</b>	10,921,449	10,921,449

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

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

For the years ended	<b>June 30, 2015</b>	June 30, 2014
<b>Cash flows from operating activities</b>		
Comprehensive loss for the year	\$ (3,967,266)	\$ (8,680,792)
Items not affecting cash:		
Depreciation	8,126	25,066
Share-based compensation	27,257	80,468
Exploration property write-off	542,550	1,464,312
Equity loss on investment in associate	782,746	903,215
Write-down of investment in associate	-	1,971,720
Remeasurement of assets held for sale	755,113	1,889,096
Gain on disposition of equipment	(9,727)	(2,255)
Rent	-	32,974
Impairment of other advances	123,560	337,059
Foreign exchange gain	(37,866)	(63,094)
Finance expense	14,641	-
Interest income	(6,678)	(60,313)
Changes in non-cash working capital items:		
Receivables	6,627	2,632
Prepaid expense	6,448	45,562
Accounts payable, accrued liabilities and other long-term liabilities	126,977	(260,832)
Interest income received	6,678	60,313
Net cash used in operating activities	(1,620,814)	(2,254,869)
<b>Cash flows from investing activities</b>		
Investment in exploration properties	(500,119)	(1,329,807)
Purchase of investment in associates	-	(8,268,574)
Proceeds received from asset held for sale	319,860	667,800
Proceeds from disposal of equipment	18,009	24,769
Net cash used in investing activities	(162,250)	(8,905,812)
<b>Cash flows from financing activities</b>		
Proceeds from related party loan	183,015	-
Net cash used in financing activities	183,015	-
Effect of exchange rate changes on cash	9,697	(61,659)
<b>Change in cash during the year</b>	<b>(1,590,352)</b>	<b>(11,222,340)</b>
Cash, beginning of the year	1,643,966	12,866,306
<b>Cash, end of the year</b>	<b>\$ 53,614</b>	<b>\$ 1,643,966</b>

Supplemental disclosure with respect to cash flows (Note 7)

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

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

Attributable to shareholders of Southern Arc Minerals Inc.

	Capital Stock	Treasury Stock	Share-based Payment Reserve	Deficit	Total	Non-controlling Interest	Total Equity
<b>Balance, June 30, 2013</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,841,937</b>	<b>\$ (65,932,857)</b>	<b>\$ 19,630,567</b>	<b>\$ (2,001,411)</b>	<b>\$ 17,629,156</b>
Comprehensive loss for the year	-	-	-	(8,515,584)	(8,515,584)	(165,208)	(8,680,792)
Share-based compensation	-	-	80,468	-	80,468	-	80,468
	-	-	80,468	(8,515,584)	(8,435,116)	(165,208)	(8,600,324)
<b>Balance, June 30, 2014</b>	<b>74,891,487</b>	<b>(1,170,000)</b>	<b>11,922,405</b>	<b>(74,448,441)</b>	<b>11,195,451</b>	<b>(2,166,619)</b>	<b>9,028,832</b>
Comprehensive loss for the year	-	-	-	(3,893,978)	(3,893,978)	(73,288)	(3,967,266)
Share-based compensation	-	-	27,257	-	27,257	-	27,257
	-	-	27,257	(3,893,978)	(3,866,721)	(73,288)	(3,940,009)
<b>Balance, June 30, 2015</b>	<b>\$ 74,891,487</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,949,662</b>	<b>\$ (78,342,419)</b>	<b>\$ 7,328,730</b>	<b>\$ (2,239,907)</b>	<b>\$ 5,088,823</b>

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

## **SOUTHERN ARC MINERALS INC.**

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

June 30, 2015 and 2014

(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 natural resource company engaged in the acquisition and exploration of resource properties. The Company’s head office is located at Suite 3123 - 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J1.

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 recoverability of the amounts shown for exploration properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and upon future profitable production.

These consolidated 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 financing received from the issuances 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 planned 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 business.

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

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

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). These consolidated financial statements are presented on a historical cost basis, except for financial instruments classified as available-for-sale or fair value through profit or loss.

On September 30, 2015, the Company consolidated its issued and outstanding common shares such that every 10 existing shares have been consolidated into one new share. The Company’s stock options and warrants have also been adjusted to account for the 10:1 consolidation in accordance with the terms and conditions of such options and warrants (the “Consolidation”). All current and comparative references to the number of shares, stock options, warrants, weighted average number of common shares and loss per share reflect the 10-for-1 share consolidation.

These consolidated financial statements were approved for issuance by the Company’s Board of Directors on October 26, 2015.

##### **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 wholly-owned Singapore subsidiaries: Indotan Lombok Pte. Ltd., East Indonesia Mining Pte. Ltd. and Southern Sunda Mining Pte. Ltd.;
- iii) its wholly-owned Indonesian subsidiary PT. Selatan Arc Minerals;
- iv) its wholly-owned Japanese subsidiary Southern Arc Minerals Japan KK;
- v) its 90%-owned Indonesian subsidiary: PT. Indotan Lombok Barat Bangkit; and
- vi) its 70%-owned Indonesian subsidiary PT. Selatan Bengkulu Minerals.

Significant intercompany balances and transactions have been eliminated upon consolidation.



## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

(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 consolidated 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 estimated fair value of the Company's financial assets and liabilities, including the Company's equity accounted for investment in associate, are by their nature, subject to measurement uncertainty.
- ii) 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.
- iii) The valuation of assets held for sale and loans receivable requires estimates with respect to expected future cash flows to be received and discount rates as applicable. Changes in estimated collectability impact bad debt expense.
- iv) The application of the Company's accounting policy for exploration expenditure requires estimates in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the year the new information becomes available.
- v) The determination of fair value of investments in 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 judgement 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.

## **SOUTHERN ARC MINERALS INC.**

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

June 30, 2015 and 2014

(Expressed in Canadian dollars)

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

### **Equipment**

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

Depreciation of vehicles, computers and field equipment are allocated to exploration properties when equipment is used in exploration activities.

### **Exploration properties**

#### *Exploration properties*

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation, in addition to acquisition costs, are recognized and capitalized by geographical area. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors, and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration activities, including general administrative overhead costs, are expensed in the period in which they occur.

If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of an exploration property is impaired, that property is written down to its estimated fair value. An exploration property is reviewed for impairment annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

The amounts shown for exploration properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete property development, and future profitable production or proceeds from the disposition thereof.

Title and permits to exploration properties involve certain inherent risks due to the difficulties of determining the validity of certain exploration property interests as well as the potential for problems arising from the frequently ambiguous conveying characteristics of many exploration properties. The Company has investigated title to all of its exploration property interests and, to the best of its knowledge, title to all of its exploration property interests are in good standing. The Company is in various stages of applying for permits for ongoing exploration activities related to the exploration properties.

#### *Joint interest*

A portion of the Company's exploration activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

The Company does not record any exploration expenditures made by any joint venture partner on its account. It also does not recognize any gain or loss on its option and joint venture agreement arrangement, but re-designates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Exploration advances received from a joint venture partner in accordance with the terms of the option and joint venture agreement are recorded as current liabilities until the exploration expenditure is incurred.

## **SOUTHERN ARC MINERALS INC.**

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Expressed in Canadian dollars)

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

### **Exploration properties (continued)**

#### *Rehabilitation provision*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not currently have material rehabilitation requirements.

### **Foreign currency transactions**

The functional and reporting currency of the Company and its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the exchange rates prevailing on dates of transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign currency translation differences are recognized in profit or loss.

### **Loss per share**

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

### **Employee benefits**

Short term employee benefits are expensed as the related services are performed.

Other long term liabilities includes the Company's statutory obligations to provide certain post-employment benefits in Indonesia. The net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Net obligations in respect of other long term employee benefits is the amount of future benefit that employees have earned in return for services in the current and prior periods discounted to its present value. Re-measurement of these obligations is recognized in profit or loss.

## **SOUTHERN ARC MINERALS INC.**

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

June 30, 2015 and 2014

(Expressed in Canadian dollars)

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

### **Share-based payment transactions**

The Company's share option plan allows the Company to grant options to its employees and consultants. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

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

### **Income taxes**

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

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

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

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

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Expressed in Canadian dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

On initial recognition, all financial assets and financial liabilities, including derivatives, are recorded at fair value. All transactions related to financial instruments are recorded on a trade date basis. The directly attributable transaction costs of financial assets and liabilities are included in the carrying value of financial assets and liabilities except transaction costs related to financial assets and liabilities classified as fair value through profit or loss which are expensed in the period they are incurred. Subsequently, derivatives are measured at fair value and changes in fair value are recognized in profit or loss. For other financial assets and liabilities, subsequent measurement is as follows:

#### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss. Other than warrants of Eagle Hill, the Company does not have any assets classified as fair value through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Cash, accounts receivables and loans receivable are classified as loans and receivables.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss. The Company has not classified any financial assets as held-to-maturity.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss. The Company has not classified any financial assets as available-for-sale.

All financial assets except for those recognized at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Expressed in Canadian dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial liabilities

The Company classifies its financial liabilities into one of two categories. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss. The Company has not classified any financial liabilities as fair value through profit or loss.

*Other financial liabilities* - This category includes accounts payable and accrued liabilities and due to related parties, which are recognized at amortized cost using the effective interest method of amortization.

#### **Investments in associates**

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

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

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

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

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

## **SOUTHERN ARC MINERALS INC.**

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

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

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

- The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for the Company for annual periods beginning on July 1, 2018, and is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.
- On September 11, 2014 the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognises the gain only to the extent of unrelated investors’ interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a ‘business’ under IFRS 3 *Business Combinations*. A partial gain/loss is recognised when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The amendments apply prospectively for the Company for annual periods beginning on or after July 1, 2016. Early adoption is permitted. The Company is in the process of assessing the impact of the amendments and has not yet determined when it will adopt these amendments.

## **3. INVESTMENT IN ASSOCIATE**

### **Eagle Hill Exploration Corporation**

On August 14, 2013, the Company invested \$7,324,050 (inclusive of an \$865,000 deposit paid in June 2013) to acquire 4,882,700 units of Eagle Hill Exploration Corporation (“Eagle Hill”) by way of private placement at a price of \$1.50 per unit. Each unit comprised one common share of Eagle Hill and one half share purchase warrant, with each whole warrant entitling the Company to acquire a further common share of Eagle Hill at a price of \$2.00 per share for a period of four years. Eagle Hill is a mineral exploration company focused on advancing the Windfall Lake Gold Project located in the Abitibi Gold Belt in Quebec, Canada. Eagle Hill is listed on the TSX Venture Exchange (“EAG”).

On April 8, 2014, the Company invested an additional \$526,316 in Eagle Hill by purchasing 375,940 units at \$1.40 per unit as part of Eagle Hill’s flow-through unit offering. Each unit consisted of one common share of Eagle Hill and one share purchase warrant where each warrant entitled the Company to acquire one share of Eagle Hill at a price of \$2.00 until April 8, 2016.

On May 9, 2014, the Company purchased an additional 1,000,000 units at \$1.00 per unit for an investment of \$1,000,000. Each unit consisted of one common share of Eagle Hill and one share purchase warrant where each warrant entitled the Company to acquire one share of Eagle Hill at a price of \$1.60 until May 8, 2016.

On January 21, 2015, Eagle Hill approved a net consolidation of its issued share capital on the basis of one new common share for 20 old common shares. As such, all of the figures related to the Company’s investment in Eagle Hill’s shares and warrants have been adjusted to reflect the 20:1 share consolidation.

**SOUTHERN ARC MINERALS INC.**

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**3. INVESTMENT IN ASSOCIATE (continued)****Eagle Hill Exploration Corporation (continued)**

	Number of shares held prior to consolidation	Number of shares held subsequent to consolidation
August 14, 2013	97,654,000	4,882,700
April 8, 2014	7,518,797	375,939
May 9, 2014	20,000,000	1,000,000
	125,172,797	6,258,639

On June 9, 2015, Eagle Hill announced its intention to combine with Oban Mining Corporation (“Oban”) and a group of junior mining companies, and on June 30, 2015 announced that it had entered into a definitive arrangement agreement together with Ryan Gold Corp. (“Ryan”) and Corona Gold Corporation (“Corona”) whereby Oban would acquire all of the common shares of each of Eagle Hill, Ryan and Corona with each holder of Eagle Hill Shares receiving 0.5 common shares of Oban (post 20:1 Oban share consolidation) and five common share purchase warrants. Warrant holders are entitled to receive one Oban share for every 20 Oban warrants exercised plus payment of \$3.00 per Oban Share issued on exercise for a period of three years following closing in exchange for each Eagle Hill Share held. In addition, the Company’s existing Eagle Hill warrants will be exchanged for Oban warrants on a 0.5:1 basis with their exercise prices adjusted in accordance with the exchange ratio. This transaction closed on August 25, 2015 (Note 15).

For the year ended June 30, 2015, the Company held a 26.25% equity interest in Eagle Hill, which is accounted for using the equity method, and 3,817,289 warrants entitling the Company to acquire an additional 3,817,289 shares of Eagle Hill. Summarized financial information for Eagle Hill is as follows:

	June 30, 2015
Revenue from July 1, 2014 to June 30, 2015	\$ -
Net loss from July 1, 2014 to June 30, 2015	2,981,888
Assets	38,327,250
Liabilities	(5,202,941)

A continuity of the investment in Eagle Hill is as follows:

	June 30, 2015	June 30, 2014
Balance, beginning of the year	\$ 6,258,639	\$ -
Acquisition of investment	-	8,850,366
Acquisition-related costs	-	283,208
Share of loss for the year	(782,746)	(903,215)
Write-down on equity investment, net	-	(1,971,720)
Balance, end of the year	\$ 5,475,893	\$ 6,258,639

Although Eagle Hill is accounted for as an equity investment by the Company, it is subject to evaluation of significant and prolonged declines in value. The carrying value of the Company’s investment in Eagle Hill at June 30, 2015 was \$5,475,893 (June 30, 2014: \$6,258,639) compared to its fair value of \$5,632,775 based on the publicly traded closing share price of Eagle Hill of \$0.90 (June 30, 2014: \$1.00). Accordingly, no impairment was recognized. In 2014, the Company recognized an impairment as a result of a prolonged decline in Eagle Hill’s share price. If Eagle Hill’s share price improves such that the fair value of the Company’s interest significantly exceeds its carrying value, the Company will determine whether a recovery can be related objectively to an event occurring after the impairment was recognized, and only then will the Company record a recovery of the impairment in Eagle Hill in profit or loss. The amount of the reversal is limited to the amount that increases the carrying value to the original acquisition costs less the Company’s share of accumulated losses of Eagle Hill.



**SOUTHERN ARC MINERALS INC.**
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**4. EQUIPMENT**

	Vehicles	Furniture	Computer	Field equipment	Total
<b>Costs</b>					
Balance, June 30, 2013	\$ 122,664	\$ 26,457	\$ 84,196	\$ 127,955	\$ 361,272
Dispositions	(57,007)	(25,546)	(26,537)	(1,944)	(111,034)
Balance, June 30, 2014	65,657	911	57,659	126,011	250,238
Disposal	(27,679)	-	-	-	(27,679)
<b>Balance, June 30, 2015</b>	<b>\$ 37,978</b>	<b>\$ 911</b>	<b>\$ 57,659</b>	<b>\$ 126,011</b>	<b>\$ 222,559</b>
<b>Accumulated depreciation</b>					
Balance, June 30, 2013	\$ (52,898)	\$ (13,703)	\$ (46,375)	\$ (67,050)	\$ (180,026)
Depreciation for the year	(17,375)	(5,339)	(14,191)	(30,538)	(67,443)
Disposals	24,662	18,213	13,092	-	55,967
Balance, June 30, 2014	(45,611)	(829)	(47,474)	(97,588)	(191,502)
Depreciation for the year	(13,425)	(82)	(9,689)	(27,361)	(50,557)
Disposal	22,489	-	-	-	22,489
<b>Balance, June 30, 2015</b>	<b>\$ (36,547)</b>	<b>\$ (911)</b>	<b>\$ (57,163)</b>	<b>\$ (124,949)</b>	<b>\$ (219,570)</b>
<b>Net carrying value</b>					
Balance, June 30, 2014	\$ 20,046	\$ 82	\$ 10,185	\$ 28,423	\$ 58,736
<b>Balance, June 30, 2015</b>	<b>\$ 1,431</b>	<b>\$ -</b>	<b>\$ 496</b>	<b>\$ 1,062</b>	<b>\$ 2,989</b>

During the year ended June 30, 2015, \$42,431 of depreciation (2014: \$41,956) was capitalized to exploration properties.

**5. EXPLORATION PROPERTIES**

	West Lombok Property, Indonesia	East Elang Property, Indonesia	Total
<b>Balance, June 30, 2013</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>
Deferred exploration costs incurred during the year:			
Camp construction and other	272,577	99,913	372,490
Geological and other consulting	331,395	15,200	346,595
Labour	732,862	12,365	745,227
Total deferred exploration costs	1,336,834	127,478	1,464,312
Exploration property write-down	(1,336,834)	(127,478)	(1,464,312)
<b>Balance, June 30, 2014</b>	<b>-</b>	<b>102,068</b>	<b>102,068</b>
Deferred exploration costs incurred during the year:			
Camp construction and other	117,266	-	117,266
Geological and other consulting	252,738	-	252,738
Labour	172,546	-	172,546
Total deferred exploration costs	542,550	-	542,550
Exploration property write-down	(542,550)	-	(542,550)
<b>Balance, June 30, 2015</b>	<b>\$ -</b>	<b>\$ 102,068</b>	<b>\$ 102,068</b>

## **SOUTHERN ARC MINERALS INC.**

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

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#### **5. EXPLORATION PROPERTIES (continued)**

##### **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 down the property value to \$nil for the year ended June 30, 2013 and 2014.

During the year ended June 30, 2015 the Company wrote down an additional \$542,550 of exploration costs relating to the West Lombok property (June 30, 2014: \$1,464,312). These costs are expensed when incurred as the Company had written off all costs capitalized in West Lombok in previous years.

On December 8, 2014, the Company announced that it has entered into a binding Memorandum of Agreement with PT Genesis Sumber Energi (“PT GSE”) to advance the West Lombok project. Under the terms of the Memorandum of Agreement, PT GSE can earn a 25% interest in the subsidiary which holds the exploration permit for the West Lombok project by funding and obtaining Government approval of an environmental impact study and feasibility study for small-scale underground gold mines and processing plants on the property. PT GSE must also obtain Government approval to convert the West Lombok exploration permit into an exploitation permit, thereby securing tenure on the property for a further 20 years with the option to extend. PT GSE has not yet completed the required activities to earn the 25% interest. Upon receipt of the exploitation permit, the Company will enter into an Integrated Service and Support Agreement with PT GSE (the “ISS Agreement”) to conduct small-scale mining on the West Lombok project using traditional methods to a maximum depth of 100 metres. Profits from the sale of gold and other minerals produced from such artisanal mining activities will be split 25% to the Company, 65% to PT GSE and 10% to the Local Government. Southern Arc and PT GSE can continue to explore for deeper gold and porphyry targets on the property, when market sentiment warrants the expenditure. Should the partners choose to mine deeper targets on the property (deeper than 100 metres), profits will be split 65% to the Company, 25% to PT GSE and 10% to the Local Government.

The Company had previously advanced loans receivable on an unsecured basis and without interest to the Indonesian subsidiary companies as capital contributions on behalf of the Indonesian shareholders, and these funds are to be repaid to the Company from future revenues of the subsidiaries. During the year ended June 30, 2015, the Company wrote off the remaining balance of \$123,560 (2014: \$337,059) related to these advances as it was considered to be uncollectible.

##### **East Elang property**

The East Elang property is held by the Company’s wholly-owned Indonesian subsidiary, PT. Selatan Arc Minerals (“PT SAM”). In October 2010, the Company entered into an option and joint venture agreement with Vale International S.A. (“Vale”), a wholly-owned subsidiary of Vale S.A., regarding the East Elang property. To exercise its option in the East Elang property, Vale has to fully fund the advancement of East Elang, through to and including the completion of a bankable feasibility study, at no cost to the Company as follows:

- a) Phase 1 – Vale will fund US\$1,200,000 of exploration expenditures within one year from the date the Company receives an exploration activities permit from the Ministry of Forestry for the East Elang property. Vale can then elect to proceed to;
- b) Phase 2 minimum program – Vale will fund at least US\$2,500,000 of additional exploration expenditures within two years of commencing Phase 2;
- c) Phase 2 full program – Vale may proceed to completion of a pre-feasibility study or fund further exploration expenditures of at least US\$10,000,000 within four years of commencing Phase 2;
- d) Upon completing the Phase 2 full program, Vale may elect to solely fund the completion of a bankable feasibility study within seven years of commencing Phase 2.

If Vale completes a bankable feasibility study within the permitted time frame, Vale will be entitled to receive a 75% interest in PT SAM, which holds the exploration permit for East Elang.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 5. EXPLORATION PROPERTIES (continued)

##### East Elang property (continued)

Funds advanced to PT SAM by Vale are recorded as cash and as accounts payable and accrued liabilities in the Company's accounts until such time as the funds are expended on approved exploration activities. As at June 30, 2015, PT SAM held US\$598 (June 30, 2014: US\$17,738) of funds advanced by Vale.

#### 6. SHAREHOLDERS' EQUITY

	Number of Common Shares	Capital Stock	Number of Treasury Shares	Treasury Stock	Share-based Payment Reserve
Authorized - an unlimited number of common shares without par value					
Balance as at June 30, 2013	10,921,449	\$ 74,891,487	(130,000)	\$ (1,170,000)	\$ 11,841,937
Share-based compensation	-	-	-	-	80,468
Balance as at June 30, 2014	10,921,449	74,891,487	(130,000)	(1,170,000)	11,922,405
Share-based compensation	-	-	-	-	27,257
<b>Balance as at June 30, 2015</b>	<b>10,921,449</b>	<b>\$ 74,891,487</b>	<b>(130,000)</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,949,662</b>

On September 30, 2015, the Company consolidated its issued and outstanding common shares such that every 10 existing shares have been consolidated into one new share. The Company's stock options and warrants have also been adjusted to account for the 10:1 consolidation in accordance with the terms and conditions of such options and warrants. All current and comparative references to the number of shares, stock options, warrants, weighted average number of common shares and loss per share reflect the Consolidation

##### 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 10 years. 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, 2013 (remaining contractual life is 2.03 years)	929,000	\$ 7.60
Granted	76,000	1.00
Expired	(76,875)	5.40
Forfeited	(625)	9.00
Outstanding at June 30, 2014 (remaining contractual life is 1.34 years)	927,500	\$ 5.40
Expired	(466,750)	5.07
Forfeited	(21,250)	1.00
Outstanding at June 30, 2015 (remaining contractual life is 0.80 years)	439,500	\$ 5.90
Number of options exercisable at June 30, 2015	424,000	\$ 6.10

**SOUTHERN ARC MINERALS INC.**

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**6. SHAREHOLDERS' EQUITY (continued)****Share options (continued)**

During the year ended June 30, 2015, the Company recorded share-based compensation of \$27,257 (2013: \$80,468) as a result of the vesting of options previously granted.

During the year ended June 30, 2015, the Company did not grant any stock options. The Company granted 76,000 options at a weighted average fair value of \$0.60 during the year ended June 30, 2014.

Option pricing models require the input of subjective assumptions including the expected price volatility and expected option life. Management has calculated expected price volatility using data from the historical share prices of the Company. Changes in underlying assumptions can materially affect the fair value estimates.

The following weighted average assumptions were used for the Black-Scholes valuation of share options granted during the year ended June 30, 2014:

	<b>2014</b>
Risk-free interest rate	1.47%
Expected life of options	5 years
Annualized volatility	115.49%
Share price	\$0.80
Forfeiture rate	0.00%
Dividend rate	0.00%

At June 30, 2015, the Company had share options outstanding as follows:

	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Options</b>	235,000	\$ 6.00	July 19, 2015
	16,000	1.00	January 18, 2016
	30,000	18.50	February 11, 2016
	30,000	1.00	June 22, 2016
	20,000	17.10	July 11, 2016
	52,500	4.00	November 14, 2016
	50,000	1.00	November 7, 2018
	6,000	1.00	March 3, 2019
	439,500		

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

- During the year ended June 30, 2014, the Company settled rent obligations of \$32,974 through the transfer of equipment to the landlord.

#### 8. RELATED PARTY TRANSACTIONS

##### Key management and personnel compensation

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

	2015	2014
Management fees	\$ 647,400	\$ 979,800
Consulting services (exploration)	129,664	265,728
Geological services	-	113,719
Finance expense	14,641	-
Share-based compensation	11,427	45,226

During the year ended June 30, 2015, the Company paid \$647,400 (2014: \$979,800) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. This fee is inclusive of administrative, finance, accounting, investor relations and management consulting fees, as well as certain office expenses.

In 2011, the Company entered into a contract with a company controlled by a director and officer of the Company for drilling and geological services at the Company's West Lombok property. This contract was awarded under a competitive bidding process and all charges under the contract are considered to be at market rates. During the year ended June 30, 2015, the Company paid a total of \$Nil (2014: \$113,719) for geological services pursuant to the contract.

On May 21, 2015, a US\$150,000 (\$187,110) promissory note was advanced to the Company by a director and officer of the Company. This promissory note is repayable on demand and bears no interest. There is a one-time finance expense of US\$12,000 (\$14,641) or 8% of the principal sum that the Company recorded and accrued within accounts payable.

The above transactions occurred in the normal course of operations and are recorded at the consideration established and agreed to by the related parties.

#### 9. OFFICE AND MISCELLANEOUS EXPENSES

	2014	2014
Administrative	\$ 46,744	\$ 120,247
Office expenses	118,123	90,513
Insurance	51,174	45,085
Interest and bank charges	7,502	9,235
Corporate promotion	-	684
Telephone	6,460	6,497
Meals and entertainment	1,411	1,877
	\$ 231,414	\$ 274,138

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 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. 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 assess the collectability and fair value of this receivable at each reporting period.

**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. Also, the quoted market price of the shares in Eagle Hill is subject to fluctuations which could impact the Company's impairment charge related to its investment. A 1% change (plus or minus) in the share price of Eagle Hill's shares would change the fair value of the shares by approximately \$56,328.

**Foreign exchange risk** - The Company operates in Japan and Indonesia. The Company could accordingly be at risk for foreign currency fluctuations. The Company minimizes cash and monetary assets or liabilities in Indonesia and Japan.

At June 30, 2015, the Company had US\$30,184 (approximately CDN\$37,296), Japanese Yen ("Yen") 569,898 (approximately CDN\$5,756) and Indonesian Rupiah ("Rph") 7,257,872 (approximately CDN\$682) in cash, and US\$160,536 (approximately CDN\$198,359), Yen 70,000 (approximately CDN\$707) and Rph 240,851,565 (approximately CDN\$22,640) in accounts payable and accrued liabilities. As at June 30, 2015, US\$ amounts were converted at a rate of US\$0.8093 to CDN\$1, Yen 99.0099 to CDN\$1, and Rph amounts were converted at a rate of Rph 10,638 to CDN\$1.

#### **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 Eagle Hill warrants are considered derivatives and are recognized at fair value using level 2 inputs. The Company does not have any other financial instruments that are measured at fair value on an ongoing basis.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and amounts due to related parties approximate their fair value due to their short-term nature. The fair value of the Company's investment in Eagle Hill used to determine impairment is based on the quoted market price of those shares which represents a level 1 input.

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

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**11. ASSETS HELD FOR SALE**

In December 2012, the Company agreed to sell its 90% interest in the Taliwang project. This transaction was renegotiated on August 31, 2013 whereby the purchaser, agreed to purchase the Taliwang project for a cash payment of US\$3.5 million. On July 15, 2014, the Company amended the sale agreement and closed the sale of its interest in the Taliwang project. Pursuant to the terms of the final agreement, the Company sold all of the shares of a wholly owned Singaporean subsidiary company which, through a 90% owned Indonesian subsidiary, holds the exploration license of the Taliwang property to the purchaser for aggregate proceeds of US \$1.75 million, of which US\$100,000 was received in 2012, US\$600,000 in 2013 and US\$300,000 on closing on July 15, 2014. The remainder of the purchase price of US\$750,000 will be paid from revenues generated from the Taliwang project. The purchaser will pay the Company 40% of gross revenue generated from the Taliwang project, after payment of the Southern Arc NSR, until the aggregate amount of such payments equals US\$750,000. This amount has not been recognized in the financial statements due to its contingent nature. The Company recorded a remeasurement of assets held for sale of \$755,113 to reflect the cash consideration received.

The purchaser also granted a 5% net smelter royalty (“NSR”) to Southern Arc. The purchaser has the option to buy back 3% of the NSR by paying the Company US\$3,000,000.

At June 30, 2014, the assets relating to the Taliwang property were presented as held for sale as follows:

	<b>2014</b>
Exploration properties	\$ 1,078,309
Property, plant and equipment	2,952
Loans receivable	106,760
<b>Total</b>	<b>\$ 1,188,021</b>

Liabilities of the Taliwang project classified as held for sale are as follows:

	<b>2014</b>
Accounts payable and accrued liabilities	\$ 112,118
<b>Total</b>	<b>\$ 112,118</b>

**12. INCOME TAXES**

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

	<b>2015</b>	2014
Loss for the year, before income taxes	\$ (3,967,266)	\$ (8,680,792)
Expected income tax recovery	\$ (1,031,489)	\$ (2,257,006)
Items not deductible for income tax purposes	586,789	484,167
Effect of change in tax rate	(7,521)	-
Effect of tax rates in other jurisdictions	21,915	68,831
Tax benefits unrecognized	430,306	1,704,008
<b>Total income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

**12. INCOME TAXES (continued)**

Deferred income tax assets have not been recognized for the following temporary difference:

	2015	2014
Deferred income tax assets:		
Non-capital loss carry forwards	\$ 29,012,237	\$ 24,605,200
Capital loss carry forwards	63,703	63,703
Share issuance costs	500	607,823
Cumulative exploration expenses	29,091,060	29,720,956
Equipment	22,839	26,279
Long-term investment	9,012,681	8,229,935
	67,203,020	63,253,896
Tax benefits unrecognized	(67,203,020)	(63,253,896)
Net deferred income tax assets	\$ -	\$ -

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

2016	\$ 604,856
2027	486,895
2028	511,735
2029	886,865
2030	2,938,228
2031	3,597,090
2032	3,763,442
2033	3,103,710
2034	3,298,960
2035	2,092,807
	<u>\$ 21,284,588</u>

The Company also has \$7,257,600 and \$470,049 in losses accumulated in Indonesia and Japan, respectively, which expire at various dates to 2024. In addition, the Company has \$8,870,850 and \$20,220,210 of unclaimed resource expenses for Canadian and Indonesian income tax purposes, respectively, that can be carried forward indefinitely and used to reduce taxable income.



## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Expressed in Canadian dollars)

#### 13. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment focused on the acquisition and exploration of resource properties.

	Canada	Japan	Singapore	Indonesia	Total
<b>June 30, 2015</b>					
Exploration properties	\$ -	\$ -	\$ -	\$ 102,068	\$ 102,068
Total assets	\$ 5,531,567	\$ 12,155	\$ 29,736	\$ 112,181	\$ 5,685,639
<b>June 30, 2014</b>					
Exploration properties	\$ -	\$ -	\$ -	\$ 102,068	\$ 102,068
Total assets	\$ 7,748,739	\$ 23,423	\$ 73,764	\$ 1,577,753	\$ 9,423,679
<b>For the year ended June 30,</b>					
				2015	2014
Net loss for the year – Canada				\$ 2,743,634	\$ 4,595,572
Net loss for the year – Japan				106,949	83,016
Net loss for the year – Singapore				141,577	560,747
Net loss for the year – Indonesia				975,106	3,441,457
Net loss for the year				\$ 3,967,266	\$ 8,680,792

#### 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going-concern in order to pursue the exploration and development of unproven mineral properties, and to maintain a flexible capital structure. The capital structure of the Company consists of shareholders' equity comprising issued capital, treasury shares, share-based payment reserve, deficit and non-controlling interest. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company currently does not produce any revenue and has relied on existing cash balances, equity issuances and advances from related parties to fund its operations. The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management in the year ended June 30, 2015.

#### 15. SUBSEQUENT EVENTS

Subsequent to June 30, 2015, promissory notes totaling US\$117,571 (\$151,727) were advanced to the Company by a director and officer of the Company. These promissory notes are repayable on demand and bear no interest. There is a one-time finance expense of US\$9,406 (\$12,158) or 8% of the principal sum.

On August 25, 2015, pursuant to the completion of Oban's court approved plan of arrangement involving Eagle Hill, Ryan and Corona, the Company received a total of 3,129,319 common shares of Oban representing approximately 6.8% of the issued and outstanding shares of Oban and Oban warrants exercisable into 1,564,660 common shares at \$3.00 per share for a period of three years in exchange for its common shares of Eagle Hill. Southern Arc also exchanged Eagle Hill warrants for Oban warrants exercisable into 1,908,643 Oban common shares at a weighted average exercise price of \$3.67 for a weighted average period of 1.66 years. If the Company exercises all of its warrants, the Company would own approximately 12.14% of Oban's issued and outstanding shares, assuming that no further common shares of Oban were issued. To date, the Company has sold 235,320 shares of Oban for net proceeds of \$275,744.