



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
MARCH 31, 2016 AND 2015**

*(Unaudited - Expressed in Canadian dollars)*

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

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the “Company”) for the three and nine months ended March 31, 2016, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

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

<b>As at</b>	<b>March 31, 2016</b>	<b>June 30, 2015</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 272,861	\$ 53,614
Receivables	17,282	6,974
Prepaid expenses	14,815	24,638
Investment (Note 4)	3,462,776	-
	<b>3,767,734</b>	<b>85,226</b>
<b>Investment in associates</b> (Note 3)	-	5,475,893
<b>Deposit</b>	20,457	19,463
<b>Equipment</b> (Note 5)	-	2,989
<b>Exploration properties</b> (Note 6)	-	102,068
<b>Total assets</b>	<b>\$ 3,788,191</b>	<b>\$ 5,685,639</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 258,546	\$ 284,625
Due to related party (Note 9)	-	187,110
	258,546	471,735
<b>Other long-term liabilities</b>	131,469	125,081
<b>Total liabilities</b>	390,015	596,816
<b>Shareholders' equity</b>		
Capital stock (Note 7)	75,882,222	74,891,487
Treasury stock (Note 7)	(1,170,000)	(1,170,000)
Share-based payment reserve (Note 7)	12,135,006	11,949,662
Accumulated other comprehensive loss (Note 4)	(940,499)	-
Deficit	(80,244,120)	(78,342,419)
Equity attributable to shareholders	5,662,609	7,328,730
Non-controlling interest	(2,264,433)	(2,239,907)
<b>Total shareholders' equity</b>	3,398,176	5,088,823
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,788,191</b>	<b>\$ 5,685,639</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 12)

Approved by the Board of Directors and authorized for issuance on May 26, 2016:

**On behalf of the Board of Directors**

"John G. Proust" Director

"Morris Klid" Director

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

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

	<b>Three months ended March 31, 2016</b>	Three months ended March 31, 2015	<b>Nine months ended March 31, 2016</b>	Nine months ended March 31, 2015
<b>Expenses</b>				
Depreciation (Note 5)	\$ -	\$ 1,461	\$ 197	\$ 7,551
Consulting	82,497	50,438	275,609	199,300
Office and miscellaneous (Note 10)	35,068	41,973	140,044	158,189
Share-based compensation (Note 7 and 9)	66,247	10,651	185,344	27,805
Management fees (Note 9)	105,000	111,000	315,000	566,400
Exploration expenses (Note 6)	91,285	105,425	185,285	528,749
Foreign exchange loss (gain)	7,601	11,548	45,277	(48,945)
Investor relations	3,211	4,835	14,349	12,979
Professional fees	27,682	22,330	79,282	115,171
Rent	9,000	28,205	27,000	84,452
Salaries and benefits	46,903	29,661	138,120	103,720
Transfer agent and filing fees	27,971	2,459	36,729	38,843
Travel	8,370	14,266	56,163	40,087
<b>Loss before other items</b>	<b>(510,835)</b>	<b>(434,252)</b>	<b>(1,498,399)</b>	<b>(1,834,301)</b>
<b>Other income (expense)</b>				
Financing expense (Note 9)	-	-	(12,233)	-
Interest income	6	959	19	6,535
Exploration property write-off (Note 6)	-	-	(102,068)	-
Loss on sale of Oban shares (Note 4)	(7,976)	-	(166,613)	-
Gain (loss) on investment (Note 3)	-	(3,354,935)	5,341,797	(3,354,935)
Equity loss on investment in associate (Note 3)	-	(53,371)	(111,711)	(275,076)
Gain on disposition of equipment	-	9,581	-	9,581
Loss on fair value of Oban warrants (Note 4)	(1,157,434)	-	(5,386,136)	-
Remeasurement of assets held for sale (Note 12)	-	-	-	91,382
Write-down of equipment (Note 5)	(139)	-	(139)	-
	(1,165,543)	(3,397,766)	(437,084)	(3,522,513)
<b>Net loss for the period</b>	<b>\$ (1,676,378)</b>	<b>\$ (3,832,018)</b>	<b>\$ (1,935,483)</b>	<b>\$ (5,356,814)</b>
<b>Net loss attributable to:</b>				
Shareholders of Southern Arc Minerals Inc.	\$ (1,662,051)	\$ (3,816,732)	\$ (1,901,701)	\$ (5,296,056)
Non-controlling interests	(14,327)	(15,286)	(33,782)	(60,758)
	<b>\$ (1,676,378)</b>	<b>\$ (3,832,018)</b>	<b>\$ (1,935,483)</b>	<b>\$ (5,356,814)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.12)</b>	<b>\$ (0.35)</b>	<b>\$ (0.16)</b>	<b>\$ (0.48)</b>
<b>Weighted average number of shares outstanding</b>	13,897,642	10,921,449	11,906,300	10,921,449

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

**SOUTHERN ARC MINERALS INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian dollars)

	Three months ended <b>March 31,</b> <b>2016</b>	Three months ended March 31, 2015	Nine months ended <b>March 31,</b> <b>2016</b>	Nine months ended March 31, 2015
<b>Net loss for the period</b>	<b>\$ (1,676,378)</b>	\$ (3,832,018)	<b>\$ (1,935,483)</b>	\$ (5,356,814)
<b>Other comprehensive loss</b>				
Items that may be subsequently reclassified to profit/loss:				
Unrealized loss on fair value of available-for-sale investments attributable to equity shareholders of the Company	<b>(412,485)</b>	-	<b>(940,499)</b>	-
<b>Total comprehensive loss for the period</b>	<b>\$ (2,088,863)</b>	\$ (3,832,018)	<b>\$ (2,875,982)</b>	\$ (5,356,814)

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

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

For the nine months ended	<b>March 31, 2016</b>	March 31, 2015
<b>Cash flows from operating activities</b>		
Net loss for the period	\$ (1,935,483)	\$ (5,356,814)
Items not affecting cash:		
Depreciation	197	7,551
Share-based compensation	185,344	27,805
Exploration property write-off (Note 6)	102,068	528,749
Equity loss on investment in associate	111,711	275,076
Remeasurement of assets held for sale	-	(91,382)
Loss on fair value of Oban warrants (Note 4)	5,386,136	-
Write-down (gain) on equity investment	(5,341,797)	3,354,935
Gain on disposition of equipment	-	(9,581)
Write-down on equipment	139	-
Loss on sale of Oban shares	151,612	-
Foreign exchange loss (gain)	45,282	(48,943)
Changes in non-cash working capital items:		
Receivables	(10,308)	(3,962)
Prepaid expense	9,823	16,653
Accounts payable, accrued liabilities and other long-term liabilities	32,195	85,923
<b>Net cash used in operating activities</b>	<b>(1,263,081)</b>	<b>(1,213,990)</b>
<b>Cash flows from investing activities</b>		
Investment in exploration properties	-	(528,749)
Proceeds received from asset held for sale	-	319,860
Proceeds received from disposal of property, plant and equipment	-	18,461
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(190,428)</b>
<b>Cash flows from financing activities</b>		
Proceeds from sale of investment, net	749,433	-
Proceeds from private placement	1,000,000	-
Share issue costs for private placement	(9,265)	-
Proceeds from related party loan	146,242	-
Repayment of related party loan	(404,691)	-
<b>Net cash from financing activities</b>	<b>1,481,719</b>	<b>-</b>
Effect of exchange rate changes on cash	609	(19,763)
<b>Change in cash during the period</b>	<b>219,247</b>	<b>(1,424,181)</b>
Cash, beginning of the period	53,614	1,643,966
<b>Cash, end of the period</b>	<b>\$ 272,861</b>	<b>\$ 219,785</b>

**Supplemental disclosure with respect to cash flows (Note 8)**

The accompanying notes are an integral part of these condensed consolidated interim 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	Share Issue Cost	Treasury Stock	Share-based Payment Reserve	Accumulated other Comprehensive Loss	Deficit	Total	Non-controlling Interest	Total Equity
<b>Balance, June 30, 2014</b>	<b>\$ 74,891,487</b>	<b>\$ -</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,922,405</b>	<b>\$ -</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 period	-	-	-	-	-	(5,296,056)	(5,296,056)	(60,758)	(5,356,814)
Share-based compensation	-	-	-	27,805	-	-	27,805	-	27,805
Change in non-controlling interest	-	-	-	-	-	-	-	(63,330)	(63,330)
	-	-	-	27,805	-	(5,296,056)	(5,268,251)	(124,088)	(5,392,339)
<b>Balance, March 31, 2015</b>	<b>74,891,487</b>	<b>-</b>	<b>(1,170,000)</b>	<b>11,950,210</b>	<b>-</b>	<b>(79,744,497)</b>	<b>5,927,200</b>	<b>(2,290,707)</b>	<b>3,636,493</b>
<b>Balance, June 30, 2015</b>	<b>\$ 74,891,487</b>	<b>\$ -</b>	<b>\$ (1,170,000)</b>	<b>\$ 11,949,662</b>	<b>\$ -</b>	<b>\$ (78,342,419)</b>	<b>\$ 7,328,730</b>	<b>\$ (2,239,907)</b>	<b>\$ 5,088,823</b>
Net loss for the period	-	-	-	-	-	(1,901,701)	(1,901,701)	(33,782)	(1,935,483)
Shares issued for private placement	1,000,000	(9,265)	-	-	-	-	990,735	-	990,735
Share-based compensation	-	-	-	185,344	-	-	185,344	-	185,344
Other comprehensive loss	-	-	-	-	(940,499)	-	(940,499)	-	(940,499)
Change in non-controlling interest	-	-	-	-	-	-	-	9,256	9,256
	1,000,000	(9,265)	-	185,344	(940,499)	(1,901,701)	(1,666,121)	(24,526)	(1,690,647)
<b>Balance, March 31, 2016</b>	<b>\$ 75,891,487</b>	<b>\$ (9,265)</b>	<b>\$ (1,170,000)</b>	<b>\$ 12,135,006</b>	<b>\$ (940,499)</b>	<b>\$ (80,244,120)</b>	<b>\$ 5,662,609</b>	<b>\$ (2,264,433)</b>	<b>\$ 3,398,176</b>

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

## **SOUTHERN ARC MINERALS INC.**

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

March 31, 2016 and 2015

(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 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 financing received from the issuance of common shares or loans and borrowings to finance its exploration activities and general and administrative costs. Based on current plans, budgeted expenditures, and cash requirements, the Company does not have sufficient cash to finance its planned activities for the twelve months from the date of approval of the consolidated interim financial statements. As a result, the Company will require cash injections by way of selling its investments or obtaining additional financing in order to fund exploration activities and required general and administrative expenses. While the Company has been successful at securing financing in the past, there can be no assurance that it will be able to do so in the future. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“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, 2015, which have been prepared in accordance with IFRS.

On September 30, 2015, the Company consolidated its issued and outstanding common shares such that every ten existing shares were consolidated into one new share. The Company’s stock options and warrants were also 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 10:1 share consolidation.

These condensed consolidated interim financial statements were approved for issuance by the Company’s Board of Directors on May 26, 2016.

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

These condensed consolidated interim 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2016 and 2015

(Expressed in Canadian dollars)

#### 3. INVESTMENT IN ASSOCIATE

##### Eagle Exploration Corporation / Oban Mining 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 was a publicly listed mineral exploration company focused on advancing the Windfall Lake Gold Project located in the Abitibi Gold Belt in Quebec, Canada.

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.

	<b>Number of shares held prior to consolidation</b>	<b>Number of shares held subsequent to consolidation</b>
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
	<b>125,172,797</b>	<b>6,258,639</b>

On March 31, 2015, the market value of the Company’s investment in Eagle Hill was \$2,628,628 based on the publicly traded closing share price of Eagle Hill at \$0.42. During the period ended March 31, 2015, the Company recorded a write-down of \$3,354,935 to reflect its investment in Eagle Hill at market value.

On August 25, 2015, Eagle Hill combined with Oban Mining Corporation (“Oban”), Ryan Gold Corp. (“Ryan”) and Corona Gold Corporation (“Corona”). Under the terms of the transaction (the “Transaction”), Oban acquired all of the common shares of each of Eagle Hill, Ryan and Corona, with Eagle Hill shareholders receiving 0.5 common shares of Oban (post 20:1 Oban share consolidation) and five common share purchase warrants for each Eagle Hill share held (the “Exchange Ratio”). The Company exchanged its 6,258,639 Eagle Hill common shares for a total of 3,129,319 Oban common shares along with Oban warrants exercisable into 1,564,660 Oban common shares at \$3.00 per share for a period of three years.

The Company also previously held 76,345,797 Eagle Hill share purchase warrants which can be exercised into 1,908,644 Oban common shares at a weighted average exercise price of \$3.79 for a weighted average period of 1.66 years.

For the period ended July 1, 2015 up to the date of the Transaction, the Company held a 26.25% equity interest in Eagle Hill, which was accounted for using the equity method. Effective August 25, 2015, due to the changes in voting relationships, ownership and the Board of Directors, the Company determined that it no longer had significant influence over Eagle Hill.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2016 and 2015

(Expressed in Canadian dollars)

#### 3. INVESTMENT IN ASSOCIATE (continued)

##### Eagle Hill Exploration Corporation (continued)

Summarized financial information for Eagle Hill is as follows:

	<b>July 1, 2015 to August 24, 2015</b>	
Revenue from July 1, 2015 to August 24, 2015	\$	-
Net loss from July 1, 2015 to August 24, 2015		(425,567)
Assets as at August 24, 2015		37,958,118
Liabilities as at August 24, 2015		(5,019,746)

The portion of the Company's equity loss in its investment in Eagle Hill is as follows:

	<b>August 24, 2015</b>		<b>June 30, 2015</b>	
Balance, beginning of the period	\$	5,475,893	\$	6,258,639
Share of loss for the period		(111,711)		(782,746)
Balance, as at August 24, 2015	\$	5,364,182	\$	5,475,893

The carrying value of the Company's investment in Eagle Hill at August 24, 2015 was \$5,364,182 (June 30, 2015: \$5,475,893) compared to its fair value of \$4,881,739 based on the publicly traded closing share price of Eagle Hill of \$0.78 on August 24, 2015 (June 30, 2015: \$0.90). Based on the fair value of consideration received from the close of the Transaction, a consideration of \$4,381,047 in Oban shares (at a closing share price of \$1.40) plus \$6,324,932 in fair value of Oban warrants totalling \$10,705,979 was used to compare the Company's investment in Eagle Hill. Accordingly, no impairment was recognized.

Oban shares received	\$	4,381,047
Oban warrants		3,755,184
Oban warrants exchanged for Eagle Hill warrants		2,569,748
Fair value of consideration received		10,705,979
Carrying value of investment in associates at August 24, 2015		(5,364,182)
Gain on investment	\$	5,341,797

#### 4. INVESTMENT

In connection with the close of the Transaction, the Company received, in exchange for its common shares of Eagle Hill, a total of 3,129,319 common shares of Oban and Oban warrants exercisable into 1,564,660 common shares (31,293,195 pre-consolidated share warrants) at \$3.00 per share for a period of three years. Southern Arc also owns 76,345,797 previously held Eagle Hill warrants which can be exercised into 1,908,644 Oban common shares at a weighted average exercise price of \$3.79 for a weighted average period of 1.66 years.

The Company classified the Oban shares as financial assets that are available-for-sale with changes in fair value recorded through other comprehensive income. The Oban warrants were also revalued at each reporting date with the fair value of the derivative being recorded through the statement of comprehensive income. The Company valued the Oban warrants received in exchange for Eagle Hill shares using the quoted warrant trading price of \$0.12 on August 25, 2015.

For the Eagle Hill warrants, the Company used Black-Scholes to determine the fair value. Warrant pricing models require the input of subjective assumptions including the expected price volatility and expected warrant life. The Company used a risk-free interest rate of 0.45%, an expected life of the warrants between 0.02 to 1.37 years and a volatility of 44.5%. This resulted in a weighted average fair value warrant price of \$0.001 per warrant on March 31, 2016.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2016 and 2015

(Expressed in Canadian dollars)

#### 4. INVESTMENT (continued)

Oban shares (3,129,319 shares)	\$	4,381,047
Oban warrants (31,293,200 pre-consolidated warrants or 1,564,660 post-consolidation at 20:1)		3,755,184
Oban warrants exchanged for previously held Eagle Hill warrants		2,569,748
Balance, as at August 25, 2015	\$	10,705,979
Sale of Oban shares		(916,568)
Fair value adjustment to Oban shares		(940,499)
Fair value adjustment to Oban warrants held		(5,386,136)
<b>Balance, as at March 31, 2016</b>	<b>\$</b>	<b>3,462,776</b>

During the nine-month period ended March 31, 2016, the Company sold 654,320 Oban shares for net proceeds of \$749,433. This resulted in a loss of \$151,612 from the sale of shares and a commission charge of \$15,001, for a total loss of \$166,613.

As at March 31, 2016, the Company held 2,475,000 Oban shares with a fair value of \$2,524,500 (using a closing trading price of \$1.02 on March 31, 2016). The Company fair valued these shares and recorded a loss of \$940,499 in other comprehensive loss for the period ended March 31, 2016. The Company also recorded a fair value loss on its total Oban warrants held of \$5,386,136 for the nine-month period ended March 31, 2016.

#### 5. EQUIPMENT

	Vehicles	Furniture	Computer	Field Equipment	Total
<b>Costs</b>					
Balance, June 30, 2014	65,657	911	57,659	126,011	250,238
Disposal	(27,679)	-	-	-	(27,679)
Balance, June 30, 2015	37,978	911	57,659	126,011	222,559
Disposal	(204)	-	-	-	(204)
Write-down	-	-	(139)	-	(139)
<b>Balance, March 31, 2016</b>	<b>\$ 37,774</b>	<b>\$ 911</b>	<b>\$ 57,520</b>	<b>\$ 126,011</b>	<b>\$ 222,216</b>
<b>Accumulated depreciation</b>					
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
Balance, June 30, 2015	(36,547)	(911)	(57,163)	(124,949)	(219,570)
Depreciation for the period	(1,227)	-	(357)	(1,062)	(2,646)
<b>Balance, March 31, 2016</b>	<b>\$ (37,774)</b>	<b>\$ (911)</b>	<b>\$ (57,520)</b>	<b>\$ (126,011)</b>	<b>\$ (222,216)</b>
<b>Net carrying value</b>					
Balance, June 30, 2015	\$ 1,431	\$ -	\$ 496	\$ 1,062	\$ 2,989
<b>Balance, March 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

During the period ended March 31, 2016, \$2,449 of depreciation (March 31, 2015: \$35,399) was capitalized to exploration properties.

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

March 31, 2016 and 2015

(Expressed in Canadian dollars)

**6. EXPLORATION PROPERTIES**

	West Lombok Property, Indonesia	East Elang Property, Indonesia	Total
<b>Balance, June 30, 2014</b>	\$ -	\$ 102,068	\$ 102,068
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>	-	102,068	102,068
Deferred exploration costs incurred during the year:			
Camp construction and other	25,715	-	25,715
Geological and other consulting	49,334	-	49,334
Labour	18,951	-	18,951
Total deferred exploration costs	94,000	-	94,000
Exploration expenses	(94,000)	-	(94,000)
Exploration property write-down	-	(102,068)	(102,068)
<b>Balance, March 31, 2016</b>	\$ -	\$ -	\$ -

**West Lombok property**

The Company, through a 90%-owned subsidiary, holds the exploration permit for the West Lombok property located on Lombok Island, Indonesia. During the year ended June 30, 2013, the Company conducted a review of the value of its West Lombok property and determined that its value had been impaired. As a result, the Company wrote down the property value to \$Nil for the years 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 were 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 had 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 previous 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.

## SOUTHERN ARC MINERALS INC.

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#### 6. EXPLORATION PROPERTIES (continued)

##### 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 and receive a 75% interest in PT SAM, which holds the exploration permit for East Elang, Vale had 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.

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 December 31, 2015, PT SAM held US\$777 (June 30, 2015: US\$598) of funds advanced by Vale.

In February 2016, the Company received notice from Vale to terminate the option agreement regarding its participation in the East Elang property. As a result, the Company wrote off the remaining cost previously capitalized to the property of \$102,068 during the nine-month period ended March 31, 2016.

On May 12, 2016, the Company announced that it had entered into a sale and purchase agreement to sell its share of the East Elang property to an Indonesian individual in exchange for US\$20,000 and a 3% net smelter returns royalty on all future sales or other disposition of all minerals production from the property.

#### 7. SHAREHOLDERS' EQUITY

	Number of Common Shares	Capital Stock	Share Issue Cost	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, 2014	10,921,449	\$ 74,891,487	\$ -	(130,000)	\$ (1,170,000)	\$ 11,922,405
Share-based compensation	-	-	-	-	-	27,257
Balance as at June 30, 2015	10,921,449	\$ 74,891,487	\$ -	(130,000)	\$ (1,170,000)	\$ 11,949,662
Shares issued from private placement	4,166,667	\$ 1,000,000	\$ (9,265)	-	\$ -	\$ -
Share-based compensation	-	-	-	-	-	185,344
<b>Balance as at March 31, 2016</b>	<b>15,088,116</b>	<b>\$ 75,891,487</b>	<b>\$ (9,265)</b>	<b>(130,000)</b>	<b>\$ (1,170,000)</b>	<b>\$ 12,135,006</b>

On September 30, 2015, the Company consolidated its issued and outstanding common shares such that every ten existing shares were consolidated into one new share. The Company's stock options and warrants were also 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.

On January 26, 2016, the Company closed a private placement whereby it issued 4,166,667 units (the "Units") at a price of \$0.24 per Unit for gross proceeds of \$1,000,000. Each Unit consists of one common share and one non-transferrable share purchase warrant (the "Warrants"). Each Warrant entitles the holder to purchase one common share of the Company for a period of five years at an exercise price of \$0.32. No finder fees were paid in connection with the private placement.

**SOUTHERN ARC MINERALS INC.**

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

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price, are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's shares on the date of grant. The share options granted are exercisable for a period of up to ten years. 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, 2014	927,500	\$ 5.40
Expired	(466,750)	5.07
Forfeited	(21,250)	1.00
Outstanding at June 30, 2015	439,500	\$ 5.90
Cancelled	(439,500)	5.90
Granted	959,000	0.32
Outstanding at March 31, 2016 (remaining contractual life is 4.66 years)	959,000	\$ 0.32
Number of options exercisable at March 31, 2016	239,750	\$ 0.32

On November 27, 2015, the Company granted 959,000 stock options to directors, officers, employees and consultants with an exercise price of \$0.32 with an expiry period of five years. Of the options granted, 25% vested immediately with the remainder to vest 25% every six months thereafter. During the period ended March 31, 2016, the Company recorded share-based compensation of \$185,344 (March 31, 2015: \$27,805) as a result of the vesting of options granted.

During the period ended March 31, 2016, the Company cancelled 439,500 share options previously issued to directors, officers and consultants.

At March 31, 2016, the Company had the following share options outstanding:

	Number of Options	Exercise Price	Expiry Date
<b>Options</b>	959,000	\$ 0.32	November 26, 2020
	959,000		

**Share purchase warrants**

As part of the private placement on January 26, 2016, the Company issued 4,166,667 warrants with an exercise price of \$0.32 which have an expiry date of January 26, 2021.

As at March 31, 2016, these warrants had a weighted average exercise price of \$0.32 and 4.83 years remaining in warrant contractual life.

## SOUTHERN ARC MINERALS INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

The Company had the following non-cash transactions during the period:

- At March 31, 2016, the Company included in accounts payable \$Nil (March 31, 2015: \$2,787) of exploration expenditures.
- During the period ended March 31, 2016, the Company received \$19 (March 31, 2015: \$6,535) of interest income from operating activities.
- During the period ended March 31, 2016, the Company paid financing expense of \$29,771 (March 31, 2015: \$Nil) related to the repayment of related party loans.

#### 9. 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:

	<b>Three months ended March 31, 2016</b>	Three months ended March 31, 2015	<b>Nine months ended March 31, 2016</b>	Nine months ended March 31, 2015
Management fees	\$ 69,000	\$ 111,000	\$ 207,000	\$ 566,400
Consulting services (exploration)	-	-	-	129,664
Finance expense	-	-	12,233	-
Share-based compensation	53,498	2,343	149,242	9,869

During the three- and nine-month period ended March 31, 2016, the Company paid \$69,000 and \$207,000 (March 31, 2015: \$111,000 and \$546,400), respectively 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.

On May 21, 2015, a US\$150,000 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 or 8% of the principal sum that the Company recorded and accrued within accounts payable. During the nine-month period ended March 31, 2016, an additional US\$119,571 promissory note was advanced to the Company by an officer and director of the Company. This promissory note is repayable on demand and bears no interest. There is a one-time finance expense of US\$9,406 or 8% of the principal sum that the Company recorded and accrued within accounts payable. On February 5, 2016, the Company repaid these loans plus financing fees in full for a total of US\$290,977 (\$404,691).

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

**SOUTHERN ARC MINERALS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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**10. OFFICE AND MISCELLANEOUS EXPENSES**

	<b>Three months ended</b>	Three months ended	<b>Nine months ended</b>	Nine months ended
	<b>March 31, 2016</b>	March 31, 2015	<b>March 31, 2016</b>	March 31, 2015
Administrative	\$ 5,054	\$ 6,148	\$ 29,119	\$ 30,491
Office expenses	6,874	49,381	52,729	180,297
Insurance	14,699	13,385	43,660	38,861
Interest and bank charges	1,142	1,595	5,752	5,384
Telephone	6,481	1,003	7,556	5,522
Meals and entertainment	818	122	1,228	1,354
	<b>\$ 35,068</b>	<b>\$ 71,634</b>	<b>\$ 140,044</b>	<b>\$ 261,909</b>

**11. FINANCIAL INSTRUMENTS**

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

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

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

**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 Oban 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 Oban's shares would change the fair value of the shares by approximately \$29,900.

**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 March 31, 2016, the Company had US\$92,567 (approximately CDN\$120,217), Japanese Yen ("Yen") 6,369 (approximately CDN\$73) and Indonesian Rupiah ("Rph") 11,979,634 (approximately CDN\$1,174) in cash, and US\$158,078 (approximately CDN\$205,297) and Yen 735,564 (approximately CDN\$8,488) in accounts payable and accrued liabilities. As at March 31, 2016, US\$1 amounts were converted at a rate of US\$0.77 to CDN\$1, Yen 86.65 to CDN\$1, and Rph amounts were converted at a rate of Rph 10,204 to CDN\$1.



## **SOUTHERN ARC MINERALS INC.**

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

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#### **11. 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 Oban 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. To determine the fair value and possible impairment of the Company's investment in Oban, the Company uses the quoted market price of Oban shares, which represents a level 1 input.

#### **12. SUBSEQUENT EVENTS**

Subsequent to the period ended March 31, 2016, a total of 27,518,797 of Eagle Hill warrants (exercisable into 687,970 Oban common shares) expired without exercise.

On May 12, 2016, the Company entered into a sale and purchase agreement to sell its share of the East Elang property to an Indonesian individual. The Company sold and transferred 100% of its shares of wholly-owned subsidiaries East Indonesia Mining Holdings Inc. and West Indonesia Mining Holdings Inc. for total consideration of 260,000,000 Rupiah, equivalent to \$25,684 (US\$20,000). The Company has retained a 3% net smelter returns royalty on all future sales or other disposition of all minerals production from the East Elang property.