



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2015 AND 2014**

(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 six months ended December 31, 2015, 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)

As at	December 31, 2015		June 30, 2015
Assets			
Current			
Cash	\$	141,311	\$ 53,614
Receivables		9,045	6,974
Prepaid expenses		26,700	24,638
Investment (Note 4)		5,084,495	-
		5,261,551	85,226
Investment in associates (Note 3)		-	5,475,893
Deposit		21,800	19,463
Equipment (Note 5)		289	2,989
Exploration properties (Note 6)		-	102,068
Total assets	\$	5,283,640	\$ 5,685,639
Liabilities			
Current			
Accounts payable and accrued liabilities	\$	358,390	\$ 284,625
Due to related party (Note 9)		363,122	187,110
		721,512	471,735
Other long-term liabilities		140,104	125,081
Total liabilities		861,616	596,816
Shareholders' equity			
Capital stock (Note 7)		74,891,487	74,891,487
Treasury stock (Note 7)		(1,170,000)	(1,170,000)
Share-based payment reserve (Note 7)		12,068,759	11,949,662
Accumulated other comprehensive loss (Note 4)		(528,014)	-
Deficit		(78,582,069)	(78,342,419)
Equity attributable to shareholders		6,680,163	7,328,730
Non-controlling interest		(2,258,139)	(2,239,907)
Total shareholders' equity		4,422,024	5,088,823
Total liabilities and shareholders' equity	\$	5,283,640	\$ 5,685,639

Nature of operations and going concern (Note 1)

Subsequent events (Note 12)

Approved by the Board of Directors and authorized for issue on February 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)

	Three months ended December 31, 2015	Three months ended December 31, 2014	Six months ended December 31, 2015	Six months ended December 31, 2014
Expenses				
Depreciation (Note 5)	\$ 47	\$ 3,914	\$ 197	\$ 6,090
Consulting	75,154	96,480	193,112	148,862
Office and miscellaneous (Note 10)	63,056	53,664	104,976	122,448
Share-based compensation (Note 7 and 9)	116,652	6,777	119,097	17,154
Management fees (Note 9)	105,000	227,700	210,000	455,400
Exploration expenses (Note 6)	28,667	164,136	94,000	423,324
Foreign exchange loss (gain)	26,325	(20,185)	37,676	(60,493)
Investor relations	7,986	1,392	11,138	8,144
Professional fees	30,531	79,416	51,600	92,841
Rent	9,000	28,353	18,000	56,247
Salaries and benefits	45,258	30,234	91,217	67,827
Transfer agent and filing fees	3,006	35,079	8,758	36,384
Travel	41,271	17,862	47,793	25,821
Loss before other items	(551,953)	(724,822)	(987,564)	(1,400,049)
Other income (expense)				
Financing expense (Note 9)	-	-	(12,233)	-
Interest income	3	2,309	13	5,576
Exploration property write-off (Note 6)	(102,068)	-	(102,068)	-
Loss on sale of Oban shares (Note 4)	(104,765)	-	(158,637)	-
Gain on investment (Note 3)	-	-	5,341,797	-
Equity loss on investment in associate (Note 3)	-	(96,816)	(111,711)	(221,705)
Loss on fair value of Oban warrants (Note 4)	(745,614)	-	(4,228,702)	-
Remeasurement of assets held for sale (Note 12)	-	174,015	-	91,382
	(952,444)	79,508	728,459	(124,747)
Net loss for the period	\$ (1,504,397)	\$ (645,314)	\$ (259,105)	\$ (1,524,796)
Net loss attributable to:				
Shareholders of Southern Arc Minerals Inc.	\$ (1,493,978)	\$ (626,356)	\$ (239,650)	\$ (1,479,324)
Non-controlling interests	(10,419)	(18,958)	(19,455)	(45,472)
	\$ (1,504,397)	\$ (645,314)	\$ (259,105)	\$ (1,524,796)
Basic and diluted loss per share	\$ (0.14)	\$ (0.06)	\$ (0.02)	\$ (0.14)
Weighted average number of shares outstanding	10,921,449	10,921,449	10,921,449	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		Six months ended	
	December 31,	December 31,	December 31,	December 31,
	2015	2014	2015	2014
Net loss for the period	\$ (1,504,397)	\$ (645,314)	\$ (259,105)	\$ (1,524,796)
Other comprehensive loss				
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	(93,914)	-	(528,014)	-
Total comprehensive loss for the period	\$ (1,598,311)	\$ (645,314)	\$ (787,119)	\$ (1,524,796)

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 six months ended	December 31, 2015	December 31, 2014
Cash flows from operating activities		
Net loss for the period	\$ (259,105)	\$ (1,524,796)
Items not affecting cash:		
Depreciation	197	6,090
Share-based compensation	119,097	17,155
Exploration property write-off (Note 6)	102,068	423,324
Equity loss on investment in associate	111,711	221,705
Remeasurement of assets held for sale	-	(91,382)
Loss on fair value of Oban warrants (Note 4)	4,228,702	-
Gain on investment (Note 3)	(5,341,797)	-
Loss on sale of Oban shares	144,578	-
Foreign exchange loss (gain)	37,676	(60,493)
Finance expense	12,233	-
Interest income	(13)	-
Changes in non-cash working capital items:		
Receivables	(2,071)	(10,005)
Prepaid expense	(2,062)	526
Accounts payable, accrued liabilities and other long-term liabilities	88,788	36,429
Interest income received	13	-
Net cash used in operating activities	(759,985)	(981,447)
Cash flows from investing activities		
Investment in exploration properties	-	(398,373)
Proceeds received from asset held for sale	-	319,860
Net cash used in investing activities	-	(78,513)
Cash flows from financing activities		
Proceeds from sale of investment, net	705,610	-
Proceeds from related party loan	146,242	-
Net cash from financing activities	851,852	-
Effect of exchange rate changes on cash	(4,171)	(10,710)
Change in cash during the period	87,696	(1,070,670)
Cash, beginning of the period	53,615	1,643,966
Cash, end of the period	\$ 141,311	\$ 573,296

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	Treasury Stock	Share-based Payment Reserve	Accumulated other Comprehensive Loss	Deficit	Total	Non-controlling Interest	Total Equity
Balance, June 30, 2014	\$ 74,891,487	\$ (1,170,000)	\$ 11,922,405	\$ -	\$ (74,448,441)	\$ 11,195,451	\$ (2,166,619)	\$ 9,028,832
Comprehensive loss for the period	-	-	-	-	(1,479,324)	(1,479,324)	(45,472)	(1,524,796)
Share-based compensation	-	-	17,155	-	-	17,155	-	17,155
Change in non-controlling interest	-	-	-	-	-	-	(63,331)	(63,331)
	-	-	17,155	-	(1,479,324)	(1,462,169)	(108,803)	(1,570,972)
Balance, December 31, 2014	74,891,487	(1,170,000)	11,939,560	-	(75,927,765)	9,733,282	(2,275,422)	7,457,860
Balance, June 30, 2015	\$ 74,891,487	\$ (1,170,000)	\$ 11,949,662	\$ -	\$ (78,342,419)	\$ 7,328,730	\$ (2,239,907)	\$ 5,088,823
Net loss for the period	-	-	-	-	(239,650)	(239,650)	(19,455)	(259,105)
Share-based compensation	-	-	119,097	-	-	119,097	-	119,097
Other comprehensive loss	-	-	-	(528,014)	-	(528,014)	-	(528,014)
Change in non-controlling interest	-	-	-	-	-	-	1,223	1,223
	-	-	119,097	(528,014)	(239,650)	(648,567)	(18,232)	(666,799)
Balance, December 31, 2015	\$ 74,891,487	\$ (1,170,000)	\$ 12,068,759	\$ (528,014)	\$ (78,582,069)	\$ 6,680,163	\$ (2,258,139)	\$ 4,422,024

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

December 31, 2015 and 2014

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Southern Arc Minerals Inc. (“Southern Arc” or “the Company”) was incorporated in British Columbia, Canada on August 19, 2004. The Company is a 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 issuance of common shares or loans and borrowings to finance its exploration activities and general and administrative costs. Based on current plans, budgeted expenditures, and cash requirements, the Company does not have sufficient cash to finance its planned activities for the twelve months from the date of approval of the consolidated financial statements. As a result, the Company will require cash injections by way of selling its investments or obtaining additional financing in order to fund 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 condensed consolidated interim financial statements have been prepared in accordance with IFRS, as applicable to interim financial reports including IAS 34, “Interim Financial Reporting”, and should be read in conjunction with the Company’s annual financial statements for the year ended June 30, 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 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 10:1 share consolidation.

These condensed consolidated interim financial statements were approved for issuance by the Company’s Board of Directors on February 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

December 31, 2015 and 2014

(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.

	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 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

December 31, 2015 and 2014

(Expressed in Canadian dollars)

3. INVESTMENT IN ASSOCIATE (continued)

Eagle Hill Exploration Corporation (continued)

Summarized financial information for Eagle Hill is as follows:

	July 1, 2015 to August 24, 2015	
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:

	August 24, 2015		June 30, 2015	
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, 2014: \$1.00). 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 exchanged for Oban warrants, the Company used Black-Scholes to determine the fair value of these Oban warrants. 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 1.50%, an expected life of the warrants between 0.27 to 1.62 years and a volatility range of 262.2% to 409.6%. This resulted in a weighted average fair value warrant price of \$0.77 per warrant on December 31, 2015.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 and 2014

(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		(864,768)
Fair value adjustment to Oban shares		(528,014)
Fair value adjustment to Oban warrants held		(4,228,702)
Balance, as at December 31, 2015	\$	5,084,495

During the six-month period ended December 31, 2015, the Company sold 617,320 Oban shares for net proceeds of \$705,610. This resulted in a loss of \$144,578 from the sale of shares and a commission charge of \$14,059, for a total loss of \$158,637.

As at December 31, 2015, the Company held 2,512,000 Oban shares with a fair value of \$2,989,280 (using a closing trading price of \$1.19 on December 31, 2015). The Company fair valued these shares and recorded a loss of \$528,014 in other comprehensive loss for the period ended December 31, 2015. The Company also recorded a fair value loss on its total Oban warrants held of \$4,228,702 for the six-month period ended December 31, 2015.

5. EQUIPMENT

	Vehicles	Furniture	Computer	Field Equipment	Total
Costs					
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)
Balance, December 31, 2015	\$ 37,774	\$ 911	\$ 57,659	\$ 126,011	\$ 222,355
Accumulated depreciation					
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 year	(1,227)	-	(316)	(953)	(2,496)
Disposal	-	-	-	-	-
Balance, December 31, 2015	\$ (37,774)	\$ (911)	\$ (57,479)	\$ (125,902)	\$ (222,066)
Net carrying value					
Balance, June 30, 2015	\$ 1,431	\$ -	\$ 496	\$ 1,062	\$ 2,989
Balance, December 31, 2015	\$ -	\$ -	\$ 180	\$ 109	\$ 289

During the period ended December 31, 2015, \$2,299 of depreciation (December 31, 2014: \$24,951) was capitalized to exploration properties.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Expressed in Canadian dollars)

6. EXPLORATION PROPERTIES

	West Lombok Property, Indonesia	East Elang Property, Indonesia	Total
Balance, June 30, 2014	\$ -	\$ 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)
Balance, June 30, 2015	-	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)
Balance, December, 2015	\$ -	\$ -	\$ -

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 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Expressed in Canadian dollars)

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.

Subsequent to the period ended December 31, 2015, 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 for the six-month period ended December 31, 2015.

7. 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, 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
Share-based compensation	-	-	-	-	119,097
Balance as at December 31, 2015	10,921,449	\$ 74,891,487	(130,000)	\$ (1,170,000)	\$ 12,068,759

On September 30, 2015, the Company consolidated its issued and outstanding common shares such that every ten 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.

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

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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 December 31, 2015 (remaining contractual life is 4.91 years)	959,000	\$ 0.32
Number of options exercisable at December 31, 2015	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 December 31, 2015, the Company recorded share-based compensation of \$119,097 (December 31, 2014: \$17,154) as a result of the vesting of options granted.

During the period ended December 31, 2015, the Company cancelled 439,500 share options previously issued to directors, officers and consultants.

At December 31, 2015, the Company had the following share options outstanding:

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

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

- At December 31, 2015, the Company included in accounts payable \$nil (December 31, 2014: \$28,519) of exploration expenditures.
- During the period ended December 31, 2015, the Company received \$13 (December 31, 2015: \$5,532) of interest income from operating activities.

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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:

	Three months ended December 31, 2015	Three months ended December 31 2014	Six months ended December 31, 2015	Six months ended December 31, 2014
Management fees	\$ 69,000	\$ 227,700	\$ 138,000	\$ 455,400
Consulting services (exploration)	-	74,297	-	129,664
Finance expense	-	-	12,233	-
Share-based compensation	93,707	481	94,711	7,884

During the period ended December 31, 2015, the Company paid \$138,000 (December 31, 2014: \$455,400) 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.

On May 21, 2015, a US\$150,000 (\$207,600) 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.

During the six-month period ended December 31, 2015, an additional US\$112,371 (\$155,522) 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 (\$12,233) 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.

10. OFFICE AND MISCELLANEOUS EXPENSES

	Three months ended December 31, 2015	Three months ended December 31, 2014	Six months ended December 31, 2015	Six months ended December 31, 2014
Administrative	\$ 4,419	\$ 8,681	\$ 24,065	\$ 24,343
Office expenses	40,774	27,012	45,855	63,089
Insurance	14,730	12,572	28,961	25,476
Interest and bank charges	2,509	1,990	4,610	3,789
Telephone	624	2,565	1,075	4,519
Meals and entertainment	-	844	410	1,232
	\$ 63,056	\$ 53,664	\$ 104,976	\$ 122,448

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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 December 31, 2015, the Company had US\$24,256 (approximately CDN\$33,570), Japanese Yen ("Yen") 363,913 (approximately CDN\$4,185) and Indonesian Rupiah ("Rph") 17,882,478 (approximately CDN\$1,681) in cash, and US\$34,172 (approximately CDN\$47,294) and Yen 2,407,252 (approximately CDN\$27,683) in accounts payable and accrued liabilities. As at December 31, 2015, US\$ amounts were converted at a rate of US\$0.7225 to CDN\$1, Yen 86.9565 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 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.

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12. SUBSEQUENT EVENTS

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.

In February 2016, the Company received a letter from Vale International S.A. notifying the Company that Vale will not be proceeding with a potential joint venture at the East Elang property. As a result, the Company wrote off the remaining \$102,068 in costs previously capitalized to the project.