Southern Arc
MINERALS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 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 six months ended December 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)

As at		**December 31, 2016**		June 30, 2016
Assets				
Current				
Cash	$	103,783	$	273,186
Short-term investments (Note 3)		5,217,250		-
Receivables		60,157		7,275
Prepaid expenses and other deposits		212,153		13,037
		5,593,343		293,498
Investments (Note 4)		5,561,631		7,534,915
Investment in associate (Note 5)		1,571,542		-
Property, plant and equipment (Note 3)		71,149		-
Total assets	**$**	**12,797,665**	**$**	**7,828,413**
Liabilities				
Current				
Accounts payable and accrued liabilities	$	253,237	$	158,700
		253,237		158,700
Other long-term liabilities		237,660		228,764
Total liabilities		490,897		387,464
Shareholders' equity				
Capital stock (Note 7)		75,914,222		75,882,222
Treasury stock (Note 7)		(1,170,000)		(1,170,000)
Equity reserve (Note 3 and 7)		14,320,687		12,177,346
Accumulated other comprehensive income (Note 4)		1,615,281		1,835,927
Deficit		(78,049,886)		(78,936,444)
Equity attributable to shareholders		12,630,304		9,789,051
Non-controlling interest		(323,536)		(2,348,102)
Total shareholders' equity		12,306,768		7,440,949
Total liabilities and shareholders' equity	**$**	**12,797,665**	**$**	**7,828,413**

Nature of operations and going concern (Note 1)
Subsequent event (Note 11)

Approved by the Board of Directors and authorized for issuance on February 27, 2017:

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, 2016	Three months ended December 31, 2015	**Six months ended December 31, 2016**	Six months ended December 31, 2015
Expenses				
Depreciation	$ -	$ 47	$ -	$ 197
Consulting	392,796	75,154	579,137	193,112
Office and miscellaneous (Note 9)	117,841	63,056	221,262	104,976
Marketing	87,749	-	462,189	-
Share-based compensation (Note 7 and 8)	61,610	116,652	2,143,341	119,097
Management fees (Note 8)	219,000	105,000	380,000	210,000
Exploration expenses (Note 6)	44,094	28,667	118,160	94,000
Foreign exchange loss (gain)	(94,184)	26,325	(86,589)	37,676
Investor relations	9,149	7,986	20,171	11,138
Professional fees	127,771	30,531	255,541	51,600
Rent	12,000	9,000	22,000	18,000
Salaries and benefits	45,834	45,258	90,664	91,217
Transfer agent and filing fees	20,421	3,006	71,148	8,758
Travel	379,816	41,271	488,913	47,793
Loss before other items	**(1,423,897)**	**(551,953)**	**(4,765,937)**	**(987,564)**
Other income (expense)				
Financing expense	-	-	-	(12,233)
Interest income	1,425	3	2,432	13
Exploration property write-off	-	(102,068)	-	(102,068)
Gain on disposition of investment in associate	-	-	-	5,341,797
Gain (loss) on sale of shares and warrants (Note 4)	655,066	(104,765)	914,756	(158,637)
Equity loss from investment in associate	-	-	-	(111,711)
Unrealized loss on change in fair value of warrants (Note 4)	(856,839)	(745,614)	(740,284)	(4,228,702)
	(200,348)	(952,444)	176,904	728,459
Net loss before income taxes	**$ (1,624,245)**	**$ (1,504,397)**	**$ (4,589,033)**	**$ (259,105)**
Income tax expense	$ (292,354)	$ -	$ (32,354)	$ -
Net loss for the period	**$ (1,916,599)**	**$ (1,504,397)**	**$ (4,621,387)**	**$ (259,105)**
Net loss attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ (1,230,491)	$ (1,493,978)	$ (2,332,556)	$ (239,650)
Non-controlling interests	(686,108)	(10,419)	(2,288,831)	(19,455)
	$ (1,916,599)	**$ (1,504,397)**	**$ (4,621,387)**	**$ (259,105)**
Basic and diluted income (loss) per share	**$ (0.13)**	**$ (0.14)**	**$ (0.31)**	**$ (0.02)**
Weighted average number of shares outstanding	15,058,116	10,921,449	15,031,551	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 INCOME (LOSS)
(Unaudited - Expressed in Canadian dollars)

	Three months ended		Six months ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Net loss for the period	$ (1,916,599)	$ (1,504,397)	$ (4,621,387)	$ (259,105)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments	(2,253,000)	(93,914)	(253,000)	(528,014)
Net income tax expense (recovery) related to available for sale investments	(292,354)	-	32,354	-
	(2,545,354)	(93,914)	(220,646)	(528,014)
Total comprehensive loss for the period	**$ (4,461,953)**	**$ (1,598,311)**	**$ (4,842,033)**	**$ (787,119)**
Comprehensive loss attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ (3,775,845)	$ (1,587,892)	$ (2,553,202)	$ (767,664)
Non-controlling interests	(686,108)	(10,419)	(2,288,831)	(19,455)
	$ (4,461,953)	**$ (1,598,311)**	**$ (4,842,033)**	**$ (787,119)**

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, 2016**	December 31, 2015
Cash flows from operating activities		
Net loss for the period	$ (4,621,387)	$ (259,105)
Items not affecting cash:		
Depreciation	-	197
Share-based compensation	2,143,341	119,097
Income tax expense	32,354	-
Exploration property write-off	-	102,068
Equity loss from investment in associate	-	111,711
Gain on disposition of investment in associate		(5,341,797)
Loss (gain) on sale of shares and warrants (Note 4)	(914,756)	144,578
Unrealized gain on change in fair value of warrants (Note 4)	740,284	4,228,702
Foreign exchange loss	8,897	37,676
Finance expense	-	12,233
Interest income	-	(13)
Changes in non-cash working capital items:		
Receivables and prepaid expenses	308,672	(4,133)
Accounts payable, accrued liabilities and other long-term liabilities	133,288	88,788
Interest income received	-	13
Net cash used in operating activities	(2,169,307)	(759,985)
Cash flows from investing activities		
Proceeds from sale of investments, net (Note 4)	1,894,755	705,610
Acquisition of equity investment	(1,571,543)	-
Redemption of short-term investment	1,112,750	-
Acquisition of property, plant and equipment	(9,542)	-
Cash received on acquisition of subsidiary	541,484	-
Net cash from investing activities	1,967,904	705,610
Cash flows from financing activities		
Cash received from sale of investment, net	32,000	-
Proceeds from related party loan	-	146,242
Net cash from financing activities	32,000	146,242
Effect of exchange rate changes on cash	-	(4,171)
Change in cash during the period	**(169,403)**	**87,696**
Cash, beginning of the period	273,186	53,615
Cash, end of the period	**$ 103,783**	**$ 141,311**

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

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

	Attributable to shareholders of Southern Arc Minerals Inc.							
	Capital Stock	Treasury Stock	Equity Reserve	Accumulated other Comprehensive Loss	Deficit	Total	Non-controlling Interest	Total Equity
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
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**
Balance, June 30, 2016	**$ 75,882,222**	**$ (1,170,000)**	**$ 12,177,346**	**$ 1,835,927**	**$ (78,936,444)**	**$ 9,789,051**	**$ (2,348,102)**	**$ 7,440,949**
Net loss for the period	-	-	-	-	(2,332,256)	(2,332,256)	(2,288,831)	(4,621,087)
Shares issued for warrant exercise	32,000	-	-	-	-	32,000	-	32,000
Share-based compensation	-	-	2,143,341	-	-	2,143,341	-	2,143,341
Other comprehensive income	-	-	-	(220,646)	-	(220,646)	-	(220,646)
Reduction in investment in subsidiary	-	-		-	3,218,814	3,218,814	4,313,397	7,532,211
Balance, December 31, 2016	**$ 75,914,222**	**$ (1,170,000)**	**$ 14,320,687**	**$ 1,615,281**	**$ (78,049,886)**	**$ 12,630,304**	**$ (323,536)**	**$ 12,306,768**

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

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.

These condensed consolidated interim financial statements (which includes the consolidation of Japan Gold Corp. (Note 3)) 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 is in the process of evaluating its exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The Company does not currently generate any revenues or have operations that generate cash flows. Accordingly, the Company relies on funding received from the sale of investments and financing received from the issuance of common shares or loans and borrowings to finance its 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 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 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, 2016, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issuance by the Company's Board of Directors on February 27, 2017.

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. and Southern Sunda Mining Pte. Ltd.;
iii) its 90%-owned Indonesian subsidiary PT. Indotan Lombok Barat Bangkit; and
iv) its 70%-owned Indonesian subsidiary PT. Selatan Bengkulu Minerals.
v) its 42.9%-owned Japan subsidiary Japan Gold Corp.

Significant intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

The preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future conditions and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited, to the following:

i) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices related to the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.

ii) 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 Company's assessment that it has control of Japan Gold Corp. (note 4) even though it owns less than 50% of ownership interest in an entity requires significant judgement and consideration of 'de-facto' control. De-facto control exists when the size of the Company's own voting rights relative to the size and dispersion of other vote holders give the Company the ability to direct the relevant activities of the entity. The Company currently holds 42.9% of the voting common shares of Japan Gold Corp. and holds a majority of the board seats on Japan Gold Corp. The Company has determined that it has de-facto control over Japan Gold Corp. as it has the practical ability to direct the relevant activities of Japan Gold Corp., and has consolidated the entity as a subsidiary with a 57.1% non-controlling interest. Should de-facto control be lost in the future, the Company would be required to de-consolidate its interest and Japan Gold Corp.

iii) The Company's assessment that is has significant influence of Tethyan Resource plc (note 5) as it holds a 29.9% ownership interest in an associate. Associates are entities over which the Company has significant influence but not control, generally when the Company's shareholdings is between 20% to 50% of the voting rights. Investment in associates are therefore accounted for using the equity of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

iv) 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.

3. ACQUISITION AND REORGANIZATION

Japan Gold Corp.

On September 16, 2016, the Company's wholly owned subsidiary, Southern Arc Minerals Japan KK ("SAMJ"), combined with Sky Ridge Resources ("Sky Ridge"), a publically listed entity ("the Acquisition"). Upon completion of the Acquisition and a concurrent $7 million financing, Sky Ridge consolidated its shares on a one-for-two basis and changed its name to Japan Gold Corp. ("Japan Gold"). In exchange for the Company's interest in SAMJ, Southern Arc received 23,750,000 post-consolidation common shares of Japan Gold, representing approximately 42.9% of the issued and outstanding shares of Japan Gold on an undiluted basis. The securities acquired by Southern Arc pursuant to the Acquisition are subject to an Escrow Agreement with 10% of the shares released from escrow on September 16, 2016 and 15% of the shares to be released at each of six month increments over the next 36 months. Japan Gold is a mineral exploration company which focuses on the acquisition and exploration of resources properties in northern Hokkaido and northern Honshu, Japan. Prior to this transaction, Japan Gold had net assets of $975,498 comprised almost entirely of cash and short term investments.

The fair value of the shares of Japan Gold received by the Company was $9,500,000 based on the quoted market price of Japan Gold on the acquisition date. The Company determined that it controls Japan Gold because of common key management personnel, board representation and the large block of shares the Company owns relative to the other shareholders of Japan Gold. The Company controlled SAMJ before the transaction and continues to control Japan Gold and SAMJ subsequent to the transaction. Accordingly, the transaction has been accounted for as a sale of a partial interest in the assets of SAMJ to the non-controlling shareholders of Japan Gold in exchange for the Company's 42.9% interest in Japan Gold's existing assets of $7,546,236 which includes $7,000,000 raised in connection with the issuance of common shares by Japan Gold. As the transaction is a transaction with non-controlling shareholders, the acquisition of 42.9% of the issued and outstanding common shares of Japan Gold constitutes an asset acquisition as Japan Gold does not meet the definition of a business as defined in IFRS 3, Business Combinations. The transaction resulted in the recognition of non-controlling interest of $4,313,397 and the gain on the transaction of $3,218,814 has been recognized directly in equity.

As at December 31, 2016, Japan Gold's net assets consisted primarily of cash and cash equivalents of $39,463, short term investments of $5,217,250, other current assets of $232,996, property, plant and equipment of $71,149 and current liabilities of $92,907. Japan Gold had no revenues for the period from September 16, 2016 to December 31, 2016 and net loss of Japan Gold for this period was $3,970,636, excluding certain inter-company eliminations.

On December 31, 2016, the fair value of the 23,750,000 shares of Japan Gold is $7,600,000 based on the quoted market price.

(Unaudited - Expressed in Canadian dollars)

3. ACQUISITION AND REORGANIZATION (continued)

Supplemental Information

For the purposes of providing additional information regarding the net assets and working capital available to Southern Arc, below is a summary of the non-consolidated standalone net assets of Southern Arc Minerals Inc. for the period ended December 31, 2016. For purposes of this supplementary information, the Company recognizes its investment in subsidiaries at fair value.

		Southern Arc
Cash	$	64,320
Receivables		15,467
Prepaid expense and other deposits		23,847
Investment in Osisko Mining Corp. (Note 4)		5,561,631
Investment in Tethyan Resources Plc (at fair value)		1,637,024
Investment in subsidiaries (at fair value)		7,600,000
Total assets	**$**	**14,902,289**
Accounts payable and accrued liabilities	$	160,328
Total liabilities	**$**	**160,328**
Net assets	**$**	**14,741,961**

4. INVESTMENT

As at December 31, 2016 and June 30, 2016, the Company's investment in Osisko consisted of the following:

	Number of securities		Fair market value
Osisko common shares	1,800,000	$	4,392,000
Osisko tradeable warrants	20,738,000		1,036,900
Osisko non-tradeable warrants	1,220,675		132,731
Balance, December 31, 2016		**$**	**5,561,631**

	Number of securities		Fair market value
Osisko common shares	2,500,000	$	5,625,000
Osisko tradeable warrants	24,982,000		1,498,920
Osisko non-tradeable warrants	1,220,675		410,995
Balance, June 30, 2016		**$**	**7,534,915**

4. INVESTMENT (continued)

As at December 31, 2016, the Company holds 1,800,000 common shares of Osisko Mining Corp. and 20,738,000 Osisko tradable warrants exercisable into 1,036,900 common shares at $3.00 per share with an expiry date of August 25, 2018. The Company also holds non-tradable warrants which can be exercised into 1,220,675 Osisko common shares at $4.00 per share with an expiry date of August 14, 2017.

The fair value of the Osisko common shares and tradeable warrants was based on the closing trading price of $2.44 and $0.05, respectively, on December 31, 2016. The fair value of the non-tradable warrants was determined using a Black Scholes option pricing model with the following assumptions: market price of common shares of $3.05, risk free interest rate of 0.45%, expected life of 0.87 years and volatility of 57.70%.

The Company classified these Osisko shares as financial assets that are available-for-sale with changes in fair value recorded in other comprehensive income. The Osisko warrants are derivatives and are recognized at their fair value with changes in fair value included in profit or loss.

During the period ended December 31, 2016, the Company sold 700,000 shares in Osisko for net proceeds of $1,618,056 resulting in a gain of $638,056. The Company also sold 4,244,000 Osisko warrants for net proceeds of $276,699 resulting in a gain of $276,699. During the period ended December 31, 2015, the Company sold 617,320 shares of Osisko 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 totaling $158,637.

The Company recorded a loss of $220,640 in accumulated other comprehensive income as at December 31, 2016 related to the shares of Osisko. The Company also recorded an unrealized loss of $740,284 for the period ended December 31, 2016 related to the Osisko warrants in net loss.

5. INVESTMENT IN ASSOCIATE

Tethyan Resources PLC

During the period ended December 31, 2016, the Company acquired a total of 43,653,966 common shares of Tethyan Resources PLC ("Tethyan"), which represents 29.9% of Tethyan's issued share capital, at a price of $0.036 per share for a total investment in associate of $1,571,543. Tethyan is an AIM quoted junior exploration company with a focus on exploring for copper and gold within the Western Tethyan Orogenic Belt in the European Balkan Region. The Company has also negotiated the following additional rights with respect to Tethyan:

- A first right of refusal on any further fundraisings undertaken by Tethyan for a period of two years to enable the Company to increase its holding to, and maintain its interest at 29.9% of Tethyan's issued share capital; and
- Tethyan's agreement to use its commercially reasonable efforts to seek a listing on the TSX Venture Exchange

Tethyan is accounted for as an equity investment by the Company and is subject to evaluation of significant and prolonged declines in value. The quoted market price of the Company's investment in Tethyan as at December 31, 2016 is $1,637,024 based on the publicly traded closing share price of $0.0375 per share, which is greater than the carrying value. As a result, no write-down is required.

6. EXPLORATION PROPERTIES

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 off the carrying value. During the period ended December 31, 2016, the Company incurred an additional $118,160 (June 30, 2016: $337,497) of exploration costs relating to the West Lombok property which were also written off.

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. The Company 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 West Lombok exploration permit ("IUP") was due for expiry on January 5, 2016. Prior to this date, Southern Arc was granted a one-year suspension of the IUP by the Indonesian Department of Mines to allow PT GSE to complete the environmental impact study and feasibility study required to convert the IUP into an exploitation permit. As preparation and approval of these reports were still in process at the end of 2016, Southern Arc has applied for a further one year suspension until January 2017.

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.

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 year ended June 30, 2016.

During 2016, the Company sold its share of East Indonesia Mining Pte Ltd., a wholly owned subsidiary of the Company and the parent company of PT SAM, to an Indonesian individual in exchange for $26,219 (US$20,000) and a 3% net smelter returns royalty on all future sales or other disposition of all minerals production from the property. The Company recognized a loss on the sale of these shares of $6,371 during that time.

(Unaudited - Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2016, 15,188,116 are issued of which 15,058,116 are outstanding and 130,000 are in treasury. As at June 30, 2016, 15,088,116 common shares were issued of which 14,958,116 were outstanding and 130,000 were in treasury.

Share options

The Company grants share options in accordance with its share option plan and the policies of the TSX Venture Exchange. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price, are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's shares on the date of grant. The share options granted are exercisable for a period of up to ten years, as determined by the board of directors at the time of grant. A summary of the Company's outstanding share options granted is presented in the following table.

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2015	439,500	$ 5.90
Cancelled	(438,000)	(5.90)
Forfeited	(1,500)	(5.90)
Granted	959,000	0.32
Outstanding at June 30, 2016 (remaining average contractual life is 4.41years)	959,000	$ 0.32
Outstanding at December 31, 2016 (remaining average contractual life is 3.91 years)	959,000	$ 0.32
Number of options exercisable at December 31, 2016	719,250	$ 0.32

During the period ended December 31, 2016, the Company recorded share-based compensation totaling $2,143,341 (December 31, 2015: $119,097). Out of this amount, $91,858 was a result of the vesting of options previously granted by Southern Arc. The remaining $2,051,483 was a result of the immediate vesting of options granted by the Company's subsidiary, Japan Gold.

Share purchase warrants

As part of a private placement on January 26, 2016, the Company issued 4,166,667 warrants with an exercise price of $0.32 and an expiry date of January 26, 2021. During the period ended December 31, 2016, 100,000 of these warrants were exercised into 100,000 common shares of the Company for $32,000. As at December 31, 2016, 4,066,667 of these warrants remain outstanding.

(Unaudited - Expressed in Canadian dollars)

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:

	Three months ended December 31, 2016	Three months ended December 31 2015	**Six months ended December 31, 2016**	Six months ended December 31, 2015
Management fees	$ 279,000	$ 69,000	$ 380,000	$ 138,000
Finance expense	-	-	-	12,233
Share-based compensation	25,508	93,707	1,439,467	94,711

During the period ended December 31, 2016, the Company paid $380,000 (December 31, 2015: $138,000) 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, US$150,000 was advanced to the Company by a director and officer of the Company. This promissory note was repayable on demand and bore no interest. There was 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 year ended June 30, 2016, an additional US$119,571 was advanced to the Company by an officer and director of the Company. This promissory note was repayable on demand and bore no interest. There was 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 accrued 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.

9. OFFICE AND MISCELLANEOUS EXPENSES

	Three months ended December 31, 2016	Three months ended December 31, 2015	**Six months ended December 31, 2016**	Six months ended December 31, 2015
Administrative	$ 71,127	$ 4,419	$ 156,148	$ 24,065
Office expenses	23,533	40,774	29,229	45,855
Insurance	17,950	14,730	27,443	28,961
Interest and bank charges	3,568	2,509	4,900	4,610
Telephone	685	624	2,564	1,075
Meals and entertainment	978	-	978	410
	$ 117,841	$ 63,056	$ 221,262	$ 104,976

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 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. The quoted market price of Osisko warrants is subject to fluctuations and this impacts profit or loss. Changes in the quoted market price of Osisko common shares affects other comprehensive income. A 1% change (plus or minus) in the share price of Osisko's shares would change the fair value of the shares by approximately $43,920 and a 1% change in the market price of the warrants would change the fair value of by approximately $10,369.

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

At December 31, 2016, the Company had US$21,828 (approximately CDN$29,308) in cash, and US$55,868 (approximately CDN$75,014) in accounts payable and accrued liabilities. As at December 31, 2016, US$1 amounts were converted at a rate of US$0.74 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 Osisko common shares and tradeable warrants are recognized at fair value using the quoted market price of these instruments. Accordingly, these are classified as level 1. The Osisko non-tradeable warrants are recognized at fair value using level 2 inputs.

The carrying value of cash, receivable, accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

11. SUBSEQUENT EVENT

Subsequent to the period ended December 31, 2016, 37,500 stock options were exercised at $0.32 for proceeds of $12,000.