Southern Arc
MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016

(Expressed in Canadian dollars)

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Southern Arc Minerals Inc.

We have audited the accompanying consolidated financial statements of Southern Arc Minerals Inc., which comprise the consolidated statement of financial position as at June 30, 2017 and June 30, 2016, the consolidated statements of loss, comprehensive income (loss), cash flows and changes in equity for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Southern Arc Minerals Inc. as at June 30, 2017 and June 30, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

KPMG LLP (signed)

Chartered Professional Accountants

October 27, 2017
Vancouver, Canada

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

As at		**June 30, 2017**		June 30, 2016
Assets				
Current				
Cash	$	11,763,403	$	273,186
Short-term investments (Note 3)		550,000		-
Receivables		153,998		7,275
Prepaid expenses and other deposits		175,396		13,037
		12,642,797		293,498
Investments (Note 4)		314,342		7,534,915
Investment in associate (Note 5)		1,496,812		-
Exploration and evaluation assets (Note 6)		103,263		-
Property and equipment (Note 7)		160,573		-
Total assets	**$**	**14,717,787**	**$**	**7,828,413**
Liabilities				
Current				
Accounts payable and accrued liabilities	$	450,434	$	158,700
Other long-term liabilities		229,695		228,764
Total liabilities		680,129		387,464
Shareholders' equity				
Capital stock (Note 8)		75,842,885		75,882,222
Treasury stock (Note 8)		(1,170,000)		(1,170,000)
Equity reserve (Note 3 and 8)		13,926,387		12,177,346
Accumulated other comprehensive income (Note 4)		863		1,835,927
Deficit		(73,395,553)		(78,936,444)
Equity attributable to shareholders		15,204,582		9,789,051
Non-controlling interest		(1,166,924)		(2,348,102)
Total shareholders' equity		14,037,658		7,440,949
Total liabilities and shareholders' equity	**$**	**14,717,787**	**$**	**7,828,413**

Nature of operations and going concern (Note 1)
Subsequent events (Note 15)

Approved by the Board of Directors and authorized for issuance on October 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 consolidated financial statements.

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

For the years ended		**June 30, 2017**		June 30, 2016
Expenses				
Depreciation	$	23,169	$	198
Consulting		1,670,398		373,226
Office and miscellaneous (Note 10)		513,255		124,426
Share-based compensation (Note 8 and 9)		1,749,041		227,684
Management fees (Note 9)		758,000		420,000
Exploration expenses (Note 6)		260,283		337,497
Foreign exchange gain		(23,729)		(4,959)
Investor relations		627,007		15,727
Professional fees		355,292		102,496
Rent		74,378		36,000
Salaries and benefits		184,586		183,307
Transfer agent and filing fees		130,691		37,982
Travel		772,281		76,643
Loss before other items		**(7,094,652)**		**(1,930,227)**
Other income (expense)				
Financing expense		-		(12,232)
Interest and other income		152,227		2,726
Exploration property write-off		-		(102,068)
Gain on disposition of investment in associate (Note 4)		-		977,592
Gain on sale of shares (Note 4)		6,557,531		29,654
Equity loss from investment in associate (Note 5)		(578,845)		(111,711)
Change in fair value of investment in warrants (Note 4)		446,704		176,083
Loss on sale of subsidiary		-		(6,371)
		6,577,617		953,673
Net loss before income taxes	**$**	**(517,035)**	**$**	**(976,554)**
Income tax recovery (expense)		(274,205)		274,334
Net loss for the year	**$**	**(791,240)**	**$**	**(702,220)**
Net income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$	2,368,093	$	(594,025)
Non-controlling interests		(3,159,333)		(108,195)
	$	**(791,240)**	**$**	**(702,220)**
Basic income (loss) per share	$	0.16	$	(0.05)
Diluted income (loss) per share	$	0.12	$	(0.05)
Weighted average shares outstanding		15,040,213		12,702,273
Diluted weighted average shares outstanding		19,995,880		12,702,273

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

SOUTHERN ARC MINERALS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian dollars)

For the years ended		**June 30, 2017**		June 30, 2016
Net loss for the year	$	(791,240)	$	(702,220)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments		4,567,886		2,261,873
Gain (loss) on available-for-sale investments classified to net loss		(6,677,155)		(151,612)
Net income tax expense (recovery) related to available for sale investments		274,205		(274,334)
		(1,835,064)		1,835,927
Total comprehensive income (loss) for the year	**$**	**(2,626,304)**	**$**	**1,133,707**
Comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$	533,029	$	1,241,902
Non-controlling interests		(3,159,333)		(108,195)
	$	**(2,626,304)**	**$**	**1,133,707**

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

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

For the year ended		**June 30, 2017**		June 30, 2016
Cash flows from operating activities				
Net loss for the year	$	(791,240)	$	(702,220)
Items not affecting cash:				
Depreciation		23,169		198
Share-based compensation		1,749,041		227,684
Income tax expense (recovery)		274,205		(274,334)
Exploration expense		260,283		337,497
Exploration property write-off		-		102,068
Equity loss from investment in associate (Note 5)		578,845		111,711
Loss on sale of subsidiary		-		6,371
Gain on disposition of investment in associate		-		(977,592)
Gain on sale of shares (Note 4)		(6,557,531)		(29,654)
Change in fair value of investment in warrants (Note 4)		(446,704)		(176,083)
Foreign exchange gain		932		(4,959)
Finance expense		-		12,232
Interest income		(20,200)		(2,726)
Changes in non-cash working capital items:				
Receivables and prepaid expenses		251,588		11,300
Accounts payable, accrued liabilities and other long-term liabilities		311,283		19,551
Interest income received		20,200		2,726
Net cash used in operating activities		(4,346,129)		(1,336,230)
Cash flows from investing activities				
Proceeds from sale of investments, net (Note 4)		13,813,237		1,172,588
Cash used to acquire shares on exercise of warrants		(1,697,700)		-
Investment in associate		(2,075,657)		(49,740)
Redemption of short-term investment		5,780,000		-
Investment in exploration property		(260,283)		(334,706)
Cash received from sale of subsidiary		-		26,219
Cash received on acquisition of subsidiary		541,484		-
Acquisition of property and equipment		(122,135)		-
Acquisition of exploration and evaluation assets		(103,263)		-
Net cash from investing activities		15,875,683		814,361
Cash flows from financing activities				
Cash received from warrants and options exercised, net		50,403		-
Cash used to repurchase common shares		(89,740)		-
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)
Net cash from (used in) financing activities		(39,337)		732,286
Effect of exchange rate changes on cash		-		9,155
Change in cash during the year		**11,490,217**		**219,572**
Cash, beginning of the year		273,186		53,614
Cash, end of the year	**$**	**11,763,403**	**$**	**273,186**

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

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

	Attributable to shareholders of Southern Arc Minerals Inc.							
	Capital Stock	Treasury Stock	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 year	-	-	-	-	(594,025)	(594,025)	(108,195)	(702,220)
Share issued for private placement (net of share issue cost)	990,735	-	-	-	-	990,735	-	990,735
Share-based compensation	-	-	227,684	-	-	227,684	-	227,684
Other comprehensive income	-	-	-	1,835,927	-	1,835,927	-	1,835,927
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**
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 income (loss) for the year	-	-	-	-	2,368,093	2,368,093	(3,159,333)	(791,240)
Common shares repurchased (Note 8)	(89,740)	-	-	-	-	(89,740)	-	(89,740)
Shares issued for share options and warrant exercise	50,403	-	-	-	-	50,403	-	50,403
Share-based compensation	-	-	1,749,041	-	-	1,749,041	-	1,749,041
Other comprehensive income (loss)	-	-	-	(1,835,064)	-	(1,835,064)	-	(1,835,064)
Reduction in investment in subsidiary (Note 3)	-	-		-	3,172,798	3,172,798	4,340,511	7,513,309
Balance, June 30, 2017	**$ 75,842,885**	**$ (1,170,000)**	**$ 13,926,387**	**$ 863**	**$ (73,395,553)**	**$ 15,204,582**	**$ (1,166,924)**	**$ 14,037,658**

The accompanying notes are an integral part of these consolidated 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 Canadian company focused on creating value through project generation and strategic investments in mineral resource companies with a focus on gold and copper-gold. The Company's head office is located at Suite 650 - 669 Howe Street, Vancouver, British Columbia, Canada, V6C 0B4.

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

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

Principles of consolidation

These consolidated financial statements include the accounts of the Company and:

i) its wholly-owned Canadian subsidiary West Indonesia Mining Holdings Inc.;
ii) its wholly-owned Singapore subsidiaries: Indotan Lombok Pte. Ltd. and Southern Sunda Mining Pte. Ltd.
iii) its 90%-owned Indonesian subsidiary PT. Indotan Lombok Barat Bangkit;
iv) its 70%-owned Indonesian subsidiary PT. Selatan Bengkulu Minerals; and
v) its 42.57%-owned Japan subsidiary Japan Gold Corp. and its wholly owned subsidiary Southern Arc Minerals Japan KK

Significant intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated financial statements include estimates which, by their nature, are uncertain. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future conditions and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

Critical accounting estimates

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

i) The 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 non-tradable 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 3) even though it owns less than 50% of ownership interest 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 42.57% of the voting common shares of Japan Gold Corp, holds a majority of the board seats and the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer hold these same positions at Japan Gold. 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 57.43% non-controlling interest. Should de-facto control be lost in the future, the Company would be required to de-consolidate its interest in Japan Gold Corp.

iii) The determination of a subsidiary's functional currency often requires significant judgment 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

Property consists of land and building. Land is carried at cost and building is carried at cost, less accumulated amortization. Amortization on building is calculated using the straight-line method over 5 years.

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Exploration properties

Exploration properties

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

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

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

The recoverability of amounts capitalized as exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete property development, and future profitable production or proceeds from the disposition thereof.

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

Rehabilitation provision

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration properties (continued)

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

The Company does not currently have material rehabilitation requirements.

Foreign currency transactions

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

The assets and liabilities for entities whose functional currency is other than the Canadian dollar are translated at the exchange rate in effect on the balance sheet date and revenues and expenses are translated at the exchange rates prevailing on dates of transactions. Exchange gains and losses resulting from such translation are included in a separate component of shareholders' equity.

Income (Loss) per share

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

Employee benefits

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

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

Share-based payment transactions

The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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

Income taxes

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

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

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

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

Financial instruments

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

<u>Financial assets</u>

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

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

<u>Financial liabilities</u>

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

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

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

Investments in associates

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

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

New accounting standards and pronouncements

The following is an overview of accounting standard change that the Company will be required to adopt in future years. The Company continues to evaluate the impact of these standards on its financial statements.

- IFRS 9 (2014) - Financial Instruments introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2014) also introduces additional changes relating to financial liabilities, amends the impairment model for financial assets and provides a new general hedge accounting standard. The required adoption date for the Company of IFRS 9 is July 1, 2018. The Company continues to evaluate the impact of this standards on the consolidated financial statements.

- IFRS 15 - Revenue from Contracts with Customers contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 will be effective for the Company on July 1, 2018, with early adoption permitted. As the Company does not currently earn revenues, adoption of this standard is not expected to have any impact on the consolidated financial statements.

- IFRS 16 – Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for the Company on July 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company does not expect that adoption of this standard will have a material impact on the consolidated financial statements.

(Expressed in Canadian dollars)

3. ACQUISITION AND REORGANIZATION

Japan Gold Corp.

On September 15, 2016, the Company's then 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. 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 $4,340,511and the gain on the transaction of $3,172,798 has been recognized directly in equity.

As at June 30, 2017, Japan Gold's net assets consisted primarily of cash and cash equivalents of $2,819,043, short term investments of $550,000, and other current assets of $210,375, property, plant and equipment of $121,123, exploration and evaluation assets of $103,263 and current liabilities of $321,550. Japan Gold had no revenues for the period from September 16, 2016 to June 30, 2017 and net loss of Japan Gold for this period was $5,423,412 excluding certain inter-company eliminations.

On June 30, 2017, the fair value of the 23,750,000 shares of Japan Gold is $7,362,500 based on the quoted market price of $0.31 per share.

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. as at June 30, 2017. For purposes of this supplementary information, the Company has provided its investment in Japan Gold and associate at the June 30, 2017 quoted market price.

		Southern Arc
Cash	$	8,944,360
Receivables		71,271
Prepaid expense and other deposits		34,815
Investment in Osisko Mining Inc. (Note 4)		314,342
Investment in associate in Tethyan Resources Plc (at fair value)		2,456,220
Investment in Japan Gold Corp*. (at fair value)		7,362,500
Total assets	**$**	**19,183,508**
Total liabilities	**$**	**(128,884)**
Net assets	**$**	**19,054,624**

*Prior to investment of 12,500,000 units of Japan Gold for $5,000,000 subsequent to June 30, 2017.

(Expressed in Canadian dollars)

4. INVESTMENT

As at June 30, 2017 and 2016, investments consists of the Company's investment in common shares and warrants of Osisko Mining Inc. ("Osisko") as follows:

2017	**Number of securities**	**Fair market value**	
Osisko common shares	9,825	$	40,283
Osisko tradeable warrants	60,000		4,200
Osisko non-tradeable warrants	800,000		269,859
Balance, June 30, 2017		**$**	**314,342**

2016	**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**

The Company acquired its interest in Osisko on August 25, 2015 upon the merger of Eagle Hill Exploration Corporation, Osisko Mining Inc., Ryan Gold Corp. ("Ryan") and Corona Gold Corporation ("Corona"). The Company previously held a 26.25% equity interest in Eagle Hill. Under the terms of the transaction (the "Transaction"), Osisko acquired all of the common shares of each of Eagle Hill, Ryan and Corona, with Eagle Hill shareholders receiving 0.5 common shares of Osisko (post 20:1 Osisko share consolidation) and five common share purchase warrants for each Eagle Hill share held. The Company exchanged its 6,258,639 Eagle Hill common shares for a total of 3,129,319 Osisko common shares along with 31,293,195 Osisko warrants exercisable into 1,564,660 Osisko common shares at $3.00 per share for a period of three years. The Osisko warrants received are publicly listed. The Company also exchanged 3,817,290 Eagle Hill share purchase warrants for Osisko warrants which can be exercised into 1,908,644 Osisko common shares at a weighted average exercise price of $3.79 for a weighted average period of 1.66 years. These warrants are not publically listed.

A summary of the fair value of the consideration received and the gain realized on the Transaction is as follows:

Fair value of Osisko shares received	$	4,381,047
Fair value of Osisko warrants received		1,124,982
Fair value of Osisko warrants exchanged for Eagle Hill warrants		835,745
Fair value of consideration received		6,341,774
Carrying value of investment in associates at August 25, 2015		(5,364,182)
Gain on investment	$	977,592

The fair value of the Osisko shares received on exchange of Eagle Hill shares and Osisko warrants received on exchange for Eagle Hill shares was determined using the market trading price of $1.40 and $0.04 of these instruments, respectively. The fair value of the Osisko warrants received on exchange for Eagle Hill warrants of $0.44 per warrant was determined using a Black Scholes option pricing model with the following assumptions: market price of common shares of $1.40; risk free interest rate of 1.50%, expected life of between 0.62 and 1.97 years and volatility ranging between 112% to 126%.

As at June 30, 2017, the Company holds 9,825 common shares of Osisko Mining Inc. and 60,000 Osisko tradable warrants exercisable into 3,000 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 800,000 Osisko common shares at $4.00 per share with an expiry date of August 14, 2017. Subsequent to June 30, 2017, the Company exercised these warrants.

(Expressed in Canadian dollars)

4. INVESTMENT (continued)

The fair value of the Osisko common shares and tradeable warrants was based on the closing trading price of $4.10 and $0.07, respectively, on June 30, 2017. 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 $4.10, risk free interest rate of 0.45%, expected life of 0.12 years and volatility of 50.02%.

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 year ended June 30, 2017, the Company exercised 100,000 tradable Osisko warrants to acquire 5,000 Osisko common shares for total cost of $15,000. The Company also exercised 420,675 non-tradable Osisko warrants to acquire 420,675 Osisko Common shares for total cost of $1,682,700. During the year ended June 30, 2017, the Company sold 2,915,850 shares in Osisko for net proceeds of $11,766,290 resulting in a gain of $6,557,531. The Company also sold 24,822,000 Osisko warrants for net proceeds of $2,046,947. During the prior year ended June 30, 2016, the Company sold 654,320 shares of Osisko 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.

The Company recorded an unrealized gain of $4,567,886 in accumulated other comprehensive income as at June 30, 2017 (2016 – gain of $1,835,927) related to the shares of Osisko and recognized a gain on sale of common shares of $6,557,531 in net loss, net of commissions of $119,624. Net income tax expense related to available for sale securities totalled $274,205 (2016 – recovery of 274,334). The Company also recorded $446,704 in net loss for the year ended June 30, 2017 (2016 - $176,083) related to the change in fair value of Osisko warrants.

5. INVESTMENT IN ASSOCIATE

During the year ended June 30, 2017, the Company acquired a total of 50,298,410 common shares of Tethyan Resources PLC ("Tethyan"), which represents 29.9% of Tethyan's issued share capital, at an average price of $0.0413 per share for a total investment in associate of $2,075,657. Tethyan is an AIM and TSX Venture quoted junior exploration company with a focus on exploring for copper and gold within the Western Tethyan Orogenic Belt in Serbia. The Company has a first right of refusal on any further fundraisings undertaken by Tethyan for a period of two years to enable the Company to maintain its interest at 29.9%.

		June 30, 2017
Balance - beginning of the year	$	-
Acquisition of investment		2,075,657
Share of loss for the period		(578,845)
Balance - end of the year (quoted market value - $2,456,220)	$	1,496,812

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 June 30, 2017 is $2,456,220 based on the publicly traded closing share price of $0.0488 per share, which is greater than the carrying value. As a result, no write-down is required as at June 30, 2017.

6. EXPLORATION AND EVALUATION ASSETS

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 year ended June 30, 2017, the Company incurred an additional $242,305 (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 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 calendar 2016, Southern Arc applied for a further one year suspension until January 2018, the response from Indonesian Department of Mines on this second suspension is pending.

East Elang property

The East Elang property washeld 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 the year ended June 30, 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.

Japan Gold Corp.

During the year ended June 30, 2017 the Company's subsidiary Japan Gold obtained 31 exploration licenses related to its interests in Japan. These licenses provide the Company with the right to explore the areas of interest covered by these licenses. During the year ended June 30, 2017, the Company capitalized a total of $103,263 relating to exploration rights, consisting of $23,588 related of travel expenses, $62,373 in consulting fees and $17,302 in other administrative costs.

(Expressed in Canadian dollars)

7. PROPERTY AND EQUIPMENT

Cost	**Office furniture and equipment**	**Leasehold Improvements**	**Land and buildings**	**Total**
At June 30, 2016	$ -	$ -	$ -	$ -
Acquired as part of Japan Gold Acquisition	-	-	61,607	61,607
Purchases	26,716	16,461	78,958	122,135
At June 30, 2017	$ 26,716	$ 16,461	$ 140,565	$ 183,742
Accumulated depreciation				
At June 30, 2016	$ -	$ -	$ -	$ -
Depreciation	1,669	2,058	19,442	23,169
At June 30, 2017	$ 1,669	$ 2,058	$ 19,442	$ 23,169
Total carrying value, June 30, 2016	**$ -**	**$ -**	**$ -**	**$ -**
Total carrying value, June 30, 2017	**$ 25,047**	**$ 14,403**	**$ 121,123**	**$ 160,573**

.

(Expressed in Canadian dollars)

8. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at June 30, 2017, 15,104,616 (2016 - 15,081,116) are issued of which 14,974,616 (2016 – 14,958,116) are outstanding and 130,000 (2016 – 130,000) are in treasury.

On April 19, 2017, the TSX Venture Exchange accepted the Company's Normal Course Issuer Bid to allow the Company to repurchase up to 761,280 of its common shares for a period up to April 23, 2018. During the year ended June 30, 2017, the Company repurchased 141,000 of its own shares for total cost of $89,740. As these shares were cancelled and are no longer outstanding, the cost to repurchase these shares are offset against share capital within shareholders' equity.

On January 26, 2016, the Company closed a private placement and issued 4,166,667 units (the "Units") at a price of $0.24 per Unit for gross proceeds of $1,000,000. Each Unit consisted of one common share and one non-transferrable share purchase warrant. 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. Of these units, 500,000 were issued to the Company's Chief Executive Officer and 1,335,000 to the Company's Chief Operating Officer.

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 4.16 years)	959,000	$ 0.32
Exercised	(57,500)	0.32
Expired	(12,500)	0.32
Outstanding at June 30, 2017 (remaining average contractual life is 3.41 years)	889,000	$ 0.32
Number of options exercisable at June 30, 2017	889,000	$ 0.32

(Expressed in Canadian dollars)

8. SHAREHOLDERS' EQUITY

Share options (continued)

On November 27, 2015, the Company granted 959,000 stock options to directors, officers, employees and consultant with an exercise price of $0.32 exercisable until November 26, 2020. Of the options granted, 25% vested immediately with the remainder vesting 25% every six months thereafter. The following weighted average assumptions were used for the Black-Scholes valuation of share options granted during the year ended June 30, 2016:

		June 30, 2016
Risk-free interest rate		0.70%
Expected life of options (in years)		1.00 - 2.50
Annualized volatility		172.00%
Share price	$	0.32
Fair value of options granted	$	0.30
Forfeiture rate		-
Dividend rate		-

During the year ended June 30, 2017, the Company recorded share-based compensation totaling $1,749,041 (June 30, 2016: $227,684). Of this amount, $221,456 was a result of the vesting of options previously granted by the Company. The remaining $1,527,585 was a result of the immediate vesting of options granted by the Company's subsidiary, Japan Gold. Share-based compensation relating to Japan Gold relates to the issuance of 4,999,950 stock options with an exercise price of $0.40 with expiry dates ranging from September 15, 2026 to October 28, 2026. In calculating the fair value of the Japan Gold stock options, a risk free interest rate of 0.56% and an annualized volatility of 75% were applied. These options have an expected life of ten years and the share price of Japan Gold on the grant date was $0.40.

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 year ended June 30, 2017, 100,000 of these warrants were exercised into 100,000 common shares of the Company for $32,000. As at June 30, 2017, 4,066,667 warrants remain outstanding.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS

Key management and personnel compensation

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

		June 30, 2017		June 30, 2016
Management fees	$	574,000	$	276,000
Finance expense		-		12,233
Share-based compensation		1,140,956		180,147

During the year ended June 30, 2017, the Company and Japan Gold paid $574,000 (June 30, 2016: $276,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Out of this amount, $266,000 relates to management fees incurred by Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

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.

10. OFFICE AND MISCELLANEOUS EXPENSES

	June 30, 2017		June 30, 2016
Administrative	143,927	$	15,061
Office expenses	280,951		38,285
Insurance	74,910		61,436
Interest and bank charges	7,964		-
Telephone	4,264		8,416
Meals and entertainment	1,239		1,228
	513,255	$	124,426

(Expressed in Canadian dollars)

11. INCOME TAXES

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

		2017		2016
Loss for the year, before income taxes	$	(517,035)	$	(976,554)
Expected income tax recovery	$	(134,429)	$	(253,904)
Items not deductible for income tax purposes		(265,921)		223,909
Effect of change in tax rate		-		(5,825)
Effect of tax rates in other jurisdictions		5,624		15,755
Tax benefits unrecognized (recognized)		668,931		(254,269)
Total income taxes	$	274,205	$	(274,334)

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

		2017		2016
Deferred income tax assets:				
Non-capital loss carry forwards	$	28,292,599	$	30,812,329
Capital loss carry forwards		-		2,662,043
Share issuance costs		5,559		7,412
Cumulative exploration expenses		25,671,786		28,537,468
Property and equipment		26,278		26,155
Long-term investment		6,014,185		2,949,264
		60,010,407		64,994,671

During the years ended June 30, 2016 and 2015, the Company recognized the following income tax assets (liabilities):

		2017		2016
Investments		(128)		(274,334)
Capital loss carryforward		128		274,334
	$	-	$	-

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

2028	$	286,330
2029		166,443
2030		928,799
2031		3,727,510
2032		3,865,126
2033		3,216,620
2034		3,430,188
2035		2,237,044
2036		3,095,174
2037		491,543
	$	21,444,777

The Company also has $4,625,027 and $2,222,795 in losses accumulated in Indonesia and Japan, respectively, which expire at various dates to 2025. In addition, the Company has $7,185,389 and $18,486,397 of unclaimed resource expenses for Canadian and Indonesian income tax purposes, respectively, that can be carried forward indefinitely and used to reduce taxable income.

(Expressed in Canadian dollars)

12. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment focused on the acquisition and exploration of resource properties. The Company's assets and liabilities by geographic areas as at June 30, 2017 and 2016 are as follows:

As at June 30, 2017	Indonesia	Japan	Canada	Total
Current assets	$ 6,396	$ 3,952,392	$ 8,684,009	$ 12,642,797
Investments	-	-	314,342	314,342
Investment in associate	-	-	1,496,812	1,496,812
Property, plant and equipment	-	39,450	121,123	160,573
Exploration and evaluation assets	-	103,263	-	103,263
Total liabilities	(296,578)	(321,550)	(62,001)	(680,129)
	$ (290,182)	$ 3,773,555	$ 10,554,285	$ 14,037,658

As at June 30, 2016	Indonesia	Japan	Canada	Total
Current assets	$ 10,972	$ 8,270	$ 274,256	$ 293,498
Investments	-	-	7,534,915	7,534,915
Total liabilities	(300,247)	(46,104)	(41,113)	(387,464)
	$ (289,275)	$ (37,834)	$ 7,768,058	$ 7,440,949

For the year ended June 30,	2017	2016
Net income for the year – Canada	$ 2,478,086	$ 378,456
Net loss for the year – Japan	(1,344,252)	(465,628)
Net income (loss) for the year – Singapore	115,561	(149,235)
Net loss for the year – Indonesia	(458,155)	(465,813)
Net loss for the year	$ (791,240)	$ (702,220)

13. COMMITMENTS

During the year ended June 30, 2017, the Company entered into a lease agreement for office space in Vancouver for two years, which will give rise to an annual rent expense of approximately $206,000.

14. 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 $402 and a 1% change in the market price of the warrants would change the fair value by approximately $42.

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 June 30, 2017, the Company had US$80,045 (approximately CDN$103,875) and Yen 232,867,471 (approximately CDN$2,691,948) in cash, and US$51,540 (approximately CDN$66,883) and Yen 15,590,422 (approximately CDN$180,225) in accounts payable and accrued liabilities. As at June 30, 2017, US$1 amounts were converted at a rate of US$0.7705 to CDN$1 and Yen amounts were converted at a rate of 0.01156 to CDN$1. A 1% change (plus or minus) in Canadian dollar relative to US dollar would result in a change in net income by approximately $800 and a 1% change in Canadian dollar relative to Yen would result in a change in net income by approximately $26,000.

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 and short term investments 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.

15. SUBSEQUENT EVENTS

On August 9, 2017, the Company completed a financing with Japan Gold Corp. where it acquired 12,500,000 units of Japan Gold at a price of $0.40 for total proceeds of $5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of Japan Gold. Each warrant is exercisable into one additional common share of Japan Gold at a price of $0.40 per share for a period of 5 years. The units issued under the private placement will be subject to a four month hold period expiring on December 9, 2017. The Company now owns 53.06% of Japan Gold's issued and outstanding common shares.

On September 5, 2017, the Company announced that it has entered into a binding term sheet with PT Ancora Indonesia Resources, Tbk ("PT AIR"), an Indonesian public company listed on the Jakarta Stock Exchange to which PT AIR will acquire all of the issued and outstanding shares of Southern Arc's subsidiary, Indotan Lombok Pte Ltd. Indotan Lombok Pte Ltd owns 90% of Indonesian company PT Indotan Lombok Barat Bangkit which holds an IUP on the West Lombok Property (the "Property") located on Lombok Island in Indonesia. In consideration for the acquisition, PT AIR will pay the Company US$2,000,000 and will grant the Company a 3% net smelter return royalty on any production from the Property. PT AIR may buy back this royalty at any time for US$2,000,000. The completion of the acquisition is subject to a number of conditions precedent including due diligence, assignment of the existing royalty agreement and finalizing any terms and agreements with the Company.

Subsequent to June 30, 2017, the Company sold its remaining investment in Osisko for a net gain of $420,128.

Subsequent to June 30, 2017, the Company repurchased 416,500 of its own common shares for a total cost of $301,480.