Southern Arc
MINERALS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2017 AND 2016

(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, 2017, 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, 2017		June 30, 2017
Assets				
Current				
Cash	$	3,760,142	$	11,763,403
Short-term investments (Note 3)		2,700,000		550,000
Receivables		50,798		153,998
Loan receivable (Note 5)		402,943		-
Inventory (Note 7)		855,716		-
Prepaid expenses and other deposits		139,237		175,396
		7,908,836		12,642,797
Investments (Note 4)		3,569,728		314,342
Investment in associate (Note 5)		1,181,561		1,496,812
Deposits		14,243		-
Exploration and evaluation assets (Note 6)		2,163,804		103,263
Property and equipment (Note 7)		824,870		160,573
Total assets	**$**	**15,663,042**	**$**	**14,717,787**
Liabilities				
Current				
Accounts payable and accrued liabilities	$	668,803	$	450,434
Other long-term liabilities		-		229,695
Total liabilities		668,803		680,129
Shareholders' equity				
Capital stock (Note 8)		75,459,393		75,842,885
Treasury stock (Note 8)		(1,170,000)		(1,170,000)
Equity reserve (Note 3 and 8)		13,926,387		13,926,387
Accumulated other comprehensive income (Note 4)		887,739		863
Deficit		(72,113,439)		(73,395,553)
Equity attributable to shareholders		16,990,080		15,204,582
Non-controlling interest		(1,995,841)		(1,166,924)
Total shareholders' equity		14,994,239		14,037,658
Total liabilities and shareholders' equity	**$**	**15,663,042**	**$**	**14,717,787**

Nature of operations and going concern (Note 1)
Subsequent events (Note 13)

Approved by the Board of Directors and authorized for issuance on February 28, 2018:

On behalf of the Board of Directors

"John 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, 2017	Three months ended December 31, 2016	**Six months ended December 31, 2017**	Six months ended December 31, 2016
Expenses				
Depreciation	$ 5,793	$ -	$ 18,482	$ -
Consulting	365,384	392,796	822,136	579,137
Office and miscellaneous (Note 10)	103,408	117,841	260,332	221,262
Share-based compensation (Note 8 and 9)	-	61,610	-	2,143,341
Management fees (Note 9)	153,000	219,000	306,000	380,000
Exploration expenses (Note 6)	58,038	44,094	240,886	118,160
Foreign exchange loss (gain)	17,951	(94,184)	26,817	(86,589)
Investor relations	46,159	96,898	92,657	482,360
Professional fees	58,199	127,771	107,539	255,541
Rent	62,344	12,000	128,539	22,000
Salaries and benefits	13,993	45,834	59,484	90,664
Transfer agent and filing fees	10,264	20,421	51,253	71,148
Travel	83,759	379,816	222,988	488,913
Loss before other items	**(978,292)**	**(1,423,897)**	**(2,337,113)**	**(4,765,937)**
Other income (expense)				
Interest and other income	7,018	1,425	11,446	2,432
Gain on sale of shares (Note 4)	-	655,066	403,397	914,756
Equity loss from investment in associate (Note 5)	(133,372)	-	(315,251)	-
Change in fair value of investment in warrants (Note 4)	-	(856,839)	(269,356)	(740,284)
Gain on sale of subsidiary (Note 4)	2,827,405	-	2,827,405	-
	2,701,051	(200,348)	2,657,641	176,904
Net income (loss) before income taxes	**$ 1,722,759**	**$ (1,624,245)**	**$ 320,528**	**$ (4,589,033)**
Income tax recovery (expense)	132,789	(292,354)	132,669	(32,354)
Net income (loss) for the period	**$ 1,855,548**	**$ (1,916,599)**	**$ 453,197**	**$ (4,621,387)**
Net income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ 2,177,840	$ (1,230,491)	$ 1,282,114	$ (2,332,556)
Non-controlling interests	(322,292)	(686,108)	(828,917)	(2,288,831)
	$ 1,855,548	**$ (1,916,599)**	**$ 453,197**	**$ (4,621,387)**
Basic income (loss) per share	$ 0.15	$ (0.13)	$ 0.09	$ (0.13)
Diluted income (loss) per share	$ 0.11	$ (0.13)	$ 0.06	$ (0.13)
Weighted average shares outstanding	14,676,018	15,058,116	14,815,418	15,031,551
Diluted weighted average shares outstanding	19,631,685	15,058,116	19,771,085	15,031,551

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

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

For the three months ended	**Three months ended December 31, 2017**	Three months ended December 31, 2016	**Six months ended December 31, 2017**	Six months ended December 31, 2016
Net income (loss) for the period	$ 1,855,548	$ (1,916,599)	$ 453,197	$ (4,621,387)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments	1,020,528	(2,253,000)	616,148	(253,000)
Gain (loss) on available-for-sale investments classified to net loss	-	(292,354)	403,397	-
Net income tax expense (recovery) related to available for sale investments	(132,789)	-	(132,669)	32,354
	887,739	(2,545,354)	886,876	(220,646)
Total comprehensive loss for the period	**$ 2,743,287**	**$ (4,461,953)**	**$ 1,340,073**	**$ (4,842,033)**
Comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ 3,065,579	$ (3,775,845)	$ 2,168,990	$ (2,553,202)
Non-controlling interests	(322,292)	(686,108)	(828,917)	(2,288,831)
	$ 2,743,287	**$ (4,461,953)**	**$ 1,340,073**	**$ (4,842,033)**

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, 2017**	December 31, 2016
Cash flows from operating activities		
Net loss for the period	$ 453,197	$ (4,621,387)
Items not affecting cash:		
Depreciation	18,482	-
Share-based compensation	-	2,143,341
Income tax expense (recovery)	(132,669)	32,354
Exploration expense	240,886	-
Equity loss from investment in associate (Note 5)	315,251	-
Gain on sale of shares (Note 4)	(403,397)	(914,756)
Change in fair value of investment in warrants (Note 4)	269,356	740,284
Gain on sale of subsidiary (Note 4)	(2,827,405)	-
Foreign exchange loss	-	8,897
Interest income	(14,389)	-
Changes in non-cash working capital items:		
Receivables and prepaid expenses	125,117	308,672
Inventory	(855,716)	-
Accounts payable, accrued liabilities and other long-term liabilities	266,878	133,288
Interest income received	11,446	-
Net cash used in operating activities	(2,532,963)	(2,169,307)
Cash flows from investing activities		
Proceeds from sale of investments, net (Note 4)	3,647,400	1,894,755
Loan receivable	(400,000)	-
Acquisition of equity investment	-	(1,571,543)
Cash used to acquire investments (Note 4)	(5,749,073)	-
Redemption of short-term investment	2,400,000	1,112,750
Purchase of short-term investment	(4,550,000)	-
Investment in exploration property	(240,886)	-
Cash received on acquisition of subsidiary	2,549,073	541,484
Acquisition of property and equipment	(682,779)	(9,542)
Acquisition of exploration and evaluation assets	(2,060,541)	-
Net cash from investing activities	(5,086,806)	1,967,904
Cash flows from financing activities		
Cash received from warrants and options exercised, net	-	32,000
Cash used to repurchase common shares	(383,492)	-
Net cash from (used in) financing activities	(383,492)	32,000
Change in cash during the period	**(8,003,261)**	**(169,403)**
Cash, beginning of the period	11,763,403	273,186
Cash, end of the period	**$ 3,760,142**	**$ 103,783**

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, 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)
Share 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**
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**
Net income (loss) for the period	-	-	-	-	1,282,114	1,282,114	(828,917)	453,197
Common shares repurchased (Note 8)	(383,492)	-	-	-	-	(383,492)	-	(383,492)
Other comprehensive loss	-	-	-	886,876	-	886,876	-	886,876
Balance, December 31, 2017	**$ 75,459,393**	**$ (1,170,000)**	**$ 13,926,387**	**$ 887,739**	**$ (72,113,439)**	**$ 16,990,080**	**$ (1,995,841)**	**$ 14,994,239**

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 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 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, 2017, 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 28, 2018.

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 subsidiary: Southern Sunda Mining Pte. Ltd.;
iii) its 70%-owned Indonesian subsidiary PT. Selatan Bengkulu Minerals; and
iv) its 53.06%-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 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 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 owned less than 50% of ownership interest requires significant judgement and consideration of 'de-facto' control as at the date of acquisition. 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 53.06% 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 46.94% 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)

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.

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.

On August 9, 2017, the Company completed a financing with Japan Gold 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.

As at December 31, 2017, Japan Gold's net assets consisted primarily of cash and cash equivalents of $682,217, short term investments of $2,700,000, and other assets of $111,987, property, plant and equipment of $783,833, exploration and evaluation assets of $2,163,804 and current liabilities of $577,633. Japan Gold had no revenues for the period from July 1, 2017 to December 31, 2017 and net loss of Japan Gold for this period was $1,766,038 excluding certain inter-company eliminations.

On December 31, 2017, the fair value of the 36,250,000 shares of Japan Gold is $11,600,000 based on the quoted market price of $0.32 per share.

(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. as at December 31, 2017. For purposes of this supplementary information, the Company has provided its investment in Japan Gold and Tethyan Resources Plc at the December 31, 2017 quoted market price.

		Southern Arc
Cash	$	3,077,925
Receivables		24,895
Loan receivable		402,942
Prepaid expense and other deposits		53,151
Investment in PT Ancora Indonesia Resources Tbk.		3,569,728
Investment in associate in Tethyan Resources Plc (at fair value)		2,431,090
Investment in Japan Gold Corp. (at fair value)		11,600,000
Total assets	**$**	**21,159,731**
Total liabilities	**$**	**(91,169)**
Net assets	**$**	**21,068,562**

(Unaudited - Expressed in Canadian dollars)

4. INVESTMENTS

As at December 31, 2017 and June 30, 2017, investments consists of the Company's investment in common shares and warrants of Osisko Mining Inc. ("Osisko") as follows:

	Number of securities	Fair market value	
Osisko common shares	-	$	-
Osisko tradeable warrants	-		-
Osisko non-tradeable warrants	-		-
Balance, December 31, 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**

The Company classified its investment in 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, 2017, the Company sold 60,000 tradable Osisko warrants for net proceeds of $4,704. The Company also exercised 800,000 non-tradable Osisko warrants to acquire 800,000 Osisko Common shares for total cost of $3,200,000. During the period ended December 31, 2017, the Company sold 809,825 shares in Osisko for net proceeds of $3,642,696 resulting in a net gain of $403,397. During the period ended December 31, 2016, the Company also sold 4,244,000 Osisko tradable warrants for net proceeds of $276,699.

The Company recorded an unrealized gain of $404,380 in accumulated other comprehensive income as at December 31, 2017 (December 31, 2016 – $Nil) related to the shares of Osisko and recognized a gain on sale of common shares of $403,397 in net loss, net of commissions of $27,470. Net income tax expense related to available for sale securities totalled $120 (2016 – $32,354). The Company also recorded $269,356 in net loss for the period ended December 31, 2017 (2016 - $Nil) related to the change in fair value of Osisko non-tradable warrants.

On December 12, 2017, the Company completed the sale of the West Lombok Property (the "Property") to PT Ancora Indonesia Resources, Tbk ("PT Ancora"), in consideration for a cash payment of US$2,000,000 and a granting of a 3% Net Smelter Return royalty. PT Ancora, an Indonesian company listed on the Indonesia Stock Exchange (OKAS: IJ), acquired all of the issued and outstanding shares of the Company's Singaporean subsidiary Indotan Lombok Pte Ltd ("IL"). IL owns 90% of PT Indotan Lombok Barat Bangkit, an Indonesian company, which holds the West Lombok exploration permit ("IUP"). Under the terms of the agreement, PT Ancora has the right to buy back the NSR from the Company at any time by paying an additional US$2,000,000. The Company has used the cash proceeds from the sale (US$2,000,000 or $2,549,200) to acquire 100 million shares of PT Ancora (5.66% of PT Ancora's issued and outstanding) from third parties in a private transaction. As at December 31, 2017, these shares had a fair market value of $3,569,728 resulting in a fair value change of $1,020,528 recorded in other comprehensive income.

The Company recognized a gain of $2,827,405 as a result of this transaction calculated as follows:

Consideration received (US$2,000,000)	$	2,549,200
Cash		8,245
Current liabilities		(33,152)
Long-term liabilities		(238,896)
Foreign currency translation adjustment		(14,402)
Gain on investment	$	2,827,405

(Unaudited - Expressed in Canadian dollars)

5. INVESTMENT IN ASSOCIATE

During the period ended December 31, 2017, the Company holds a total of 8,383,068 common shares of Tethyan Resources PLC ("Tethyan"), which represents 29.9% of Tethyan's issued share capital, at an average price of $0.2476 per share for a total investment in associate of $2,075,657. Tethyan is a 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%.

		December 31, 2017
Balance - July 1, 2016	$	-
Acquisition of investment		2,075,657
Share of loss for the year		(578,845)
Balance - June 30, 2017	$	1,496,812
Share of loss for the period		(315,251)
Balance - December 31, 2017 (quoted market value - $2,431,090)	$	1,181,561

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, 2017 is $2,431,090 based on the publicly traded closing share price of $0.29 per share, which is greater than its carrying value.

During the period ended December 31, 2017, the Company advanced $400,000 to Tethyan which earns interest at LIBOR plus 4% per annum. As at December 31, 2017, there was $2,943 of interest income recorded on this advance.

(Unaudited - Expressed in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS

Japan Gold Corp.

As at December 31, 2017, the Company's subsidiary Japan Gold obtained 32 prospecting rights related to its interests in Japan. These licenses provide the Company with the right to explore the areas of interest covered by these licenses. Japan Gold's project portfolio also consists of 178 prospecting rights license applications for a combined area of 69,905 hectares over 17 separate projects on the three main islands of Japan. During the period ended December 31, 2017, the Company capitalized a total of $2,163,804 relating to exploration rights.

	Ikutahara project	Eboshi project	Total
Opening, July 1, 2016	$ -	$ -	$ -
Consulting	62,373	-	62,373
Travel	13,733	9,855	23,588
Other	10,004	10,156	20,160
Foreign currency translation adjustment	(2,307)	(552)	(2,859)
Balance, June 30, 2017	**$ 83,803**	**$ 19,459**	**$ 103,262**
Consulting	774,232	20,698	794,930
Depreciation	162,320	-	162,320
Drilling	617,357	-	617,357
Geochemistry	40,761	8,331	49,092
Geophysics	7,947	1,449	9,396
Insurance	10,666	-	10,666
Travel	79,947	1,933	81,880
Field supplies	273,920	920	274,840
Foreign currency translation adjustment	50,741	9,320	60,061
Balance, December 31, 2017	**$ 2,101,694**	**$ 62,110**	**$ 2,163,804**

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, 2017, the Company incurred an additional $65,576 (December 31, 2016: $118,160) of exploration costs relating to the West Lombok property.

On December 12, 2017, the Company completed the sale of the West Lombok Property to PT Ancora in consideration for a cash payment of US$2,000,000 and a granting of a 3% Net Smelter Return royalty. PT Ancora, an Indonesian company listed on the Indonesia Stock Exchange (OKAS: IJ), acquired all of the issued and outstanding shares of the Company's Singaporean subsidiary Indotan Lombok Pte Ltd ("IL"). IL owns 90% of PT Indotan Lombok Barat Bangkit, an Indonesian company, which holds the IUP. Under the terms of the agreement, PT Ancora has the right to buy back the NSR from the Company at any time by paying an additional US$2,000,000 million. The Company has used the cash proceeds from the sale (US$2,000,000 or $2,549,200) to acquire 100 million shares of PT Ancora (5.66% of PT Ancora's issued and outstanding) from third parties in a private transaction. As at December 31, 2017, these shares had a fair market value of $3,569,728 resulting in a fair value change of $1,020,528 recorded in other comprehensive income.

(Unaudited - Expressed in Canadian dollars)

7. PROPERTY AND EQUIPMENT

Cost	**Equipment**	**Office furniture**	**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
Purchases (disposal)	832,880	(980)	13,199	-	845,099
At December 31, 2017	$ 832,880	$ 25,736	$ 29,660	$ 140,565	$ 1,028,841
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
Depreciation capitalized in exploration and evaluation assets	162,320	-	-	-	162,320
Depreciation	-	3,218	7,414	7,850	18,482
At December 31, 2017	$ 162,320	$ 4,887	$ 9,472	$ 27,292	$ 203,971
Total carrying value, June 30, 2017	**$ -**	**$ 25,047**	**$ 14,403**	**$ 121,123**	**$ 160,573**
Total carrying value, December 31, 2017	**$ 670,560**	**$ 20,849**	**$ 20,188**	**$ 113,273**	**$ 824,870**

During the period ended December 31, 2017, the Company's subsidiary, Japan Gold, purchased from PT. Promincon Indonesia ("PMC") three compact portable diamond core drill rigs, other equipment and consumables for a total of $US1,224,702 ($1,584,465). Out of this amount $855,716 was classified as inventory and $728,749 was recorded as property, plant and equipment. PMC manufactures a range of portable diamond core drill rigs and is an established diamond core drilling contracting company incorporated in Indonesia. A director and officer of Japan Gold and the Company has a controlling interest in PMC. As at December 31, 2017, accounts payable included $Nil payable to the related entity.

(Unaudited - 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 December 31, 2017, 14,556,616 (December 31, 2016 – 15,188,116) are issued of which 14,426,616 (December 31, 2016 – 15,058,116) are outstanding and 130,000 December 31, 2017 (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 period ended December 31, 2017, the Company repurchased 548,000 of its own shares for total cost of $383,492 (June 30, 2017 - 141,000 shares repurchased for $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 and December 31, 2017 (remaining average contractual life is 2.91 years)	889,000	$	0.32
Number of options exercisable at December 31, 2017	889,000	$	0.32

(Unaudited - Expressed in Canadian dollars)

8. SHAREHOLDERS' EQUITY (continued)

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 period ended December 31, 2017, the Company recorded share-based compensation totaling $Nil (December 31, 2016: $2,143,341). Prior period share-based compensation relates to Japan Gold where it issued 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 period ended September 30, 2017, 100,000 of these warrants were exercised into 100,000 common shares of the Company for $32,000. As at December 31, 2017, 4,066,667 warrants remain outstanding.

(Unaudited - 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:

	Three months ended December 31, 2017	Three months ended December 31, 2016	Six months ended December 31, 2017	Six months ended December 31, 2016
Management fees	$ 153,000	$ 279,000	$ 306,000	$ 380,000
Share-based compensation	-	25,508	-	1,439,467

During the period ended December 31, 2017, the Company and Japan Gold paid $306,000 (December 31, 2016: $138,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Out of this amount, $168,000 relates to management fees incurred by Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

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

10. OFFICE AND MISCELLANEOUS EXPENSES

	Three months ended December 31, 2017	Three months ended December 31, 2016	Six months ended December 31, 2017	Six months ended December 31, 2016
Administrative	$ -	$ 71,127	$ 3,654	$ 85,021
Office expenses	80,913	23,533	206,656	5,696
Insurance	19,788	17,950	45,820	9,493
Interest and bank charges	2,100	3,568	2,764	1,332
Telephone	607	685	1,438	1,879
	$ 103,408	$ 116,863	$ 260,332	$ 103,421

11. COMMITMENTS

During the previous 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.

12. 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 Japan and Indonesia. The Company could accordingly be at risk for foreign currency fluctuations.

At December 31, 2017, the Company had US$44,834 (approximately $56,244) and Yen 52,227,256 (approximately $581,812) in cash, and US $Nil (approximately: $Nil) and Yen 46,051,672 (approximately $513,016) in accounts payable and accrued liabilities. As at December 31, 2017, US$1 amounts were converted at a rate of US$0.7971 to $1 and Yen amounts were converted at a rate of 0.01114 to $1. A 1% change (plus or minus) in Canadian dollar relative to US dollar would result in a change in net loss by approximately $562 and a 1% change in Canadian dollar relative to Yen would result in a change in net loss by approximately $5,130.

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 were recognized at fair value using the quoted market price of these instruments. Accordingly, these are classified as level 1. The Osisko non-tradeable warrants were 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.

13. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company repurchased 37,000 of its own common shares for a total cost of $21,860.