Southern Arc
MINERALS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
MARCH 31, 2017 AND 2016

(Unaudited - Expressed in Canadian dollars)

NOTICE TO READER
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. (the "Company") for the three and nine months ended March 31, 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		**March 31, 2017**		June 30, 2016
Assets				
Current				
Cash	$	8,331,201	$	273,186
Short-term investments (Note 3)		750,000		-
Receivables		94,591		7,275
Prepaid expenses and other deposits		186,286		13,037
		9,362,078		293,498
Investments (Note 4)		5,729,474		7,534,915
Investment in associate (Note 5)		1,873,323		-
Property, plant and equipment		98,380		-
Total assets	**$**	**17,063,255**	**$**	**7,828,413**
Liabilities				
Current				
Accounts payable and accrued liabilities	$	249,977	$	158,700
		249,977		158,700
Other long-term liabilities		235,590		228,764
Total liabilities		485,567		387,464
Shareholders' equity				
Capital stock (Note 7)		75,926,222		75,882,222
Treasury stock (Note 7)		(1,170,000)		(1,170,000)
Equity reserve (Note 3 and 7)		13,834,278		12,177,346
Accumulated other comprehensive income (Note 4)		2,148,257		1,835,927
Deficit		(73,722,641)		(78,936,444)
Equity attributable to shareholders		17,016,116		9,789,051
Non-controlling interest		(438,428)		(2,348,102)
Total shareholders' equity		16,577,688		7,440,949
Total liabilities and shareholders' equity	**$**	**17,063,255**	**$**	**7,828,413**

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

Approved by the Board of Directors and authorized for issuance on May 25, 2017:

On behalf of the Board of Directors

"John G. Proust" Director *"Morris Klid"* Director

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

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

	Three months ended March 31, 2017	Three months ended March 31, 2016	**Nine months ended March 31, 2017**	Nine months ended March 31, 2016
Expenses				
Depreciation	$ 6,259	$ -	$ 6,259	$ 197
Consulting	439,340	82,497	1,018,477	275,609
Office and miscellaneous (Note 9)	122,973	35,068	344,235	140,044
Marketing	74,236	-	536,425	-
Share-based compensation (Note 7 and 8)	(486,409)	66,247	1,656,932	185,344
Management fees (Note 8)	195,000	105,000	575,000	315,000
Exploration expenses (Note 6)	46,064	91,285	164,224	185,285
Foreign exchange loss (gain)	64,868	7,601	(21,721)	45,277
Investor relations	2,774	3,211	22,945	14,349
Professional fees	14,901	27,682	270,442	79,282
Rent	4,000	9,000	26,000	27,000
Salaries and benefits	45,824	46,903	136,488	138,120
Transfer agent and filing fees	42,046	27,971	113,194	36,729
Travel	185,169	8,370	674,082	56,163
Loss before other items	**(757,045)**	**(510,835)**	**(5,522,982)**	**(1,498,399)**
Other income (expense)				
Financing expense	-	-	-	(12,233)
Interest income	16,467	6	18,899	19
Exploration property write-off	-	-	-	(102,068)
Other income (expense)	132,027	-	132,027	-
Gain on disposition of investment in associate	-	-	-	5,341,797
Gain (loss) on sale of shares and warrants (Note 4)	3,784,497	(7,976)	4,699,253	(166,613)
Equity loss from investment in associate (Note 5)	(202,334)	-	(202,334)	(111,711)
Unrealized gain (loss) on change in fair value of warrants (Note 4)	1,067,843	(1,157,434)	327,559	(5,386,136)
Write-down of equipment	-	(139)	-	(139)
	4,798,500	(1,165,543)	4,975,404	(437,084)
Net income (loss) before income taxes	**$ 4,041,455**	**$ (1,676,378)**	**$ (547,578)**	**$ (1,935,483)**
Income tax recovery	79,024	-	46,670	-
Net income (loss) for the period	**$ 4,120,479**	**$ (1,676,378)**	**$ (500,908)**	**$ (1,935,483)**
Net income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ 4,318,501	$ (1,662,051)	$ 1,985,945	$ (1,901,701)
Non-controlling interests	(198,022)	(14,327)	(2,486,853)	(33,782)
	$ 4,120,479	**$ (1,676,378)**	**$ (500,908)**	**$ (1,935,483)**
Basic income (loss) per share	$ 0.27	$ (0.12)	$ (0.03)	$ (0.16)
Diluted income (loss) per share	$ 0.21	$ (0.12)	$ (0.03)	$ (0.16)
Weighted average shares outstanding:				
Basic	15,089,172	13,897,642	15,038,390	11,906,300
Diluted	20,064,839	13,897,642	15,038,390	11,906,300

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

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

	Three months ended March 31, 2017	Three monhs ended March 31, 2016	**Nine months ended March 31, 2017**	Nine months endedMarch 31, 2016
Net loss for the period	$ 4,120,479	$ (1,676,378)	$ (500,908)	$ (1,935,483)
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit/loss:				
Change in fair value of available-for-sale investments	612,000	(412,485)	359,000	(940,499)
Net income tax expense (recovery) related to available for sale investments	(79,024)	-	(46,670)	-
	532,976	(412,485)	312,330	(940,499)
Total comprehensive loss for the period	**$ 4,653,455**	**$ (2,088,863)**	**$ (188,578)**	**$ (2,875,982)**
Comprehensive loss attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ 4,851,477	$ (2,074,536)	$ 2,298,275	$ (2,842,200)
Non-controlling interests	(198,022)	(14,327)	(2,486,853)	(33,782)
	$ 4,653,455	**$ (2,088,863)**	**$ (188,578)**	**$ (2,875,982)**

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

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

For the nine months ended		**March 31, 2017**		March 31, 2016
Cash flows from operating activities				
Net loss for the period	$	(500,908)	$	(1,935,483)
Items not affecting cash:				
Depreciation		6,259		197
Share-based compensation		1,656,932		185,344
Income tax recovery		(46,670)		-
Exploration property write-off		-		102,068
Equity loss from investment in associate (Note 5)		202,334		111,711
Gain on disposition of investment in associate		-		(5,341,797)
Loss (gain) on sale of shares and warrants (Note 4)		(4,699,253)		151,612
Unrealized loss (gain) on change in fair value of warrants (Note 4)		(327,559)		5,386,136
Foreign exchange loss		6,829		45,282
Write-down on equipment		-		139
Changes in non-cash working capital items:				
Receivables and prepaid expenses		300,105		(485)
Accounts payable, accrued liabilities and other long-term liabilities		221,899		32,195
Net cash used in operating activities		(3,180,032)		(1,263,081)
Cash flows from investing activities				
Proceeds from sale of investments, net (Note 4)		7,191,252		749,433
Acquisition of equity investment		(2,075,657)		-
Redemption of short-term investment		5,580,000		-
Acquisition of property, plant and equipment		(43,032)		-
Cash received on acquisition of subsidiary		541,484		-
Net cash from investing activities		11,194,047		749,433
Cash flows from financing activities				
Cash received from warrants and options exercised, net		44,000		-
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 financing activities		44,000		732,286
Effect of exchange rate changes on cash		-		609
Change in cash during the period		**8,058,015**		**219,247**
Cash, beginning of the period		273,186		53,614
Cash, end of the period	**$**	**8,331,201**	**$**	**272,861**

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	Share Issue Cost	Treasury Stock	Equity Reserve	Accumulated other Comprehensive Loss	Deficit	Total	Non-controlling Interest	Total Equity
Balance, June 30, 2015	**$ 74,891,487**	**$ -**	**$ (1,170,000)**	**$ 11,949,662**	**$ -**	**$ (78,342,419)**	**$ 7,328,730**	**$ (2,239,907)**	**$ 5,088,823**
Net loss for the period	-	-	-	-	-	(1,901,701)	(1,901,701)	(33,782)	(1,935,483)
Share issued for private placement	1,000,000	(9,265)	-	-	-	-	990,735	-	990,735
Share-based compensation	-	-	-	185,344	-	-	185,344	-	185,344
Other comprehensive loss	-	-	-	-	(940,499)	-	(940,499)	-	(940,499)
Change in non-controlling interest	-	-	-	-	-	-	-	9,256	9,256
Balance, March 31, 2016	**$ 75,891,487**	**$ (9,265)**	**$ (1,170,000)**	**$ 12,135,006**	**$ (940,499)**	**$ (80,244,120)**	**$ 5,662,609**	**$ (2,264,433)**	**$ 3,398,176**
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 period	-	-	-	-	-	1,985,945	1,985,945	(2,486,853)	(500,908)
Shares issued for share options and warrant exercise	44,000	-	-	-	-	-	44,000	-	44,000
Share-based compensation	-	-	-	1,656,932	-	-	1,656,932	-	1,656,932
Other comprehensive income	-	-	-	-	312,330	-	312,330	-	312,330
Reduction in investment in subsidiary	-	-	-		-	3,227,858	3,227,858	4,396,527	7,624,385
Balance, March 31, 2017	**$ 75,926,222**	**$ -**	**$ (1,170,000)**	**$ 13,834,278**	**$ 2,148,257**	**$ (73,722,641)**	**$ 17,016,116**	**$ (438,428)**	**$ 16,577,688**

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, 2016, which have been prepared in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issuance by the Company's Board of Directors on May 25, 2017.

Principles of consolidation

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

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

Significant intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

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

Critical accounting estimates

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

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

ii) The determination of fair value of investments in warrants, which are derivative instruments, requires assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact mark to market gains and losses recognized in profit or loss.

Critical accounting judgements

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments.

i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained in the near term. See Note 1.

ii) The Company's assessment that it has control of Japan Gold Corp. (note 3) even though it owns less than 50% of ownership interest in an entity requires significant judgement and consideration of 'de-facto' control. De-facto control exists when the size of the Company's own voting rights relative to the size and dispersion of other vote holders give the Company the ability to direct the relevant activities of the entity. The Company currently holds 42.57% of the voting common shares of Japan Gold Corp. and holds a majority of the board seats on Japan Gold Corp. The Company has determined that it has de-facto control over Japan Gold Corp. as it has the practical ability to direct the relevant activities of Japan Gold Corp., and has consolidated the entity as a subsidiary with a 57.43% non-controlling interest. Should de-facto control be lost in the future, the Company would be required to de-consolidate its interest and Japan Gold Corp.

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

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

3. ACQUISITION AND REORGANIZATION

Japan Gold Corp.

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

The fair value of the shares of Japan Gold received by the Company was $9,500,000 based on the quoted market price of Japan Gold on the acquisition date. The Company determined that it controls Japan Gold because of common key management personnel, board representation and the large block of shares the Company owns relative to the other shareholders of Japan Gold. The Company controlled SAMJ before the transaction and continues to control Japan Gold and SAMJ subsequent to the transaction. Accordingly, the transaction has been accounted for as a sale of a partial interest in the assets of SAMJ to the non-controlling shareholders of Japan Gold in exchange for the Company's 42.9% interest in Japan Gold's existing assets of $7,546,236 which includes $7,000,000 raised in connection with the issuance of common shares by Japan Gold. As the transaction is a transaction with non-controlling shareholders, the acquisition of 42.9% of the issued and outstanding common shares of Japan Gold constitutes an asset acquisition as Japan Gold does not meet the definition of a business as defined in IFRS 3, Business Combinations. The transaction resulted in the recognition of non-controlling interest of $4,396,527 and the gain on the transaction of $3,227,858 has been recognized directly in equity.

As at March 31, 2017, Japan Gold's net assets consisted primarily of cash and cash equivalents of $3,883,623, short term investments of $750,000, and other current assets of $210,375, property, plant and equipment of $87,800 and current liabilities of $191,668. Japan Gold had no revenues for the period from September 16, 2016 to March 31, 2017 and net loss of Japan Gold for this period was $8,996,274, excluding certain inter-company eliminations.

On March 31, 2017, the fair value of the 23,750,000 shares of Japan Gold is $7,600,000 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. for the period ended March 31, 2017. For purposes of this supplementary information, the Company recognizes its investment in subsidiaries at fair value.

		Southern Arc
Cash		4,447,577
Receivables		25,272
Prepaid expense and other deposits		44,840
Investment in Osisko Mining Corp. (Note 4)		5,729,474
Investment in Tethyan Resources Plc (at fair value)		4,189,857
Investment in subsidiaries (at fair value)		7,600,000
Total assets	**$**	**22,037,020**
Total liabilities	**$**	**(341,360)**
Net assets	**$**	**21,695,660**

4. INVESTMENT

As at March 31, 2017 and June 30, 2016, the Company's investment in Osisko consisted of the following:

	Number of securities		**Fair market value**
Osisko common shares	720,000	$	3,492,000
Osisko tradeable warrants	9,383,000		891,385
Osisko non-tradeable warrants	1,220,675		1,346,089
Balance, March 31, 2017		**$**	**5,729,474**

	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**

(Unaudited - Expressed in Canadian dollars)

4. INVESTMENT (continued)

As at March 31, 2017, the Company holds 720,000 common shares of Osisko Mining Corp. and 9,383,000 Osisko tradable warrants exercisable into 469,150 common shares at $3.00 per share with an expiry date of August 25, 2018. The Company also holds non-tradable warrants which can be exercised into 1,220,675 Osisko common shares at $4.00 per share with an expiry date of August 14, 2017.

The fair value of the Osisko common shares and tradeable warrants was based on the closing trading price of $4.85 and $0.095, respectively, on March 31, 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 $4.00, risk free interest rate of 0.45%, expected life of 0.87 years and volatility of 53.89%.

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

During the period ended March 31, 2017, the Company sold 1,780,000 shares in Osisko for net proceeds of $6,114,275 resulting in a gain of $3,622,276. The Company also sold 15,599,000 Osisko warrants for net proceeds of $1,076,977 resulting in a gain of $1,076,977. During the prior period ended March 31, 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 totaling $166,613.

The Company recorded a gain of $312,330 in accumulated other comprehensive income as at March 31, 2017 related to the shares of Osisko. The Company also recorded an unrealized gain of $327,559 for the period ended March 31, 2017 related to the Osisko warrants in net loss.

5. INVESTMENT IN ASSOCIATE

Tethyan Resources PLC

During the period ended March 31, 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 quoted junior exploration company with a focus on exploring for copper and gold within the Western Tethyan Orogenic Belt in the European Balkan Region. The Company has also negotiated the following additional rights with respect to Tethyan:

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

		March 31, 2017
Balance - beginning of the period	$	-
Acquisition of investment		2,075,657
Share of loss for the period		(202,334)
Balance - end of the period	$	1,873,323

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 March 31, 2017 is $4,189,857 based on the publicly traded closing share price of $0.0833 per share, which is greater than the carrying value. As a result, no write-down is required.

6. EXPLORATION PROPERTIES

West Lombok property

The Company, through a 90%-owned subsidiary, holds the exploration permit for the West Lombok property located on Lombok Island, Indonesia. During the year ended June 30, 2013, the Company conducted a review of the value of its West Lombok property and determined that its value had been impaired. As a result, the Company wrote off the carrying value. During the period ended March 31, 2017, the Company incurred an additional $164,224 (March 31, 2016: $185,285) of exploration costs relating to the West Lombok property which were also written off.

On December 8, 2014, the Company announced that it had entered into a binding Memorandum of Agreement with PT Genesis Sumber Energi ("PT GSE") to advance the West Lombok project. Under the terms of the Memorandum of Agreement, PT GSE can earn a 25% interest in the subsidiary which holds the exploration permit for the West Lombok project by funding and obtaining Government approval of an environmental impact study and feasibility study for small-scale underground gold mines and processing plants on the property. PT GSE must also obtain Government approval to convert the West Lombok exploration permit into an exploitation permit, thereby securing tenure on the property for a further 20 years with the option to extend. PT GSE has not yet completed the required activities to earn the 25% interest. Upon receipt of the exploitation permit, the Company will enter into an Integrated Service and Support Agreement with PT GSE (the "ISS Agreement") to conduct small-scale mining on the West Lombok project using traditional methods to a maximum depth of 100 metres. Profits from the sale of gold and other minerals produced from such artisanal mining activities will be split 25% to the Company, 65% to PT GSE and 10% to the Local Government. The Company and PT GSE can continue to explore for deeper gold and porphyry targets on the property, when market sentiment warrants the expenditure. Should the partners choose to mine deeper targets on the property (deeper than 100 metres), profits will be split 65% to the Company, 25% to PT GSE and 10% to the Local Government. The West Lombok exploration permit ("IUP") was due for expiry on January 5, 2016. Prior to this date, Southern Arc was granted a one-year suspension of the IUP by the Indonesian Department of Mines to allow PT GSE to complete the environmental impact study and feasibility study required to convert the IUP into an exploitation permit. As preparation and approval of these reports were still in process at the end of 2016, Southern Arc has applied for a further one year suspension until January 2018, the response from Indonesian Department of Mines on this second suspension is pending.

East Elang property

The East Elang property is held by the Company's wholly-owned Indonesian subsidiary, PT. Selatan Arc Minerals ("PT SAM"). In October 2010, the Company entered into an option and joint venture agreement with Vale International S.A. ("Vale"), a wholly-owned subsidiary of Vale S.A., regarding the East Elang property. To exercise its option in the East Elang property and receive a 75% interest in PT SAM, which holds the exploration permit for East Elang, Vale had to fully fund the advancement of East Elang, through to and including the completion of a bankable feasibility study, at no cost to the Company.

In February 2016, the Company received notice from Vale to terminate the option agreement regarding its participation in the East Elang property. As a result, the Company wrote off the remaining cost previously capitalized to the property of $102,068 during the year ended June 30, 2016.

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

(Unaudited - Expressed in Canadian dollars)

7. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at March 31, 2017, 15,225,616 are issued of which 15,095,616 are outstanding and 130,000 are in treasury. As at June 30, 2016, 15,088,116 common shares were issued of which 14,958,116 were outstanding and 130,000 were in treasury.

Share options

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

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2015	439,500	$ 5.90
Cancelled	(438,000)	(5.90)
Forfeited	(1,500)	(5.90)
Granted	959,000	0.32
Outstanding at June 30, 2016 (remaining average contractual life is 4.41years)	959,000	$ 0.32
Exercised	(37,500)	0.32
Expired	(12,500)	0.32
Outstanding at March 31, 2017 (remaining average contractual life is 3.66 years)	909,000	$ 0.32
Number of options exercisable at March 31, 2017	681,750	$ 0.32

During the period ended March 31, 2017, the Company recorded share-based compensation totaling $1,656,932 (March 31, 2016: $185,344). Out of this amount, $129,347 was a result of the vesting of options previously granted by Southern Arc. The remaining $1,527,585 was a result of the immediate vesting of options granted by the Company's subsidiary, Japan Gold.

Share purchase warrants

As part of a private placement on January 26, 2016, the Company issued 4,166,667 warrants with an exercise price of $0.32 and an expiry date of January 26, 2021. During the period ended March 31, 2017, 100,000 of these warrants were exercised into 100,000 common shares of the Company for $32,000. As at March 31, 2017, 4,066,667 of these warrants remain outstanding.

(Unaudited - Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

Key management and personnel compensation

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

	Three months ended March 31, 2017	Three months ended March 31, 2016	**Nine months ended March 31, 2017**	Nine months ended March 31, 2016
Management fees	$ 153,000	$ 69,000	$ 421,000	$ 207,000
Finance expense	-	-	-	12,233
Share-based compensation	63,102	53,498	1,502,569	149,242

During the period ended March 31, 2017, the Company paid $421,000 (March 31, 2016: $207,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. Out of this amount, $182,000 relates to management fees incurred by Japan Gold. This fee is inclusive of administrative, finance, accounting, investor relations and management consulting fees.

On May 21, 2015, US$150,000 was advanced to the Company by a director and officer of the Company. This promissory note was repayable on demand and bore no interest. There was a one-time finance expense of US$12,000 or 8% of the principal sum that the Company recorded and accrued within accounts payable. During the year ended June 30, 2016, an additional US$119,571 was advanced to the Company by an officer and director of the Company. This promissory note was repayable on demand and bore no interest. There was a one-time finance expense of US$9,406 or 8% of the principal sum that the Company recorded and accrued within accounts payable. On February 5, 2016, the Company repaid these loans plus accrued financing fees in full for a total of US$290,977 ($404,691).

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

9. OFFICE AND MISCELLANEOUS EXPENSES

	Three months ended March 31, 2017	Three months ended March 31, 2016	**Nine months ended March 31, 2017**	Nine months ended March 31, 2016
Administrative	$ 90,745	$ 5,054	$ 246,893	$ 29,119
Office expenses	8,805	6,874	38,034	52,729
Insurance	21,309	14,699	48,752	43,660
Interest and bank charges	970	1,142	5,870	5,752
Telephone	1,144	6,481	3,708	7,556
Meals and entertainment	-	818	978	1,228
	$ 122,973	$ 35,068	$ 344,235	$ 140,044

(Unaudited - Expressed in Canadian dollars)

10. SEGMENTED INFORMATION

The Company's assets by geographic areas as at March 31, 2017 and June 30, 2016 are as follows:

As at March 31, 2017	Indonesia	Japan	Serbia	Canada	Total
Current assets	$ 4,814	$ 4,843,998	$ -	$ 4,513,266	$ 9,362,078
Investments	-	-	-	5,729,474	5,729,474
Investment in associate	-	-	1,873,323	-	1,873,323
Property, plant and equipment	-	87,800	-	10,580	98,380
Total liabilities	(252,462)	(191,668)	-	(41,437)	(485,567)
	$ (247,648)	$ 4,740,130	$ 1,873,323	$ 10,211,883	$ 16,577,688

As at June 30, 2016	Indonesia	Japan	Serbia	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

There are no revenues for the three and nine month period ended March 31, 2017 and March 31, 2016.

11. COMMITMENTS

During the period ended March 31, 2017, the Company entered into a lease agreement for office space in Vancouver for the next two years, which will give rise to an annual expense of approximately $216,000. As at March 31, 2017, the Company recorded a deposit of $28,558 in connection with the office lease.

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.

12. FINANCIAL INSTRUMENTS (continued)

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal. The quoted market price of Osisko warrants is subject to fluctuations and this impacts profit or loss. Changes in the quoted market price of Osisko common shares affects other comprehensive income. A 1% change (plus or minus) in the share price of Osisko's shares would change the fair value of the shares by approximately $43,920 and a 1% change in the market price of the warrants would change the fair value by approximately $10,369.

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

At March 31, 2017, the Company had US$23,574 (approximately CDN$31,377) in cash, and US$12,676 (approximately CDN$16,872) in accounts payable and accrued liabilities. As at March 31, 2017, US$1 amounts were converted at a rate of US$0.75 to CDN$1.

Fair value

IFRS requires disclosure about fair value measurements for financial instruments and liquidity risk using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The Osisko common shares and tradeable warrants are recognized at fair value using the quoted market price of these instruments. Accordingly, these are classified as level 1. The Osisko non-tradeable warrants are recognized at fair value using level 2 inputs.

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

13. SUBSEQUENT EVENT

On April 19, 2017, the Company announced that the TSX Venture Exchange ("TSX-V") has accepted the Company's notice of intention to make a normal course issuer bid ("NCIB").

Under the terms of the NCIB, the Company may acquire up to an aggregate of 761,280 common shares, representing 5% of current issued and outstanding common shares of the Company. As of April 4, 2017, the Company had 15,225,616 common shares outstanding, of which 10,058,663 common shares represent the public float of the Company. Under TSXV policies, the Company is entitled to purchase up to 2% of the total issued and outstanding common shares in any 30 day period up to the maximum of 761,280 common shares over the 12 month period that the NCIB is in place. The purchases commenced on April 24, 2017 and will end on April 23, 2018, or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make an NCIB filed with the TSXV. To date, the Company has purchased 109,500 of its common shares.