



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2016 AND 2015**

(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 months ended September 30, 2016, have been prepared by management and are the responsibility of the Company’s management and have not been reviewed by an auditor.

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

As at	September 30, 2016	June 30, 2016
Assets		
Current		
Cash	\$ 617,944	\$ 273,186
Short-term investments (Note 3)	6,330,000	-
Receivables	38,189	7,275
Prepaid expenses and other deposits	277,444	13,037
	<u>7,263,577</u>	<u>293,498</u>
Investments (Note 4)	9,651,470	7,534,915
Property, plant and equipment (Note 3)	61,607	-
Total assets	\$ 16,976,654	\$ 7,828,413
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 608,352	\$ 158,700
	<u>608,352</u>	<u>158,700</u>
Other long-term liabilities	232,174	228,764
Total liabilities	840,526	387,464
Shareholders' equity		
Capital stock (Note 6)	75,914,222	75,882,222
Treasury stock (Note 6)	(1,170,000)	(1,170,000)
Equity reserve (Note 3 and 6)	14,259,077	12,177,346
Accumulated other comprehensive income (Note 4)	3,575,927	1,835,927
Deficit	(76,801,173)	(78,936,444)
Equity attributable to shareholders	15,778,053	9,789,051
Non-controlling interest	358,075	(2,348,102)
Total shareholders' equity	16,136,128	7,440,949
Total liabilities and shareholders' equity	\$ 16,976,654	\$ 7,828,413

Nature of operations and going concern (Note 1)

Subsequent events (Note 10)

Approved by the Board of Directors and authorized for issuance on November 21, 2016:

On behalf of the Board of Directors

"John G. Proust" Director

"Morris Klid" Director

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

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

For the three months ended	September 30,	September 30,
	2016	2015
Expenses		
Depreciation	\$ -	\$ 150
Consulting	186,341	117,958
Office and miscellaneous (Note 8)	103,421	41,920
Marketing	374,440	-
Share-based compensation (Note 6 and 7)	2,081,731	2,445
Management fees (Note 7)	161,000	105,000
Exploration expenses (Note 5)	74,066	65,333
Foreign exchange loss	7,595	11,351
Investor relations	11,022	3,152
Professional fees	127,770	21,069
Rent	10,000	9,000
Salaries and benefits	44,830	45,959
Transfer agent and filing fees	50,727	5,752
Travel	109,097	6,522
Loss before other items	(3,342,040)	(435,611)
Other income (expense)		
Financing expense (Note 7)	-	(12,233)
Interest income	1,007	10
Gain on disposition of investment in associate (Note 4)	-	977,592
Gain (loss) on sale of shares and warrants (Note 5)	259,690	(53,872)
Equity loss from investment in associate (Note 4)	-	(111,711)
Unrealized gain on change in fair value of warrants (Note 5)	116,555	881,117
	377,252	1,680,903
Net loss before income taxes	\$ (2,964,788)	\$ 1,245,292
Income tax recovery	\$ 260,000	\$ -
Net loss for the period	\$ (2,704,788)	\$ 1,245,292
Net loss attributable to:		
Shareholders of Southern Arc Minerals Inc.	\$ (1,102,065)	\$ 1,254,328
Non-controlling interests	(1,602,723)	(9,036)
	\$ (2,704,788)	\$ 1,245,292
Basic income (loss) per share	\$ (0.18)	\$ 0.11
Diluted income (loss) per share	\$ (0.18)	\$ 0.11
Weighted average number of shares outstanding	14,968,986	10,921,449
Diluted weighted average number of shares outstanding	14,968,986	11,110,949

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)

	September 30,	
For the three months ended	2016	September 30, 2015
Net income (loss) for the period	\$ (2,704,788)	\$ 1,245,292
Other comprehensive income (loss)		
Items that may be subsequently reclassified to profit/loss:		
Gain (loss) on change in fair value of available-for-sale investments	2,000,000	(434,100)
Net income tax expense related to available for sale investments	(260,000)	-
	1,740,000	(434,100)
Total comprehensive income (loss) for the period	\$ (964,788)	\$ 811,192
Comprehensive income (loss) attributable to:		
Shareholders of Southern Arc Minerals Inc.	\$ 637,935	\$ 820,228
Non-controlling interests	(1,602,723)	(9,036)
	\$ (964,788)	\$ 811,192

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 three months ended	September 30, 2016		September 30, 2015	
Cash flows from operating activities				
Net loss for the period	\$	(2,704,788)	\$	1,245,292
Items not affecting cash:				
Depreciation		-		150
Share-based compensation		2,081,731		2,445
Income tax recovery		(260,000)		-
Equity loss from investment in associate		-		111,711
Gain on disposition of investment in associate		-		(977,592)
Gain on sale of shares and warrants (Note 4)		(259,690)		48,739
Unrealized gain on change in fair value of warrants (Note 4)		(116,555)		(881,117)
Foreign exchange gain		3,414		11,351
Finance expense		-		12,233
Interest income		(1,007)		(12)
Changes in non-cash working capital items:				
Receivables and prepaid expenses		24,594		(15,466)
Accounts payable, accrued liabilities and other long-term liabilities		742,878		139,097
Interest income received		1,007		10
Net cash used in operating activities		(488,416)		(303,159)
Cash flows from investing activities				
Proceeds from sale of investments, net (Note 4)		259,690		275,576
Cash received on acquisition of subsidiary		541,484		-
Net cash from investing activities		801,174		275,576
Cash flows from financing activities				
Cash received for exercise of warrant		32,000		-
Proceeds from related party loan		-		151,727
Net cash from financing activities		32,000		151,727
Effect of exchange rate changes on cash		-		1,841
Change in cash during the period		344,758		125,985
Cash, beginning of the period		273,186		53,614
Cash, end of the period	\$	617,944	\$	179,599

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

SOUTHERN ARC MINERALS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

Attributable to shareholders of Southern Arc Minerals Inc.

	Capital Stock	Treasury Stock	Equity Reserve	Accumulated other Comprehensive Loss	Deficit	Total	Non-controlling Interest	Total Equity
Balance, June 30, 2015	\$ 74,891,487	\$ (1,170,000)	\$ 11,949,662	\$ -	\$ (78,342,419)	\$ 7,328,730	\$ (2,239,907)	\$ 5,088,823
Net loss for the period	-	-	-	-	1,254,328	1,254,328	(9,036)	1,245,292
Share-based compensation	-	-	2,445	-	-	2,445	-	2,445
Other comprehensive loss	-	-	-	(434,100)	-	(434,100)	-	(434,100)
Change in non-controlling interest	-	-	-	-	-	-	1,477	1,477
Balance, September 30, 2015	\$ 74,891,487	\$ (1,170,000)	\$ 11,952,107	\$ (434,100)	\$ (77,088,091)	\$ 8,151,403	\$ (2,247,466)	\$ 5,903,937
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	-	-	-	-	(1,102,065)	(1,102,065)	(1,602,723)	(2,704,788)
Shares issued for warrant exercise	32,000	-	-	-	-	32,000	-	32,000
Share-based compensation	-	-	2,081,731	-	-	2,081,731	-	2,081,731
Other comprehensive income	-	-	-	1,740,000	-	1,740,000	-	1,740,000
Reduction in investment in subsidiary	-	-	-	-	3,237,336	3,237,336	4,308,900	7,546,236
Balance, September 30, 2016	\$ 75,914,222	\$ (1,170,000)	\$ 14,259,077	\$ 3,575,927	\$ (76,801,173)	\$ 15,778,053	\$ 358,075	\$ 16,136,128

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

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Southern Arc Minerals Inc. (“Southern Arc” or “the Company”) was incorporated in British Columbia, Canada on August 19, 2004. The Company is a natural resource company engaged in the acquisition and exploration of resource properties. The Company’s head office is located at Suite 3123 - 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J1.

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 November 21, 2016.

Principles of consolidation

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

- i) its wholly-owned Canadian subsidiary West Indonesia Mining Holdings Inc.;
- ii) its wholly-owned Singapore subsidiaries: Indotan Lombok Pte. Ltd. and Southern Sunda Mining Pte. Ltd.;
- iii) its 90%-owned Indonesian subsidiary PT. Indotan Lombok Barat Bangkit; and
- iv) its 70%-owned Indonesian subsidiary PT. Selatan Bengkulu Minerals.
- v) its 42.9%-owned Japan subsidiary Japan Gold Corp.

Significant intercompany balances and transactions have been eliminated upon consolidation.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates

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

Critical accounting estimates

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

- i) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices related to the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.
- ii) The determination of fair value of investments in warrants, which are derivative instruments, requires assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact mark to market gains and losses recognized in profit or loss.

Critical accounting judgements

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

- i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained in the near term. See Note 1.
- ii) The Company's assessment that it has control of Japan Gold Corp. (note 4) even though it owns less than 50% of ownership interest in an entity requires significant judgement and consideration of 'de-facto' control. De-facto control exists when the size of the Company's own voting rights relative to the size and dispersion of other vote holders give the Company the ability to direct the relevant activities of the entity. The Company currently holds 42.9% of the voting common shares of Japan Gold Corp. and holds a majority of the board seats on Japan Gold Corp. The Company has determined that it has de-facto control over Japan Gold Corp. as it has the practical ability to direct the relevant activities of Japan Gold Corp., and has consolidated the entity as a subsidiary with a 57.1% non-controlling interest. Should de-facto control be lost in the future, the Company would be required to de-consolidate its interest and Japan Gold Corp.
- iii) The determination of a subsidiary's functional currency often requires significant judgement where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

3. ACQUISITION AND REORGANIZATION

Japan Gold Corp.

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

The fair value of the shares of Japan Gold received by the Company was \$9,500,000 based on the quoted market price of Japan Gold on the acquisition date. The Company determined that it controls Japan Gold because of common key management personnel, board representation and the large block of shares the Company owns relative to the other shareholders of Japan Gold. The Company controlled SAMJ before the transaction and continues to control Japan Gold and SAMJ subsequent to the transaction. Accordingly, the transaction has been accounted for as a sale of a partial interest in the assets of SAMJ to the non-controlling shareholders of Japan Gold in exchange for the Company's 42.9% interest in Japan Gold's existing assets of \$7,546,236 which includes \$7,000,000 raised in connection with the issuance of common shares by Japan Gold. As the transaction is a transaction with non-controlling shareholders, the acquisition of 42.9% of the issued and outstanding common shares of Japan Gold constitutes an asset acquisition as Japan Gold does not meet the definition of a business as defined in IFRS 3, Business Combinations. The transaction resulted in the recognition of non-controlling interest of \$4,308,900 and the gain on the transaction of \$3,237,336 has been recognized directly in equity.

As at September 30, 2016, Japan Gold's net assets consisted primarily of cash and cash equivalents of \$541,484, short term investments of \$6,330,000, other current assets of \$280,335, property, plant and equipment of \$61,607 and current liabilities of \$469,207. Japan Gold had no revenues for the period from September 16, 2016 to September 30, 2016 and net loss of Japan Gold for this period was \$2,806,870, excluding certain inter-company eliminations.

On September 30, 2016, the fair value of the 23,750,000 shares of Japan Gold is \$14,962,500 based on the quoted market price.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(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 September 30, 2016. For purposes of this supplementary information, the Company recognizes its investment in subsidiaries at fair value.

	Southern Arc
Cash	\$ 76,460
Receivables	18,996
Prepaid expense and other deposits	16,301
Investment in Osisko Mining Corp. (Note 4)	9,651,470
Investment in subsidiaries (at fair value)	14,962,500
Total assets	\$ 24,725,727
Accounts payable and accrued liabilities	\$ 139,145
Total liabilities	\$ 139,145
Net assets	\$ 24,586,582

4. INVESTMENT

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

	Number of securities	Fair market value
Osisko common shares	2,500,000	\$ 7,625,000
Osisko tradeable warrants	21,050,000	1,578,750
Osisko non-tradeable warrants	1,220,675	447,720
Balance, September 30, 2016		\$ 9,651,470

	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

As at September 30, 2016, the Company holds 2,500,000 common shares of Osisko Mining Corp. and 21,050,000 Osisko tradable warrants exercisable into 1,052,500 common shares at \$3.00 per share for a period of three years. The Company holds non-tradeable 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. The non-tradeable warrants are exercisable into 1,220,675 common shares at \$4.00 per share.

The fair value of the Osisko common shares and tradeable warrants was based on the closing trading price of \$3.05 and \$0.075, respectively, on September 30, 2016. The fair value of the non-tradeable warrants was determined using a Black Scholes option pricing model with the following assumptions: market price of common shares of \$3.05, risk free interest rate of 0.45%, expected life of 0.87 years and volatility of 57.70%.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

4. INVESTMENT (continued)

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 September 30, 2016, the Company sold 3,932,000 Osisko warrants for net proceeds of \$259,690 resulting in a gain of \$259,690. During the period ended September 30, 2015, The Company sold 235,320 shares of Oban for net proceeds of \$275,576. This resulted in a loss of \$48,739 from the sale of shares and a commission charge of \$5,133 totaling \$53,872

The Company recorded a gain of \$2,000,000 in accumulated other comprehensive income as at September 30, 2016 related to the shares of Osisko. The Company also recorded an unrealized gain of \$116,555 for the period ended September 30, 2016 related to the Osisko warrants in net loss.

Subsequent to the period ended September 30, 2016, the Company sold 700,000 shares in Osisko, leaving the Company with 1.8 million common shares of Osisko.

5. 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 September 30, 2016, the Company incurred an additional \$74,066 (June 30, 2016: \$337,497) of exploration costs relating to the West Lombok property which were also written off.

On December 8, 2014, the Company announced that it had entered into a binding Memorandum of Agreement with PT Genesis Sumber Energi ("PT GSE") to advance the West Lombok project. Under the terms of the Memorandum of Agreement, PT GSE can earn a 25% interest in the subsidiary which holds the exploration permit for the West Lombok project by funding and obtaining Government approval of an environmental impact study and feasibility study for small-scale underground gold mines and processing plants on the property. PT GSE must also obtain Government approval to convert the West Lombok exploration permit into an exploitation permit, thereby securing tenure on the property for a further 20 years with the option to extend. PT GSE has not yet completed the required activities to earn the 25% interest. Upon receipt of the exploitation permit, the Company will enter into an Integrated Service and Support Agreement with PT GSE (the "ISS Agreement") to conduct small-scale mining on the West Lombok project using traditional methods to a maximum depth of 100 metres. Profits from the sale of gold and other minerals produced from such artisanal mining activities will be split 25% to the Company, 65% to PT GSE and 10% to the Local Government. The Company and PT GSE can continue to explore for deeper gold and porphyry targets on the property, when market sentiment warrants the expenditure. Should the partners choose to mine deeper targets on the property (deeper than 100 metres), profits will be split 65% to the Company, 25% to PT GSE and 10% to the Local Government.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

5. EXPLORATION PROPERTIES (continued)

East Elang property

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

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.

6. SHAREHOLDERS' EQUITY

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

Share options

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

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2015	439,500	\$ 5.90
Cancelled	(438,000)	(5.90)
Forfeited	(1,500)	(5.90)
Granted	959,000	0.32
Outstanding at June 30, 2016 (remaining average contractual life is 4.41 years)	959,000	\$ 0.32
Outstanding at September 30, 2016 (remaining average contractual life is 4.16 years)	959,000	\$ 0.32
Number of options exercisable at September 30, 2016	479,500	\$ 0.32

During the period ended September 30, 2016, the Company recorded share-based compensation totaling \$2,081,731 (September 30, 2015: \$2,445). Out of this amount, \$30,248 was a result of the vesting of options previously granted by Southern Arc. The remaining \$2,051,483 was a result of the immediate vesting of options granted by the Company's subsidiary, Japan Gold.

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

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

6. SHAREHOLDERS' EQUITY (continued)**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, 2016, 100,000 of these warrants were exercised into 100,000 common shares of the Company for \$32,000. As at September 30, 2016, 4,066,667 of these warrants remain outstanding.

7. 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:

	September 30, 2016	September 30, 2015
Management fees	\$ 101,000	\$ 69,000
Finance expense	-	12,233
Share-based compensation	1,413,959	2,006

During the period ended September 30, 2016, the Company paid \$101,000 (September 30, 2015: \$69,000) in management fees to a private company controlled by the Chief Executive Officer and Chairman of the Company. This fee is inclusive of administrative, finance, accounting, investor relations and management consulting fees.

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

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

8. OFFICE AND MISCELLANEOUS EXPENSES

	September 30, 2016	September 30, 2015
Administrative	\$ 85,021	\$ 19,646
Office expenses	5,696	5,081
Insurance	9,493	14,231
Interest and bank charges	1,332	2,101
Telephone	1,879	451
Meals and entertainment	-	410
	\$ 103,421	\$ 41,920

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

9. 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 \$56,250 and a 1% change in the market price of the warrants would change the fair value of by approximately \$19,100.

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 September 30, 2016, the Company had US\$10,099 (approximately CDN\$13,247) in cash, and US\$60,160 (approximately CDN\$78,912) in accounts payable and accrued liabilities. As at September 30, 2016, US\$1 amounts were converted at a rate of US\$0.76 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.

SOUTHERN ARC MINERALS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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10. SUBSEQUENT EVENTS

On November 21, 2016, the Company announced that it has subscribed for 16,500,000 new ordinary shares in Tethyan Resources PLC (“Tethyan”) at a price of \$0.036 per share for \$594,000. In addition to the subscription for new ordinary shares, the Company has agreed to purchase 14,653,967 existing ordinary shares in Tethyan from Newmont Ventures Limited (“Newmont”) for \$0.036 per share for \$527,543.

On November 22, 2016, the Company announced that it has agreed to make an additional investment in Tethyan and subscribe for an additional 12,500,000 new ordinary shares at a price of \$0.036 per share for \$450,000 (“Additional Subscription”). The closing of the Additional Subscription is subject to Tethyan obtaining shareholder approval at a meeting of its shareholders scheduled for December 12, 2016.

On closing of these transactions and the Additional Subscription, the Company will own 43,653,967 ordinary shares representing 29.9% of Tethyan’s issued and outstanding ordinary shares.