



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Nine months ended March 31, 2017**

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*This Management's Discussion and Analysis ("MD&A"), prepared as of May 25, 2017, should be read in conjunction with the audited consolidated annual financial statements of Southern Arc Minerals Inc. ("Southern Arc" or the "Company") for the year ended June 30, 2016, and the unaudited condensed consolidated interim financial statements for the nine months ended March 31, 2017 and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.southernarcminerals.com](http://www.southernarcminerals.com).*

*Statements in this MD&A that are not historical facts are "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. Readers are cautioned not to put undue reliance on forward-looking statements.*

**COMPANY OVERVIEW**

Southern Arc, through its subsidiaries ("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. Southern Arc's management team identifies undervalued assets where there is established infrastructure and previous exploration and seeks to unlock the value with investments in dollars, human capital and expertise to advance the properties while minimizing Southern Arc's risk. Southern Arc was incorporated in British Columbia on August 19, 2004. The Company's current portfolio of investments and projects includes:

- an investment (and largest shareholder) in Japan Gold Corp., a Canadian junior company exploring for gold in Japan;
- an investment in Osisko Mining Inc., a Canadian junior company exploring for gold in Canada's Abitibi Gold Belt;
- an investment in Tethyan Resources PLC, an AIM quoted junior exploration company exploring for copper and gold within the Tethyan mineral belt in Eastern Europe;
- The West Lombok Project, an exploration-stage project with epithermal gold and copper-gold porphyry prospects on the island of Lombok, Indonesia.

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 42.57% 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 15, 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 Japan. Prior to this transaction, Japan Gold had net assets of \$975,498 comprised almost entirely of cash and short term investments.

On November 21, 2016, the Company 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 purchased 14,653,966 existing ordinary shares in Tethyan from Newmont Ventures Limited ("Newmont") for \$0.036 per share for \$527,543. On December 23, 2016, the Company completed an additional investment in Tethyan and subscribed for an additional 12,500,000 new ordinary shares at a price of \$0.036 per share for \$450,000. On March 24, 2017, the Company subscribed for an additional 6,644,444 new ordinary shares at a price of \$0.076 for \$504,114.

The Company currently holds 50,298,410 ordinary shares representing 29.9% of Tethyan's issued and outstanding ordinary shares.

For the purpose of providing additional information, below is a summary of the Company's investments fair valued at market prices as at May 25, 2017:

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(As at May 25, 2017)

	Number of securities	Fair market value
Osisko tradeable warrants	160,000	\$ 16,000
Osisko non-tradeable warrants	1,220,675	1,346,089
Japan Gold common shares	23,750,000	6,293,750
Tethyan common shares	50,298,410	3,500,769
<b>Balance, May 25, 2017</b>		<b>\$ 11,156,608</b>

For the purpose of providing additional information regarding the net assets and working capital available to Southern Arc, below is a summary of the standalone net assets of Southern Arc Minerals Inc. which excludes the Japan Gold consolidation ("Southern Arc") for the period ended March 31, 2017:

	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. (Note 5)	4,189,857
Investment in subsidiaries (at fair value):	7,600,000
<b>Total assets</b>	<b>\$ 22,037,020</b>
<b>Total liabilities</b>	<b>\$ (341,360)</b>
<b>Net assets</b>	<b>\$ 21,695,660</b>

In August 2013, April 2014 and May 2014, Southern Arc invested a total of \$8.85 million to acquire a 26.25% in Eagle Hill Exploration Corporation ("Eagle Hill"), a TSX Venture Exchange listed company. Eagle Hill owned the high-grade Windfall Lake Gold Deposit ("Windfall Lake") in Quebec, Canada. In August 2015, Eagle Hill was acquired by Osisko Mining Inc. ("Osisko") for a 258% premium over Eagle Hill's trading price in a four-company business combination. Southern Arc has sold some of its Osisko securities, but still has a substantial investment in Osisko for investment purposes.

As at March 31, 2017, the Company holds 720,000 common shares of Osisko Mining Inc. and 9,383,000 Osisko tradeable 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-tradeable 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.

	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
<b>Balance, March 31, 2017</b>		<b>\$ 5,729,474</b>

	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
<b>Balance, June 30, 2016</b>		<b>\$ 7,534,915</b>

Southern Arc trades on the TSX Venture Exchange under the symbol "SA". To date, the Company has not generated revenues from operations and is considered to be in the exploration stage. The Company conducts its activities through wholly-owned subsidiaries, limited liability companies, partnerships and joint ventures.

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**FINANCIAL SNAPSHOT**

	March 31, 2017	June 30, 2016	June 30, 2015
Total assets	\$ 7,063,255	\$ 7,828,413	\$ 5,685,639
Exploration properties	-	-	102,068
Working capital	9,112,101	134,798	(386,509)
Net loss	(500,908)	(702,220)	(3,967,266)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)	\$ (0.36)

At the date of this MD&A, the Company had approximately \$13.0 million in working capital, of which \$9.0 million relates directly to Southern Arc.

**RECENT EVENTS**

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 common shares.

On November 21, 2016, the Company 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 purchased 14,653,966 existing ordinary shares in Tethyan from Newmont Ventures Limited ("Newmont") for \$0.036 per share for \$527,543. On December 23, 2016, the Company completed an additional investment in Tethyan and subscribed for an additional 12,500,000 new ordinary shares at a price of \$0.036 per share for \$450,000. On March 24, 2017, the Company subscribed for an additional 6,644,444 new ordinary shares at a price of \$0.076 for \$504,114. The Company currently holds 50,298,410 ordinary shares representing 29.9% of Tethyan's issued and outstanding ordinary shares.

On September 15, 2016, Southern Arc announced that it has combined its subsidiary, SAMJ, with Sky Ridge. Upon completion of the Acquisition and associated \$7 million financing, Sky Ridge consolidated its shares on a one-for-two basis and changed its name to Japan Gold. In exchange for its interest in SAMJ, Southern Arc received 23,750,000 post-consolidation common shares of Japan Gold (post consolidation), 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 15, 2016 and 15% of the shares to be released at each of six month increments over the next 36 months.

On May 12, 2016, the Company entered into a sale and purchase agreement to sell its share of the East Elang property to an Indonesian individual in exchange for 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 from the sale of these shares of \$6,371.

On February 4, 2016, Southern Arc announced that Vale International S.A. would not be proceeding with a potential joint venture at the East Elang property, as contemplated by the option and joint venture agreement signed by the parties on October 3, 2010. As a result, the Company wrote off the remaining \$102,068 costs previously capitalized to the project. Vale had funded all exploration and community engagement efforts at the property.

On January 26, 2016, Southern Arc closed a private placement whereby the Company sold 4,166,667 units (the "Units") at a price of \$0.24 per Unit, for gross proceeds to the Company of \$1,000,000. Each Unit consists of one common share and one non-transferable share purchase warrant (the "Warrants"). 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. No finder fees were paid in connection with the financing. The proceeds of the private placement were used for general working capital.

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**PROPERTY REVIEW AND OUTLOOK**

**Indonesia**

*West Lombok Property (Lombok Island)*

The West Lombok project covers a 13-km long by 7-km wide structural corridor of mineralization and alteration hosting porphyry copper-gold and epithermal gold deposits. Southern Arc has completed 26,477 metres of drilling to date on epithermal gold mineralization in the Pelangan and Mencanggih prospects, confirming broad zones of low-grade mineralization throughout the property, high-grade events typical of epithermal boiling zones and several high-grade shoots. At the Selodong porphyry copper-gold intrusive complex in the southeastern end of the property, Southern Arc has completed 20,046 metres of drilling to date with the majority of drill holes intersecting broad zones of significant copper-gold mineralization. In 2011, the Company completed an airborne geophysical survey of the West Lombok project at 50-metre spacings to define both near-surface and buried copper-gold porphyry targets. All drill results and details regarding the prospective study are available on the Company's website and on SEDAR.

On July 11, 2013, Southern Arc released the first resource estimate for the West Lombok project (see July 11, 2013 press release). SRK Consulting (Canada) Inc. estimated an inferred resource totaling 1.49 million ounces of gold, 1.82 million ounces of silver and 397.3 million pounds of copper from three open-pittable epithermal gold deposits and one porphyry copper deposit. The Raja, Bising and Tibu Serai epithermal gold deposits are estimated to contain 11,783,000 tonnes averaging 1.5 g/t gold for contained metal of 567,820 ounces of gold, with an additional 1.82 million ounces of silver in the Raja deposit. The Selodong porphyry copper mineralization is estimated to contain 66,750,000 tonnes averaging 0.43 g/t gold and 0.27% copper for contained metal of 922,800 ounces of gold and 397,324,000 pounds of copper within two zones: Montong Botek and Blongas.

On December 8, 2014 the Company announced that it had entered into a binding Memorandum of Agreement ("Agreement") with PT Genesis Sumber Energi ("PT GSE") to advance the West Lombok project. Under the terms of the 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, Southern Arc 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 Southern Arc, 65% to PT GSE and 10% to the Local Government. Southern Arc 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 Southern Arc, 25% to PT GSE and 10% to the Local Government.

Under the Agreement, PT GSE has assumed all field costs associated with the West Lombok project as well as costs associated with administration of the project, including financial, environmental and technical reporting to the respected Government agencies to maintain all permits in good standing. As a result, Indonesian costs has been reduced to approximately US\$20,000 per month, allowing the Company to protect its treasury while still participating in upside at West Lombok. The ISS Agreement shall be for a term of two years, unless terminated earlier in accordance with the terms of the agreement. Southern Arc also retains the right to terminate the ISS Agreement should it wish to proceed with the construction of an open-pit or underground mine on the West Lombok project.

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.

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*East Elang Property (Sumbawa Island)*

The East Elang project covers 9,670 hectares immediately to the east of Newmont's Elang property, which hosts a large copper-gold porphyry deposit. In October 2010, the Company entered into an option and joint venture agreement with Vale to advance the East Elang project pursuant to which Vale could earn a 75% interest in PT. Selatan Arc Minerals by funding exploration through to completion of a bankable feasibility study within an agreed-upon time frame. On February 4, 2016, Southern Arc announced that Vale would not be proceeding with the potential joint venture. As a result, the Company wrote off the remaining \$102,068 costs previously capitalized to the project.

On May 12, 2016, the Company entered into a sale and purchase agreement to sell its share of the East Elang property to an Indonesian individual in exchange for US\$20,000 and a 3% net smelter returns royalty on all future sales or other disposition of all minerals production from the property.

*Taliwang Property (Sumbawa Island)*

In December 2012, following a strategic review of the Company's projects and exploration strategy, the Company decided to sell its 90% interest in the Taliwang project. On July 15, 2014, the Company amended the sale agreement and closed the sale of its interest in the Taliwang project. Pursuant to the terms of the final agreement, the Company sold its 90% share of the Indonesian company that owns the Taliwang project to the purchaser. The purchaser paid US\$1,000,000 and granted a 5% net smelter royalty ("NSR") to Southern Arc. The purchaser has the option to buy back 3% of the NSR by paying the Company US\$3,000,000. The purchaser is required to make additional payments to the Company to fulfill the agreed purchase price of US\$1.75 million. The purchaser will pay the Company 40% of gross revenue generated from the Taliwang project, after payment of the Southern Arc NSR, until the aggregate amount of such payments equals US\$750,000.

Since July 2014, the purchaser has completed and received Government approval for an environmental impact study and feasibility study for the development of small-scale gold mining and processing, and converted the exploration IUP into an exploitation IUP, thereby securing property tenure for a further 20 years with the option to extend. Local miners have been organized into a cooperative to mine and supply ore to the first of potentially several 50 tonne-per-day CIL processing plants, and in early December 2014 the purchaser produced a small amount of gold at Taliwang. Testing and commissioning continues at the processing plant.

**Serbia - Tethyan Resources PLC Investment**

During the period ended March 31, 2017, the Company acquired a total of 50,298,410 common shares of Tethyan, which represents 29.9% of Tethyan's issued share capital, at an average price of \$0.04 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. Currently, Tethyan holds rights with respect to licenses in Serbia and is looking for other copper and gold projects in Eastern Europe. Tethyan entered into an option agreement over the Suva Ruda project in September 2016, currently owned by a Serbian private company Deep Research d.o.o. According to the option agreement, Tethyan holds the option to purchase 100% of the project at any time during an 8 year period for a €6,000,000 cash payment provided that Tethyan achieves certain exploration and payment milestones.

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

On December 14, 2016, Tethyan announced that it had completed its 4 diamond drill hole program (total 2,318 metres) at the Rudnitza copper-gold porphyry project located within the Suva Ruda exploration permit in Serbia. Tethyan has received assay results for all four drill holes which demonstrated good grade distribution and high-grade mineralization.

All drill results have been press released and are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Tethyan's website at [www.tethyan-resources.com](http://www.tethyan-resources.com).

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On February 28, 2017, confirmed that it made the first Milestone Payment of €100,000 to Deep Research d.o.o. in order to retain its option to purchase 100% of the Suva Ruda Project.

On March 28, 2017, Tethyan announced that it has successfully raised £1 million before expenses from the issue of 22,222,223 new ordinary shares of 0.1 pence each in the capital of the Company ("Placing Shares") at a placing price of 4.5 pence per share ("the Placing"). The Placing was supported by both new and existing investors, including Southern Arc Minerals Inc. ("Southern Arc") and a number of the Directors and senior management at Tethyan, further details of which are set out below. The net proceeds of the Placing attributable to the Company (being approximately £ 950,000 after fees and expenses) will be used for a 6,000 metre exploration drilling program at the Company's Suva Ruda project and general working capital requirements.

On April 11, 2017, Tethyan announced that it had concluded an agreement with drilling contractor Drillex International d.o.o. in order to commence drilling at the Rudnitsa porphyry prospect, located in South West Serbia, in late April 2017.

On April 25, 2017, Tethyan Resources announced that it had commenced drilling with drill contractor Drillex International d.o.o on its Rudnitsa Porphyry Project. The plan is to drill approximately 2,000 metres of diamond core in 3 to 4 drill holes. First assay results from this drill program are anticipated for release, late June 2017. In addition to the planned field program Tethyan is reviewing all of its previous work and utilizing Simon Meldrum an experienced geologist from South America to aid with its understanding of the Rudnitsa porphyry system and surrounding area.

On May 19, 2017, further to the announcement of November 21, 2016, Tethyan Resources announced that it has made good progress with its application for a secondary listing on TSX Venture Exchange which it expects to submit shortly, and a further announcement will be made in due course.

**Japan – Japan Gold Corp.**

Further to its diversification strategy announced in December 2012, Southern Arc has been searching for resource exploration and investment opportunities in stable jurisdictions. Japan is regarded by Southern Arc's management as highly prospective but largely underexplored, despite a history of significant gold production and known mineral occurrences. Based on a desktop review of historical gold production and Japan's extensive geoscientific database, Southern Arc was able to pinpoint areas that are very compelling from a geological perspective and applied for prospecting rights licenses through its subsidiary, SAMJ. SAMJ lodged 80 prospecting rights license applications throughout Hokkaido and northern Honshu, for a total combined area of 27,153 hectares over eight project areas. Four of the project areas target high-grade epithermal gold deposits. The other four project areas target prospective epithermal gold deposits and areas of gold-bearing advanced argillic alteration lithocaps, which could indicate the presence of a porphyry mineral environment.

On September 15, 2016, Southern Arc announced that it had combined SAMJ with Japan Gold (formerly Sky Ridge) in exchange for 23,750,000 common shares of Japan Gold, representing approximately 42.9% of the issued and outstanding shares of Japan Gold on an undiluted basis at the time of the transaction. The Company currently holds 42.57% of the issued and outstanding shares of Japan Gold.

On November 29, 2016, Japan Gold announced that Ministry of Economy, Trade and Industry ("METI") had accepted 35 contiguous prospecting right license applications covering the Sanru Project, an area of approximately 11,269 hectares immediately adjacent to the historic Sanru gold mine in Northern Hokkaido, granting Japan Gold priority over this area.

On December 1, 2016, Japan Gold announced that METI had granted the Company Prospecting Rights over its nine contiguous applications covering the 3,080 hectare Eboshi Project in northern Honshu.

On February 9, 2017, Japan Gold announced that it had completed the first-pass regional exploration program at the 13,286 hectare Ikutahara Project in north Hokkaido, Japan. Ikutahara hosts sixteen historic gold mines and workings. Six geologists and support teams undertook a nine-week field program from October to December 2016, completing prospecting, geological mapping, collecting stream sediment and BLEG drainage samples and rock float and outcrop sampling over the majority of the Ikutahara Project.

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On March 3, 2017, Japan Gold announced results from the regional exploration program at the Ikutahara Project which identified several high-priority exploration targets. Results from the program will be used to plan and focus ongoing exploration work at the Project, including detailed prospect mapping, surface geochemical surveys and drilling over priority targets.

On March 3, 2017, Japan Gold also announced that METI had accepted two new areas of prospecting rights applications, granting the Company priority over these areas. Of the two new application areas, one area immediately adjoins the Ikutahara Project and a second, the Hakuryu Project, is located immediately south of Japan's third largest gold mine, Konamai, which operated between 1917-1974 and produced over 2.3 Moz of gold at an average grade of 6.4 g/t. The two new application areas comprise 5,828 and 4,901 hectares respectively.

On April 25, 2017, Japan Gold announced key appointments to its senior management and Board of Advisors. Takashi Kuriyama, a Japanese geologist having over 42 years of domestic and international exploration and mining business experience, accepted the post of General Manager, Exploration. In addition, internationally respected geologists Douglas Kirwin and Dr. Steve Garwin agreed to join the Company's Board of Advisors.

On April 26, 2017, Japan Gold announced that it had expanded its project portfolio through the addition of its first project on the island of Kyushu in southern Japan. The 12 contiguous prospecting rights applications constituting the 4,069 hectare Kamitsue Project have been accepted by METI, granting the Company priority over this area.

On May 18, 2017, Japan Gold announced that 23 of its 56 prospecting rights license applications have now been granted as Prospecting Rights by METI over the Ikutahara Project in Northern Hokkaido, Japan. Detailed drill plans will now be lodged to prepare drilling permits on high-priority targets.

The Company's portfolio now consists of 53,218 hectares over eleven separate projects on the three main islands of Japan, Hokkaido, Honshu and Kyushu. Seven projects cover areas with known gold occurrences and a history of mining, and are prospective for high-grade epithermal gold mineralization. Four of the projects, in southern Hokkaido and northern Honshu, are located over gold-bearing lithocaps, which may indicate the presence of porphyry mineralization, a deposit style yet to be identified in Japan. The Company has lodged a total of 160 prospecting right license applications over the project portfolio. Thirty-two applications have been granted as Prospecting Rights and the remaining 128 have been accepted for further review.

**Canada – Osisko Mining Inc. Investment**

In August 2013, following an extensive search worldwide for high-quality properties, the Company partnered with Dundee Corporation to take control of Eagle Hill, ultimately investing a total of \$8.85 million to acquire a 26.25% in Eagle Hill. In August 2015, Eagle Hill was acquired by Osisko for a 258% premium over Eagle Hill's trading price in a four-company business combination. Pursuant to the completion of Osisko's court approved plan of arrangement involving Eagle Hill, Ryan and Corona, the Company received a total of 3,129,319 common shares of Osisko and Osisko tradable warrants exercisable into 1,564,660 common shares at \$3.00 per share, with an expiry date of August 25, 2018, in exchange for its common shares of Eagle Hill.

At the date of this MD&A, Southern Arc holds 160,000 Osisko tradeable warrants. The Company also holds 1,220,675 Osisko non-tradeable warrants exercisable into 1,220,675 common shares at \$4.00 per share with an expiry date of August 14, 2017. Southern Arc is holding its securities in Osisko for investment purposes. Southern Arc may, depending on market and other conditions, increase or decrease its beneficial ownership of Osisko's securities, whether in the open market, by privately negotiated agreements or otherwise, subject to a number of factors including general market conditions and other available investment and business opportunities.



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**SUMMARY OF QUARTERLY RESULTS**

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Total assets	\$ 17,063,255	\$ 12,797,665	\$ 16,976,654	\$ 7,828,413
Exploration properties	-	-	-	-
Working capital	9,112,101	5,340,106	6,655,225	134,798
Net income (loss)	4,120,479	(1,916,599)	(2,704,788)	1,233,263
Basic income (loss) per share	0.27	(0.13)	(0.18)	0.08
Basic and diluted income (loss) per share	0.21	(0.13)	(0.18)	0.08

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Total assets	\$ 3,788,191	\$ 5,283,640	\$ 6,809,915	\$ 5,685,639
Exploration properties	-	-	102,068	102,068
Working capital	3,509,188	4,540,039	5,915,712	(386,509)
Net income (loss)	(1,676,378)	(1,504,397)	1,245,292	1,389,548
Basic and diluted income (loss) per share	(0.12)	(0.14)	0.10	0.13

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2017**

During the three-month period ended March 31, 2017, the Company had a net income of \$4,120,479 compared to a loss of \$1,676,378 for the three-month period ended March 31, 2016. Significant fluctuations occurred in the following categories:

- a) During the quarter, the Company recorded a gain of \$3,784,497 relating to the sale of its investment in Osisko shares and warrants (March 31, 2016: loss of \$7,976). The Company also recorded an unrealized gain on changes in fair value of Osisko warrants of \$1,067,843 (March 31, 2016: Loss of \$1,157,434).
- b) During the quarter, the Company recorded its share of the loss in its investment in Tethyan of \$202,334 (March 31, 2016: \$Nil).
- c) During the quarter, the Company recorded an income tax recovery of \$79,024 (March 31, 2016: \$Nil) resulting from temporary differences arising from fair value adjustment on available-for-sale investments.
- d) Share-based compensation saw a reversal of \$486,409 (March 31, 2016: \$66,247) during the three-month period ended March 31, 2017 due to the revaluation of Japan Gold stock options granted. Share-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share-based compensation, the fair value of the Company's stock and the risk-free interest rate.
- e) Consulting fees in the current quarter were \$439,340 compared to \$82,497 in the same period in the previous quarter. This was higher due to increased activities related to the field work programs from Japan Gold during the three months ended March 31, 2017.
- f) Professional fees in the current quarter were \$14,901 compared to \$27,682 in the same period in the previous quarter.
- g) Marketing and travel expense of \$74,236 and \$185,169 respectively, related to expenditures from the Company's subsidiary, Japan Gold, for materials and marketing campaign for Japan Gold Corp.

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**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MARCH 31, 2017**

During the nine-month period ended March 31, 2017, the Company had a net loss of \$500,908 compared to a loss of \$1,935,483 for the nine-month period ended March 31, 2016. Significant fluctuations occurred in the following categories:

- a) During the period, the Company recorded a gain of \$4,699,253 relating to the sale of its investment in Osisko shares and warrants (March 31, 2016: Loss of \$166,613). The Company also recorded an unrealized gain on changes in fair value of Osisko warrants of \$327,559 (March 31, 2016: \$5,386,136).
- b) During the quarter, the Company recorded its share of the loss in its investment in Tethyan of \$202,334. In the previous period, the Company recorded \$111,711 in equity loss from its investment in Eagle Hill.
- c) Share-based compensation of \$1,656,932 (March 31, 2016: \$185,344) increased during the nine-month period ended March 31, 2017 due to the additional vesting of stock options granted to directors, officers, employees and consultants of Southern Arc (\$129,347) as well as the immediate vesting of options granted by the Company's subsidiary, Japan Gold (\$1,527,585). Share-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share-based compensation, the fair value of the Company's stock and the risk-free interest rate.
- d) Consulting fees in the current quarter were \$1,018,477 compared to \$275,609 in the same period in the previous quarter. This amount relates to consultants from Japan Gold as the subsidiary saw an increase in activities related to the field work programs incurred in Japan during the period.
- e) Professional fees in the current quarter were \$270,442 compared to \$79,282 in the same period in the previous quarter of which also related to increased activities within Japan Gold.
- f) Marketing and travel expense of \$536,425 and \$674,082 respectively, related to expenditures from the Company's subsidiary, Japan Gold, for materials and marketing campaign for Japan Gold.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash position at March 31, 2017 was \$8,331,201, an increase of \$8,058,015 from June 30, 2016. As at March 31, 2017, the Company's working capital was \$9,112,101 compared to a working capital of \$134,798 at June 30, 2016.

Net cash used in operating activities for the period ended March 31, 2017 was \$3,180,032 compared to net cash used of \$1,263,081 during the period ended March 31, 2016.

Net cash from investing activities during the period ended March 31, 2017 included cash proceeds received on sale of investments of \$7,191,252 (March 31, 2016 - \$749,433), cash received from redemption of short term investment from Japan Gold of \$5,580,000 (March 31, 2016: \$Nil), cash used in acquisition of equity investment in Tethyan of \$2,075,657 (March 31, 2016: \$Nil), cash used in acquisition of property, plant and equipment of \$43,032 (March 31, 2016: \$Nil) and cash received as part of the acquisition of Japan Gold of \$541,484.

Financing activities during the period ended March 31, 2017 of \$44,000 related to cash received from the exercise of options and warrants. In the previous quarter ended March 31, 2016, the Company received proceeds of \$146,242 from a related party loan and subsequently repaid the full amount of \$404,691 against the related party loan.

The accompanying condensed consolidated interim financial statements 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 does not currently generate any revenues or have operations which generate cash flows. Accordingly, the Company relies on financing received from the issuances 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 this MD&A. As a result, the Company will require cash injections by way of selling its investments or obtaining additional financing in order to fund planned 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

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cast significant doubt upon the Company's ability to continue as a going concern. The condensed consolidated interim 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.

**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:

	<b>Three months ended March 31, 2017</b>	Three months ended March 31, 2016	<b>Nine months ended March 31, 2017</b>	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 J. Proust & Associates Inc., a private company controlled by John Proust, 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 Michael Andrews, 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 previous year ended June 30, 2016, an additional US\$119,571 was advanced to the Company by Michael Andrews. 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 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.

**CURRENT SHARE DATA**

As at the date of this MD&A, the Company had 15,225,616 common shares issued, of which 15,095,616 are outstanding and 130,000 are treasury shares.

On November 27, 2015, the Company granted 959,000 stock options to directors, officers, employees and consultants with an exercise price of \$0.32 with an expiry period of five years. These options vested 25% immediately, with the remainder to vest 25% every six months thereafter. During the period ended March 31, 2017, the Company recorded share-based compensation of \$129,347 (March 31, 2016: \$185,344) as a result of the vesting of options granted. The remaining \$1,527,585 was a result of the immediate vesting of options granted by the Company's subsidiary, Japan Gold.

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As at May 25, 2017, the Company had share options outstanding as follows:

	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Options</b>	909,000	\$ 0.32	November 26, 2020
	909,000		

As at the date of this MD&A, the Company had 4,066,667 share purchase warrants outstanding exercisable at \$0.32 until January 26, 2021.

## **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.

## **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.

## **RISKS AND UNCERTAINTIES**

The nature of the Company's operations exposes the Company to credit risk, liquidity risk, market risk and geopolitical 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**

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 assess the collectability and fair value of this receivable at each reporting period.

### **Liquidity risk**

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 in the accompanying financial statements.

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**Market risk**

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. Also, the value of the shares in Osisko changes based on the quoted market price of those shares, which could impact net loss and comprehensive income (loss). A 1% change (plus or minus) in the price of Osisko's shares would change the fair value of the shares by approximately \$43,920 and a 1% change in the market price of the warrants would change the fair value of by approximately \$10,369.

**Foreign exchange risk**

The Company currently 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.

**Geopolitical risk**

The Company has properties in Indonesia, in addition, the Company has a 42.57% interest in Japan Gold, which has prospecting rights license applications and Prospecting Rights in Japan and a 29.9% interest in Tethyan Resources which has projects in Serbia. As such, the Company is subject to political, economic and other uncertainties, including, but not limited to, changes in policies and regulations or the personnel administering them, changes with regard to foreign ownership of property rights, exchange controls and royalty and tax increases, and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are to be conducted, as well as risks of loss due to civil strife, acts of war and insurrections. If a dispute arises regarding the Company's property interests, the Company cannot rely on western legal standards in defending or advancing its interests.

**Industry**

The Company is engaged in the acquisition and exploration of and investment in resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of economically mineable deposits. The focus of the Company is on areas in which the geological setting is well understood by management.

**Gold and metal prices**

The price of gold is affected by numerous factors beyond the control of the Company including central bank sales, producer hedging activities, the relative exchange rate of the US\$ with other major currencies, demand, political and economic conditions and production levels. In addition, the price of gold has been volatile over short periods of time due to speculative activities. The prices of other metals and mineral products for which the Company may explore all have the same or similar price risk factors.

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**Trends**

Continued strength in the US dollar, decreasing oil prices and the stable gold price increases demand, especially from Asia, and perception of increased risk in major financial markets has supported a discernible need for the development of commodity exploration projects. Junior companies, like Southern Arc, are key participants in identifying properties of merit to explore and develop.

**CRITICAL ACCOUNTING POLICIES**

Reference should be made to the Company's significant accounting policies contained in Note 2 of the Company's audited consolidated financial statements as at June 30, 2016 and 2015. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

**Significant accounting judgment and estimates**

The preparation of the financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. 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 economic conditions and other factors, including expectations of future events that are believed to be reasonable under the 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 '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 it has significant influence of Tethyan Resource plc (note 5) as it holds a 29.9% ownership interest in an associate. Associates are entities over which the Company has significant influence but not control, generally when the Company's shareholdings is between 20% to 50% of the voting rights. Investment

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in associates are therefore accounted for using the equity of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

- iv) The determination of a subsidiary's functional currency often requires significant judgement where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

**Financial instruments**

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

For other financial assets and liabilities, subsequent measurement is as follows:

*Subsequent measurement*

Financial assets

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

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

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

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

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

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

Financial liabilities

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

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

*Other financial liabilities* - This category includes accounts payable and accrued liabilities and due to related parties which are initially recognized at fair value and subsequently are recognized at amortized cost at the settlement date using the effective interest method of amortization.

**Fair value**

International Financial Reporting Standards ("IFRS") require disclosure about fair market 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 considered derivatives and 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.

**New accounting standards and pronouncements**

- 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.
- 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.
- 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.

**QUALIFIED PERSON AND QUALITY CONTROL AND ASSURANCE**

*The technical information in this document has been reviewed by Dr. Michael Andrews, Southern Arc's President & Chief Operating Officer, PhD, FAusIMM, who has sufficient experience relevant to the style of mineralization under consideration and qualifies as a Qualified Person as defined by National Instrument 43-101.*

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-*



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looking terminology such as “anticipates”, “plans”, “budget”, “scheduled”, “continue”, “estimates”, “forecasts”, “expect”, “is expected”, “project”, “propose”, “potential”, “targeting”, “intends”, “believes” or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might”, or “will be taken”, “occur” or “be achieved” or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by readers, as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company and its joint venture partners on its properties and work plans to be conducted.

With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving mining, exploration and other permits in Indonesia;
- the impact of increasing competition;
- unpredictable changes to the market prices for gold, copper and other commodities;
- availability of additional financing and farm-in or joint-venture partners;
- anticipated results of exploration and development activities;
- the Company's ability to sell the securities in its investments for a profit, or at all;
- the Company's ability to obtain additional financing on satisfactory terms or at all.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A: volatility in the market price for minerals; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral and oil and gas operations; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing and farm-in or joint venture partners and unpredictable weather conditions. Although the Company has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.