



MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND SIX MONTHS ENDED
DECEMBER 31, 2013**

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

This Management's Discussion and Analysis ("MD&A"), prepared as of February 27, 2014, 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, 2013, and the unaudited condensed consolidated interim financial statements for the three and six-month periods ended December 31, 2013 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 and on the Company's website at 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 (collectively "Southern Arc" or "the Company"), is a mineral exploration company exploring for gold and copper-gold. The Company's current portfolio includes two exploration-stage projects with epithermal gold and copper-gold porphyry prospects on the Lombok and Sumbawa islands in Indonesia, and a substantial investment in a resource-stage gold project located in Quebec, Canada.

Southern Arc was incorporated in British Columbia, Canada on August 19, 2004. To date the Company's efforts have been focused in Indonesia. At its flagship West Lombok project, which hosts several gold-rich copper porphyry and epithermal gold vein prospects, Southern Arc has completed approximately 47,720 metres of drilling and in July 2013 completed a resource estimate for the project. The Company's East Elang project is a grassroots exploration property that will be advanced in partnership with Vale International S.A. ("Vale"). In December 2012, the Company reached an agreement to sell its third Indonesian property, Taliwang, and the property has been classified as an Asset Held for Sale pending completion of a sale.

In December 2012 the Company announced its intention to diversify its portfolio by investing in gold properties outside of Indonesia. The Company conducted an extensive search worldwide for high-quality properties, and on August 14, 2013 invested \$7.3 million to acquire a 26.14% interest in Eagle Hill Exploration Corporation ("Eagle Hill") (TSX-V: EAG). Eagle Hill owns the high-grade Windfall Lake Gold Deposit in Quebec, Canada. As part of its investment, Southern Arc received 48,827,000 warrants entitling Southern Arc to acquire a further common share of Eagle Hill at a price of \$0.10 per share for a period of four years. Dundee Corporation (TSX: DC.A) also participated in the private placement by investing \$4,675,950 to acquire an additional 62,346,000 shares and 31,173,000 warrants of Eagle Hill, thereby increasing its ownership of Eagle Hill from 18.8% to 26.14%. The total investment of \$12 million that allowed Eagle Hill to consolidate ownership of the property and fund an aggressive drill program, with the objective of expanding and potentially upgrading the existing mineral resource.

Southern Arc trades on the TSX Venture Exchange under the symbol "SA" and on the OTCQX International Exchange under the symbol "SOACF". 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.

FINANCIAL SNAPSHOT

	December 31, 2013	June 30, 2013
Total assets	\$ 13,412,252	\$ 18,192,286
Exploration properties	102,068	102,068
Working capital	5,207,824	16,060,362
Comprehensive loss	(4,752,718)	(41,945,170)
Basic and diluted loss per share	(0.04)	(0.38)

At the date of this MD&A, Southern Arc had approximately \$4.8 million in working capital.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

RECENT DEVELOPMENTS

Indonesian Properties

Since releasing a resource estimate for the West Lombok project in July 2013, Southern Arc has maintained low-level activities at West Lombok while continuing to advance discussions with a number of companies for a potential farm-in, partnership or outright sale of the property. While Southern Arc believes the West Lombok project holds great potential, the Company has determined that it can more effectively build shareholder value by identifying a funding partner for West Lombok and redirecting the Company's treasury to high-quality projects in stable jurisdictions. Southern Arc remains confident that it will find a suitable arrangement, and is working diligently to conclude a transaction that will bring value to the Company.

During the quarter, Southern Arc renegotiated the purchase and sale agreement for its Taliwang project whereby an individual (the "Purchaser") will purchase Taliwang in exchange for US\$1,600,000 and the granting of a 5% net smelter royalty to Southern Arc. The Purchaser has the option to buy back 3% of the net smelter royalty by paying Southern Arc US\$3,000,000. The Purchaser has made two payments to Southern Arc totaling US\$400,000 and will pay Southern Arc an additional US\$1,200,000 in four consecutive weekly installments of US\$300,000. Each weekly installment received by Southern Arc is non-refundable and Southern Arc is entitled to retain its interest in the Taliwang property in the event that the Purchaser fails to pay any of the required weekly installments. The Taliwang property has been classified as an Asset Held for Sale pending completion of this transaction. The Taliwang property has been classified as an Asset Held for Sale pending completion of this transaction.

Eagle Hill Investment

On August 14, 2013, Southern Arc and Dundee Corporation invested a total of \$12 million into Eagle Hill, which was used partially to fund an aggressive drill program at Eagle Hill's Windfall Lake Gold Project. From September to December 2013 Eagle Hill drilled a total of 28,232 metres in 68 drillholes (including one extension and six wedges) with the objective of expanding the known mineral resource. The drill program was focused in three areas: testing a large, sparsely drilled anomaly to the southwest of the Main Zone, drilling lateral extensions of known gold lenses within the Main Zone, and testing the extension of mineralization at depth below the non-mineralized monzonite intrusion ("Red Dog"). Eagle Hill also completed a hole-to-hole Induced Polarization ("IP") survey to identify anomalies below Red Dog, and the first surface IP survey in the south part of the property where surface exploration had identified NE-trending lineaments similar to the Main Zone. The drill program successfully achieved Eagle Hill's objective of proving that mineralized zones continue beyond the current limit of the known Windfall Lake resource to the southwest and below the Red Dog sill, leaving the deposit open for expansion. All drill results have been released and are available on SEDAR at www.sedar.com and on Eagle Hill's website at www.eaglehillexploration.com.

On December 30, 2013, Eagle Hill completed a private placement to third parties which resulted in a decrease in the Company's equity interest in Eagle Hill from 26.14% to 24.90%.

PROPERTY REVIEW AND OUTLOOK

The Company's accounting policy is to record its exploration properties at cost. Exploration and evaluation expenditures relating to exploration properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or the properties are sold or abandoned, at which time deferred costs are written off.

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. The two main epithermal prospects on the property, Pelangan and Mencanggih, cover broad areas of 4 km by 5 km and 6.5 km by 4.5 km, respectively, that host numerous structurally-controlled silica ledges variably overprinted by high-grade quartz veins and breccias. Individual tabular ledge bodies range in thickness from 2 to 66 metres, with a strike length of up to 1,000 metres and a vertical extent of greater than 300 metres. 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

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

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. Industry experts including Dr. Steve Garwin, Southern Arc's Senior Technical Advisor, modelled and interpreted the results of the survey in conjunction with the Company's geological and geochemistry database, and identified 17 porphyry targets on the property. A number of these targets have already had a limited amount of drill testing and demonstrated zones hosting high-grade gold-rich porphyry copper mineralization, supporting the outcome of the prospectivity analysis. All drill results and details regarding the prospective study are available on the Company's website and on SEDAR.

On November 20, 2012, Southern Arc announced that the forestry permit required to conduct drilling on the property, known as a *Pinjam Pakai* (borrow to use) permit, had been received, allowing Southern Arc to commence drilling. Commencing in mid-December 2012 Southern Arc drilled 14 holes at the Bising target and 16 holes at the Tibu Serai target in the Mencangghah prospect. Drill results are available on SEDAR and on the Company's website.

With this phase of drilling complete, Southern Arc had enough data to complete a National Instrument 43-101 compliant resource estimate for portions of the property. Southern Arc had worked closely since December 2011 with SRK, an internationally renowned, independent consulting service to major, intermediate and junior mining and exploration companies. SRK helped to prepare the drill program for epithermal gold targets within the Pelangan and Mencangghah prospects and reviewed the data throughout the drilling process. On July 11, 2013, Southern Arc released the first resource estimate for the West Lombok property (see July 11, 2013 press release). SRK estimated an inferred resource totalling 1.49 million ounces of gold, 1.82 million ounces of silver and 397.3 million pounds of copper from three open-pit table 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.

The Company has spent \$35 million to date on its West Lombok property. During the year ended June 30, 2013, the Company conducted a review of the value of its West Lombok property under IFRS rules and determined that its value had been impaired as a result of challenging market conditions and significantly decreased valuation for junior mining companies. As a result, the Company recorded an impairment provision of \$35.0 million in the fourth quarter and recorded a mineral property write-off of this amount during the year ended June 30, 2013.

Since releasing West Lombok resource estimate in July 2013, Southern Arc has maintained low-level activities at West Lombok while continuing to advance discussions with a number of companies for a potential farm-in, partnership or outright sale of the property. While Southern Arc believes the West Lombok project holds great potential, the Company has determined that it can more effectively build shareholder value by identifying a funding partner for West Lombok and redirecting the Company's treasury to high-quality projects in stable jurisdictions. Southern Arc remains confident that it will find a suitable arrangement, and is working diligently to conclude a transaction that will bring value to the Company.

The Company acquired its original interest in the West Lombok property in 2005 by paying \$57,100 and issuing 8,050,000 common shares (valued at \$603,750) to Sunda Mining Corporation ("Sunda") and by paying \$126,000 and issuing 700,000 common shares (valued at \$87,500) to Indotan Inc. ("Indotan"). The Company also granted a 0.5% net smelting royalty ("NSR") to individuals related to Sunda and a 1% NSR to Indotan on approximately 8% of the current West Lombok property, which excludes Block 1 described below.

Block 1 was previously held by PT Newmont Nusa Tenggara ("Newmont"), a subsidiary of Newmont Mining Corporation. In August 2005, Southern Arc entered into an agreement with Newmont regarding a property ("Block 1") that now forms the western portion of the West Lombok property and is included in the West Lombok IUP. The acquisition was completed through a relinquishment by Newmont of the Block 1 area. The terms of the agreement include granting Newmont a 2% NSR on any mineral production from the Block 1 area and a right of first refusal should the Company wish to introduce a new partner into any development within the area originally covered by Block 1. The Company has the right to repurchase this 2% NSR for US\$1 million at any time.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

Southern Arc has given a free-carry interest for 10% of the West Lombok project to the local Regency Government as per a cooperation agreement signed in December 2010, ensuring government support for the project and long-term benefits for local communities as the project advances. Southern Arc believes that having the local Regency Government as an equity partner creates a synergistic and mutually beneficial environment for advancement of the project. This relationship ensures it is in the local government's interest to support the Company's activities and that local communities will receive benefits directly from Southern Arc's success at the project. The Regency interest is loan-carried through to a production scenario, whereby debt and equity contribution are paid back through dividends or other financial means.

The exploration stage of the West Lombok IUP (encompassing 10,088 hectares), issued in January 2011, is initially valid for five years and permits the Company to pursue exploration activities up to the conclusion of a feasibility study. This period may be extended with approval of the Indonesian Government. On approval of a feasibility study, the Company can automatically transition the IUP into the exploitation stage, with the right to conduct mining production on this property for 20 years with the potential for two further 10-year extension periods. In addition to the IUP, the Ministry of Forestry *Pinjam Pakai* permit required for exploration activities within areas designated as production forest was issued in November 2012. On the West Lombok property, 1.1% of the area is designated protected forest (no open-pit mining), 55.1% is designated production forest (open-pit mining allowed) and 43.8% has no forestry designation (no restriction on mining activities).

Since receiving its West Lombok IUP in January 2011, Southern Arc has proactively engaged with local communities to discuss its exploration and development plans and to address questions and concerns. The Company offers employment and training programs and undertakes an extensive CSR program through its fully-funded foundation, with an emphasis on education, community health, environmental protection and economic empowerment of local communities. In 2013 the Company has continued to support local communities by assisting with road maintenance and supporting requests for assistance with educational programs and maintaining religious buildings.

East Elang Property (Sumbawa Island)

The East Elang property covers 9,670 hectares immediately to the east of Newmont's Elang-Dodo property, which hosts a large copper-gold porphyry deposit. Southern Arc acquired the East Elang property in 2006 by way of a mining license, which was subsequently transitioned into a seven-year IUP license in December 2009. The IUP is held by Southern Arc's subsidiary, PT. Selatan Arc Minerals.

In October 2010, the Company entered into an option and joint venture agreement with Vale to advance the East Elang property. Vale can 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. Phase 1 exploration would require a minimum of US\$1,200,000 of exploration expenditures within one year from the date that Southern Arc receives a *Pinjam Pakai* permit from the Ministry of Forestry.

On the East Elang property, 60.3% of the area is designated primary forest, 34.2% is designated production forest and 5.5% has no forestry classification. The Indonesian government has imposed a moratorium on exploration and mining activities in areas designated as primary forest, and has extended the moratorium to May 2015. While the property is considered highly prospective due to its location and results from aerial surveys, exploration of this property has been deferred pending reclassification of the property's forestry status and receipt of the appropriate permits. Unless such reclassification is granted or the moratorium lifted, the Company cannot commence any significant exploration activities on the property. Southern Arc has requested reclassification of the property and has applied to the Regency authorities for suspension (back-dated from the commencement of the forestry moratorium in May 2011) of the IUP license until the reclassification process has been completed, to ensure Southern Arc and Vale have adequate time to evaluate the property once exploration commences.

Taliwang Property (Sumbawa Island)

In December 2012, following a strategic review of the Company's projects and exploration strategy, the Company agreed to sell its 90% interest in the Taliwang project in exchange for US\$500,000 and 15 million shares of the acquiring company, Coke Resources Limited ("Coke"). The transaction was contingent on Coke completing its initial public offering on the Australian Securities Exchange and certain other conditions. Coke was unable to complete its initial public offering, but an individual related to Coke (the "Purchaser") proposed to continue with the transaction on substantially the same terms. In August 2013, Southern Arc has agreed to a revised purchase and sale agreement whereby the individual would purchase Taliwang in exchange for US\$3,500,000, of which US\$100,000 was received as a non-refundable deposit. As a result, during

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

the year ended June 30, 2013, the Company recognized a \$3,291,080 impairment provision against its book value of the Taliwang property. The Taliwang property was classified as an Asset Held for Sale pending completion of this transaction.

In February 2014, Southern Arc and the Purchaser renegotiated the terms of the purchase and sale agreement, whereby the Purchaser will purchase Taliwang in exchange for US\$1,600,000 and the granting of a 5% net smelter royalty to Southern Arc. The Purchaser has the option to buy back 3% of the net smelter royalty by paying Southern Arc US\$3,000,000. As a result of the renegotiation, Southern Arc has recognized an additional \$1,889,096 of impairment provision against its book value of the Taliwang property. The Purchaser has made two payments to Southern Arc totaling US\$400,000 and will pay Southern Arc an additional US\$1,200,000 in four consecutive weekly installments of US\$300,000 each. The Taliwang property has been classified as an Asset Held for Sale pending completion of this transaction.

Windfall Lake Gold Project (Quebec, Canada) – Eagle Hill Investment

In August 2013, following an extensive search worldwide for high-quality properties, the Company partnered with Dundee Corporation to invest a total of \$12 million in Eagle Hill. Immediately following approval of the private placement, Eagle Hill's board of directors and executive team was reconstituted. John Proust and Dr. Mike Andrews, also Directors of Southern Arc, were appointed to the board along with David Christie and Carl Calandra, representing Dundee Corporation. Robert Parsons and Daniel Racine have also been appointed to the board as independent directors. John Proust was appointed Interim CEO of Eagle Hill and Dr. Mike Andrews was appointed Interim President of Eagle Hill.

Eagle Hill owns the high-grade Windfall Lake Gold Deposit in Quebec, Canada. Windfall Lake is located in the Abitibi Gold Belt, a highly favourable jurisdiction for exploration and mining. The greenstone belts of the Abitibi region constitute one of the most prolific gold-producing regions in the world, having produced over 170 million ounces of gold to date. The project is easily accessible by paved highways and all-weather gravel roads and has substantial infrastructure on site, including a 58-person camp and a 1,450-metre access ramp (vertical depth of 100 metres).

The \$12 million private placement allowed Eagle Hill to acquire Noront Resources Inc.'s ("Noront") 25% interest, as well as Noront's royalty interests and rights associated with the Windfall Lake Property. This consolidation gave Eagle Hill 100% of the Main Zone, which hosts the majority of the known mineral resource. A resource estimate completed for the Windfall Lake project in July 2012 by SRK Consulting (Canada) Inc. ("SRK") outlined a mineral resource of 538,000 ounces @ 10.05 g/t gold in the indicated category and 822,000 ounces @ 8.76 g/t gold in the inferred category (see Eagle Hill press release dated July 25, 2012). Eagle Hill owns 100% of the Main Zone, which hosts the majority of the mineral resource, and has the right to earn up to 100% of the surrounding claims. With grades averaging 10.05 g/t gold in the indicated category, Windfall Lake is one of the highest-grade development-stage gold projects in the world.

The \$12 million private placement also funded an aggressive drill program. From September 12 to December 20, 2013, Eagle Hill completed a total of 28,232 metres of diamond drilling in 68 drillholes (including one extension and six wedges), with the objective of expanding the known mineral resource. The drill program was focused in three areas: testing a large, sparsely drilled anomaly to the southwest of the Main Zone, drilling lateral extensions of known gold lenses within the Main Zone, and testing the extension of mineralization at depth below the non-mineralized Red Dog intrusion ("Red Dog"). Eagle Hill also completed a hole-to-hole Induced Polarization ("IP") survey to identify anomalies below Red Dog, and the first surface IP survey in the south part of the property where surface exploration had identified NE-trending lineaments similar to the Main Zone.

Southwest of Main Zone

The first 11 holes (4,821 metres) in the Fall 2013 drill program tested geophysical anomalies southwest of the tested limit of the Main Zone gold mineralization. Eagle Hill drilled three sections, stepping out 150, 300 and 500 metres along strike. Each section intersected significant gold mineralization, confirming the potential to extend the known gold resource in this direction. Eagle Hill then drilled an additional 3,552 metres in seven drillholes and one wedge to follow up on EAG-13-472 and EAG-13-478. Drilling highlights include:

Section 1825	EAG-13-472	6.58 g/t gold over 3.5 m from 765.5 m
Section 1825	EAG-13-478	3.01 g/t gold over 10.2 m from 561.0 m
Section 1875	EAG-13-506	16.7 g/t gold over 1.0 m from 49.0 m

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

Section 1800	EAG-13-523	28.7 g/t gold over 0.4 m from 28.7 m
Section 1825	EAG-13-524	9.1 g/t gold over 0.9 m from 435.9 m

Main Zone Extensions

A total of 44 holes for 18,391 metres were drilled in the Main Zone to test for extensions of the major resource lenses (the Zone 27, Caribou, Mink and Mallard zones). Drilling confirmed the continuity of gold mineralization in higher-grade shoots and more specifically in Zone 27, which hosts the bulk of the mineral resource at Windfall Lake. A number of drillholes successfully expanded Zone 27 by another 40 metres to the southwest and up-plunge. Eagle Hill also continued to intersect high-grade gold mineralization in the Mink Lens, successfully expanding the Mink Lens 50 metres down-dip and 60 metres to the ENE. Drilling highlights in the Main Zone include:

Section 2075	EAG-13-528 inc.	3.3 g/t gold over 22 m from 25.0 m 28.0 g/t gold over 1.7 m from 26.0 m
Section 2175	EAG-13-527 inc. inc.	415.7 g/t gold over 7.8 m from 226.2 m 1,196 g/t gold over 2.7 m from 229.6 m 6,070 g/t gold over 0.5 m from 231.0 m
Section 2300	EAG-13-512 inc.	3.9 g/t gold over 15.0 m from 292.0 m 19.4 g/t gold over 2.5 m from 304.0 m
Section 2675	EAG-13-511 inc.	6.3 g/t gold over 8.1 m from 671.0 m 48.2 g/t gold over 0.8 m from 675.0 m

Drilling at Depth

Eagle Hill drilled three holes for 1,469 metres below Red Dog to test the extension of Zone 27 gold mineralization identified with EAG-12-320 (5.5 g/t gold over 15.0 m, see Eagle Hill press release dated March 1, 2012). Two wedges were set in EAG-12-320 and EAG-11-294 was extended. Drilling confirmed continuity of the mineralization over a distance of more than 40 metres. Drilling highlights include:

Section 2500	EAG-13-320-W1 inc. and	37.3 g/t gold over 11.2 m from 752.5 m 166.5 g/t gold over 0.6 m from 755.5 m 289.0 g/t gold over 0.8 m from 785.2 m
Section 2500	EAG-13-294-EXT	12.3 g/t gold over 3.2 m from 710.1 m

Outlook

Eagle Hill's Fall 2013 drill program and the ongoing geological modelling confirmed that the bulk of the gold mineralization at Windfall Lake is hosted in Zone 27, a sub-vertical lens extending from surface to a depth of 500 metres. This main gold-bearing lens is intimately associated with a sub-vertical porphyry dyke. Gold mineralization intersected below Red Dog is also associated with a porphyry dyke that extends further at depth. Eagle Hill believes that the gold mineralization extends further at depth, as highlighted by the results of the recently completed hole-to-hole IP survey.

Eagle Hill has commenced a 2,200-metre drill program to test for extensions of Zone 27 under shallow lakes (2 to 6 metres depth) that are currently frozen. Eagle Hill plans to drill 14 holes to a depth of 120 to 250 metres to test the lateral extensions of Zone 27, where drilling has confirmed near-surface high-grade intervals such as 14.8 g/t over 16.0 metres (EAG-12-418).

Later in 2014 Eagle Hill plans to drill additional holes at depth below Red Dog, and also plans to drill infill holes to the southwest of the Main Zone to identify a mineral resource in this area. Additional drilling for 2014 will be planned once Eagle Hill has reviewed the results of the mineral resource update, which will include SRK's recommendations for advancing the property.

Eagle Hill will release an updated mineral resource estimate in Q1-2014. Eagle Hill has more than 57,000 metres of new drilling to incorporate into the updated resource estimate, with 28,232 metres from the current drill program, and 106 holes totalling 29,208 metres that were drilled after the 2012 resource estimate and prior to the current program. All drill results have been released and are available on SEDAR at www.sedar.com and on Eagle Hill's website at www.eaglehillexploration.com.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

SUMMARY OF QUARTERLY RESULTS

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total assets	\$ 13,412,252	\$ 16,675,188	\$ 18,192,286	\$ 53,939,440
Exploration properties	102,068	102,068	102,068	37,212,907
Working capital	5,207,824	8,146,387	16,060,362	15,164,760
Net loss	(3,234,969)	(1,517,749)	(35,487,971)	(527,628)
Basic and diluted loss per share	(0.03)	(0.01)	(0.32)	(0.00)

	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Total assets	\$ 54,333,738	\$ 60,321,920	\$ 60,884,512	\$ 62,872,227
Exploration properties	35,612,324	38,808,405	37,430,624	35,680,748
Working capital	17,208,413	19,027,865	21,035,112	22,901,030
Net loss	(5,172,518)	(757,053)	(1,184,372)	(1,272,920)
Basic and diluted loss per share	(0.05)	(0.01)	(0.01)	(0.01)

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

During the three months ended December 31, 2013, the Company had a net loss of \$3,234,969 compared to a loss of \$5,172,518 for the three months ended December 31, 2012. Significant fluctuations occurred in the following categories:

- a) Negative share-based compensation of \$12,476 (2012: expenses of \$134,862) was due to a reversal of previously recognized share-based compensation for unvested options cancelled during the period. 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.
- b) Foreign exchange gain of \$54,335 was lower during the three months ended December 31, 2013 (2012: \$64,577) primarily due to lower US\$ cash balances and the net effect fluctuation of the US\$/CDN\$ exchange rate had on the CDN\$ equivalent of the Company's holdings in its US\$ bank balance and its US\$ payables balance.
- c) Management fees increased to \$296,700 compared to \$203,500 in 2012 and are discussed in detail in the Related Parties section.
- d) Travel expenses of \$30,737 (2012: \$23,502) increased as a result of higher level of executive travel during the period.
- e) Interest income of \$12,202 (2012: \$40,907) decreased during the period as a result of lower cash balances.
- f) The Company wrote-off an additional \$454,339 (2012: \$4,541,049) of exploration expenditures incurred on the West Lombok and Taliwang properties during the period.
- g) Transfer and filing fees of \$44,017 (2012: \$25,635) were higher due to the increased timing of regulatory filing fees billed to the Company during the three months ended December 31, 2013.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED DECEMBER 31, 2013

During the six-month period ended December 31, 2013, the Company had a loss of \$4,752,718 compared to a loss of \$5,929,570 for the comparable period ended December 31, 2012. Significant fluctuations incurred in the following categories:

- a) Share-based compensation of \$14,893 (2012: \$228,353) decreased as a result of a reversal of previously recognized share-based compensation for unvested options cancelled during the period. 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 risk-free interest rate.
- b) Foreign exchange loss of \$7,141 was realized during the period ended December 31, 2013 (2012: \$63,946) primarily due to the effect the fluctuation of the US\$/CDN\$ exchange rate had on the Canadian equivalent of the Company's holdings and transactions in its US\$ bank balance and US\$ payables balance.
- c) Management fees increased to \$516,000 (2012: \$419,500) and are discussed in detail in the Related Parties section.
- d) Office and miscellaneous expenses decreased to \$367,083 (2012: \$431,890) as a result of lower levels of corporate activities.
- e) Professional fees of \$192,518 (2012: \$169,505) increased as a result of higher corporate legal activity during the period.
- f) Travel expenses of \$42,275 (2012: \$23,502) were higher as a result of increased executive travel during the period.
- g) Interest income of \$43,796 was realized during the six-month period ended December 31, 2013 (2012: \$97,234).
- h) During the six-month period ended December 31, 2013, the Company invested \$878,781 of cash (2012: \$4,078,112) on exploration properties and received \$19,677 on a disposal of property, plant and equipment (2012: \$nil).
- i) During the six-month period ended December 31, 2013, the Company wrote-down \$896,251 (2012: \$nil) of exploration costs relating to the West Lombok property and \$113,397 (2012: \$nil) of exploration costs relating to the Taliwang property relate that were incurred during the period (2012: \$nil).
- j) During the six-month period ended December 31, 2013, the Company did not have any further write-down in the Sabalong property (2012: \$1,192,789).
- k) During the six-month period ended December 31, 2013, the Company recognized a \$1,889,096 (2012: \$nil) impairment provision against its book value of the Taliwang property.
- l) During the six-month period ended December 31, 2013, the Company recognized a loss on its equity investment in Eagle Hill of \$593,948 (2012: \$nil).

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position at December 31, 2013 was \$3,867,724, a decrease of \$12,866,306 from June 30, 2013. As at December 31, 2013, the Company's working capital was \$5,207,824 compared to a working capital of \$16,060,362 as at June 30, 2013. The decrease is primarily due to \$7,324,050 of cash used for the investment in Eagle Hill along with exploration activities on the Indonesian properties. As at the date of this MD&A, the Company's working capital balance is approximately \$4.8 million.

Net cash used in operating activities for the six-month period ended December 31, 2013 was \$1,371,385 compared to net cash of \$502,594 used during the six-month period ended December 31, 2012. The cash used in operating activities reflects the higher level of corporate activity and a decrease in the accounts payable balance during the period.

Net cash used in investing activities during the six-month period ended December 31, 2013 was \$7,597,362 compared to net cash of \$4,078,112 used during the six-month period ended December 31, 2012. The Company invested \$874,781 cash (2012: \$4,078,112) on exploration properties, \$6,742,258 (net of deposit of \$865,000 paid in Q4-2013) in the Eagle Hill investment (2012: \$nil) and received cash of \$19,677 from selling a company vehicle.

There were no financing activities during the six months ended December 31, 2013 and 2012.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

RELATED PARTY TRANSACTIONS

Key management and personnel compensation

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

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
Management fees	\$ 296,700	\$ 203,500	\$ 516,000	\$ 419,500
Consulting services	\$ 64,259	\$ 133,659	\$ 137,559	\$ 234,064
Drilling services	\$ 45,770	\$ 233,807	\$ 107,701	\$ 365,745
Share-based compensation	\$ (23,122)	\$ 116,896	\$ (8,493)	\$ 207,054

During the period ended September 30, 2013, the Company paid \$516,000 (2012: \$419,500) for 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, as well as certain office expenses.

During the year end June 30, 2011, the Company entered into a contract with a company controlled by a director and officer of the Company for drilling services at the Company's West Lombok property. This contract was awarded under a competitive bidding process and all charges under the contract are considered to be at market rates. During the period ended December 31, 2013, the Company paid a total of \$107,701 (2012: \$365,745) for drilling services pursuant to the contract.

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 has 109,214,510 common shares issued, of which 107,914,510 are outstanding and 1,300,000 are treasury shares. The Company has the following share options outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	3,050,000	\$ 0.40	September 16, 2014
	2,650,000	\$ 0.80	July 19, 2015
	400,000	\$ 2.00	January 18, 2016
	300,000	\$ 1.85	February 11, 2016
	300,000	\$ 1.70	June 22, 2016
	200,000	\$ 1.71	July 11, 2016
	200,000	\$ 1.11	August 17, 2016
	815,000	\$ 0.90	November 14, 2016
	300,000	\$ 0.25	July 18, 2017
	250,000	\$ 0.25	May 10, 2018
	500,000	\$ 0.10	November 7, 2018
	<u>8,965,000</u>		

As at the date of this MD&A, the Company has no share purchase warrants outstanding.

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.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

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 counter-party'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 fair value or carrying value of the financial assets. The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Receivables are amounts receivable from the Canadian federal government for the refundable HST/GST amounts. The credit risk on these amounts is minimal.

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.

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 the 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 Company is exposed to market risk as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations, devaluations and risks associated with legal and political issues in a developing-country environment. The Company minimizes cash and monetary assets or liabilities in Indonesia.

At December 31, 2013, the Company had US\$188,666 (approximately CDN\$200,665) and Indonesian Rupiah ("Rph") 51,025,386 (approximately CDN\$4,439) in cash, and US\$435,093 (approximately CDN\$462,765) and Rph 234,700,118 (approximately CDN\$20,419) in accounts payable and accrued liabilities. As at December 31, 2013, US\$ amounts were converted at a rate of US\$0.9402 to CDN\$1 and Rph amounts were converted at a rate of Rph 11,494 to CDN\$1.

Geopolitical risk

The majority of the Company's properties and operations are located in Indonesia. 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.

In August 2013, the Company undertook a significant investment to diversify its geopolitical risk and invested \$7.3 million to purchase an equity interest in Eagle Hill, which is advancing a high-quality gold project located in Quebec, Canada. At the date of this MD&A the Company held a 24.9% interest in Eagle Hill.

Fair value

The fair value of the Company's financial instruments is approximated by their carrying value as at December 31, 2013 due to their short-term nature. 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:

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

- 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.

Financial instruments measured at fair value on December 31, 2013 and June 30, 2013 is summarized in levels of fair value hierarchy as follows:

December 31, 2013	Level 1	Level 2	Level 3
Assets			
Cash	\$ 3,867,724	\$ -	\$ -
June 30, 2013			
Assets			
Cash	\$ 12,866,306	\$ -	\$ -

The Company's financial instruments consist of cash, receivables, loans receivable, accounts payable and accrued liabilities.

INDUSTRY

The Company is engaged in the acquisition and exploration of 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.

TRENDS

Continued strength in gold and other commodity prices, increasing 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.

SHAREHOLDER RIGHTS PLAN AND BONUS AND COMPENSATION PLAN

The Company's Shareholder Rights Plan dated effective November 7, 2013 (the "Plan") is designed to ensure the fair treatment of shareholders in connection with any take-over bid for outstanding common shares of the Company. The Plan seeks to provide shareholders with adequate time to properly assess a take-over bid without undue pressure. It also provides the Board of Directors with adequate time to fully assess an unsolicited take-over bid, to allow competing bids to emerge, and, if applicable, to explore other alternatives to the take-over bid to maximize shareholder value.

The Plan is not intended to prevent or deter take-over bids that treat shareholders fairly. Under the Plan, those bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be "Permitted Bids". Permitted Bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days. In the event a take-over bid does not meet the Permitted Bid Requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Company at a substantial discount to the market price of the common share at that time. The Plan has an initial term of three years. The Plan is similar to plans adopted by other Canadian companies and ratified by their shareholders.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

The Company's Bonus and Compensation Plan permits the Company to distribute or option up to 1.3 million common shares of the Company to eligible persons, including directors, officers, employees or consultants of Southern Arc.

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, 2013 and 2012. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

Significant accounting judgement and estimates

The preparation of these 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 financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These 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 estimated fair value of the Company's financial assets and liabilities are by their nature, subject to measurement uncertainty.
- ii) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.
- iii) The collectability of loans receivable which may impact bad debt expense.
- iv) The estimated rehabilitation provision.
- v) The estimated fair value of the Company's assets held for sale.

Critical accounting judgements

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

- i) A deferred income tax asset is recognized to the extent that it is probable that future income tax profits will be available against which the asset can be used. To the extent that management does not consider it probable that a deferred income tax asset will be recovered, a deferred income tax asset is not recognized.
- ii) The application of the Company's accounting policy for exploration expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.
- iii) The determination of a subsidiary's functional currency often requires significant judgement where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.
- iv) To classify the Company's asset as held for sale requires judgement in determining whether the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for a sale of such assets and whether the sale of the asset is highly probable.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

Financial instruments

On initial recognition, all financial assets and financial liabilities are recorded at fair value plus directly attributable transaction costs, other than financial assets and liabilities classified as at fair value through profit or loss. The directly attributable transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed in the period they are incurred.

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 the statement of operations and comprehensive loss. Cash is 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. Accounts receivable and loans 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 the statement of operations and comprehensive 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 the statement of operations and comprehensive loss. The Company has not classified any financial assets 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:

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 the statement of operations and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, and loans payable all of which are recognized at amortized cost at the settlement date using the effective interest method of amortization.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

New standards, amendments and interpretations issued

The accounting policies followed by the Company are consistent with those of the previous financial year except for certain new standards, interpretations and amendments to existing standards issued by the IASB or IFRIC to take effect as of January 1, 2013 and were adopted by the Company effective July 1, 2013, following the Company's June 30, 2013 fiscal year-end.

- IFRS 10 - Consolidated Financial Statements. In May 2011, the IASB issued IFRS 10, which replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- IFRS 11 - Joint Arrangement. In May 2011, the IASB issued IFRS 11, which replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form, as is currently the case. The standard distinguishes between joint operations, where the joint operator accounts for the assets, liabilities, revenues, and expenses relating to its involvement, and joint ventures, which must be accounted for using the equity method. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- IFRS 12 - Disclosure of Interest in Other Entities. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint operations, joint ventures, associates and unconsolidated structured entities. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- IFRS 13 - Fair Value Measurement. IFRS 13 is a new standard that applies to both financial and non-financial items measured at fair value. It defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. Previously, a variety of fair value techniques and disclosures were possible under the requirements of separate applicable IFRSs. The Company has determined that there is no impact on its consolidated interim financial statements arising from this standard.
- IAS 1 - Presentation of Financial Statements. IAS 1 has been amended to change the disclosure of items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The Company has determined that the amendments to IAS 1 will not have an impact on its consolidated interim financial statements.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

QUALIFIED PERSON AND QUALITY CONTROL AND ASSURANCE

The technical information in this document related to Southern Arc's Indonesian properties has been reviewed by Southern Arc's Executive Vice President, Andrew Rowe, B. App. Sc. Geology, MAusIMM. Mr. Rowe has over 20 years of international mineral exploration experience throughout Southeast and Central Asia and Australia. During this time he has held such positions as Principal Geologist – Feasibility Studies, Senior Geologist and Consulting Geologist. The West Lombok drill program and sampling protocol is managed by Southern Arc under the supervision of Andrew Rowe. The diamond drill holes are drilled at PQ, HQ and NQ sizes depending on hole depth and core recovery to date has averaged 98.0%. Half core is cut by rock saw and is generally sampled using nominal 1-metre intervals; however, sample intervals are varied according to geological contacts and have ranged between 0.2 to 2.5 metres in length. Three quality control samples (one blank and two standards) are inserted into each batch of 40 samples. The half core samples are securely transported from the project site to the Intertek Testing Services ("ITS") sample preparation laboratory in Sumbawa Besar via private truck hired by Southern Arc. Sample pulps are then sent to the ITS Jakarta laboratory by ITS. Gold is analysed by fire assay with AAS finish and a four-acid digestion with ICP-MS finish is used to analyse a full suite of elements including silver and base metals. ITS is one of the world's largest product and commodity testing, inspection and certification organizations. The Jakarta laboratory is ISO 17025 accredited and employs a Laboratory Information Management System for sample tracking, quality control and reporting.

The technical information in this document related to the Windfall Lake property has been reviewed by Eagle Hill's Vice President Exploration, Jean-Philippe Desrochers, PhD, PGeo, 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. The drill program and sampling protocol is managed by Eagle Hill under the supervision of Jean-Philippe Desrochers. The diamond drill holes are drilled at NQ sizes and core recovery to date has averaged better than 95.0%. Half core is cut by rock saw and is generally sampled using nominal 1-metre intervals; however, sample intervals vary according to geological contacts and have ranged between 0.3 to 1.5 metres in length. Two quality control samples (one blank and one certified reference material) are inserted into each batch of 20 samples. All assays were performed by ALS Chemex Laboratory Group, in Val d'Or, Quebec. The half core samples are securely transported from the project site to the ALS Chemex laboratory by Eagle Hill personnel. Gold analyses reported in this release were performed by standard fire assay using a 50-gram charge with atomic absorption finish and a gravimetric finish for assays greater than 10 grams per tonne and by metallic sieve method for samples containing significant amounts of pyrite or visible gold. In addition, an Aqua regia digestion with ICP-AES finish is used to analyse a full suite of elements including silver and base metals.

The technical information in this document has also been reviewed by Southern Arc's President & Chief Operating Officer, Dr. Mike Andrews, 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-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.

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the three and six months ended December 31, 2013

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;
- exploration and developments costs for its properties in Indonesia;
- availability of additional financing and farm-in or joint-venture partners;
- anticipated results of exploration and development activities;
- the Company's ability to obtain additional financing on satisfactory terms.

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.

APPENDIX

Table 1 – Windfall Lake Gold Deposit – Fall 2013 Drill Program – Drill Results Highlights

Section	Drill Hole	Total Depth (m)	Coordinates (UTM 18N, and 83)			Azimuth	Dip	From (m)	To (m)	Length (m)	Gold g/t
			East	North	Elevation						
1800	EAG-13-523	708	451730	5434399	406	332.2	-55	448.7	449.1	0.4	28.7
1825	EAG-13-524	587	451732	5434435	406	327.8	-57	126.0	127.0	1.0	5.5
1825	EAG-13-524	587	451732	5434435	406	327.8	-57	435.9	436.8	0.9	9.1
1875	EAG-13-506	883	451804	5434417	405	331.4	-59.7	49.0	50.0	1.0	16.7
2075	EAG-13-528	183	451888	5434692	399	166.5	-52.4	25.0	47.0	22.0	3.3
2075	EAG-13-528	183	451888	5434692	399	166.5	-52.4	incl. 26.0	27.7	1.7	28.1
2075	EAG-13-528	183	451888	5434692	399	166.5	-52.4	incl. 33.7	34.0	0.3	15.6
2175	EAG-13-527	294	452066	5434556	398	331.2	-60.3	112.0	113.0	1.0	4.8
2175	EAG-13-527	294	452066	5434556	398	331.2	-60.3	116.5	116.8	0.3	5.8
2175	EAG-13-527	294	452066	5434556	398	331.2	-60.3	226.2	234.0	7.8	415.7
2175	EAG-13-527	294	452066	5434556	398	331.2	-60.3	incl. 229.6	232.3	2.7	1196.0
2175	EAG-13-527	294	452066	5434556	398	331.2	-60.3	incl. 231	231.5	0.5	6070.0
2175	EAG-13-527	294	452066	5434556	398	331.2	-60.3	259.0	260.2	1.2	161.0
2300	EAG-13-512	393	452218	5434560	398	330.1	-55.7	49.0	49.7	0.7	9.0
2300	EAG-13-512	393	452218	5434560	398	330.1	-55.7	65.8	66.3	0.5	20.4
2300	EAG-13-512	393	452218	5434560	398	330.1	-55.7	292.0	307.0	15.0	3.9
2300	EAG-13-512	393	452218	5434560	398	330.1	-55.7	incl. 304	306.5	2.5	19.4
2300	EAG-13-512	393	452218	5434560	398	330.1	-55.7	320.3	324.7	4.4	3.5
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	474.9	475.7	0.8	24.1
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	495.5	498.0	2.5	4.1
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	509.6	512.0	2.4	6.5
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	568.5	569.1	0.6	13.6
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	578.0	584.1	6.1	6.1
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 578	578.5	0.5	9.7
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 580	580.6	0.6	42.5
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 581.6	582.6	1.0	5.5
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	740.1	741.6	1.5	2.3
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	745.2	747.0	1.8	7.8
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	752.5	789.8	37.3	11.2
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 755.5	756.1	0.6	166.5
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 773.8	774.5	0.7	12.7
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 784.8	787.8	3.0	84.4
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	incl. 785.2	786.0	0.8	289.0
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	847.4	848.0	0.6	13.0
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	931.9	932.6	0.7	7.6
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	943.8	944.5	0.7	7.5
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	989.1	989.7	0.6	14.8
2500	EAG-13-320-W1	1029.6	452476	5434485	401	334	-60	1020.0	1022.0	2.0	5.0
2500	EAG-11-294EXT	808.5	452439	5434552	401	326	-60.8	684.5	687.0	2.5	5.2
2500	EAG-11-294EXT	808.5	452439	5434552	401	326	-60.8	710.1	713.3	3.2	12.3
2500	EAG-11-294EXT	808.5	452439	5434552	401	326	-60.8	incl. 712.7	713.3	0.6	37.2
2500	EAG-11-294EXT	808.5	452439	5434552	401	326	-60.8	736.9	737.4	0.5	13.2
2500	EAG-11-294EXT	808.5	452439	5434552	401	326	-60.8	739.3	739.8	0.5	6.7
2650	EAG-13-513	681	452629	5434514	403	330.5	-55.2	337.0	337.7	0.7	7.1
2650	EAG-13-513	681	452629	5434514	403	330.5	-55.2	465.3	465.6	0.3	7.6
2650	EAG-13-513	681	452629	5434514	403	330.5	-55.2	661.3	666.0	4.7	11.0
2650	EAG-13-513	681	452629	5434514	403	330.5	-55.2	incl. 661.3	662.1	0.8	56.1

Section	Drill Hole	Total Depth (m)	Coordinates (UTM 18N, and 83)			Azimuth	Dip	From (m)	To (m)	Length (m)	Gold g/t
			East	North	Elevation						
2675	EAG-13-511	693	452609	5434608	403	329.3	-56.7	252.0	253.0	1.0	7.7
2675	EAG-13-511	693	452609	5434608	403	329.3	-56.7	436.0	437.7	1.7	13.8
2675	EAG-13-511	693	452609	5434608	403	329.3	-56.7	445.0	448.2	3.2	3.3
2675	EAG-13-511	693	452609	5434608	403	329.3	-56.7	incl. 447.9	448.2	0.3	14.0
2675	EAG-13-511	693	452609	5434608	403	329.3	-56.7	671.0	679.1	8.1	6.3
2675	EAG-13-511	693	452609	5434608	403	329.3	-56.7	incl. 675	675.8	0.8	48.2
2825	EAG-13-516	564.1	452691	5434771	398	330.4	-55.1	126.4	128.8	2.4	6.2
2825	EAG-13-516	564.1	452691	5434771	398	330.4	-55.1	340.3	343.5	3.2	6.4
2825	EAG-13-516	564.1	452691	5434771	398	330.4	-55.1	358.3	359.0	0.7	15.3
2825	EAG-13-516	564.1	452691	5434771	398	330.4	-55.1	453.0	453.6	0.6	93.8

Notes:

- All Eagle Hill drill results have been published and are available at www.SEDAR.com and at www.eaglehillexploration.com
- EAG-13-320-W1 was drilled from 433.7m to 1,029.6m; EAG-13-320-W2 was drilled from 406.3m to 1,003.3m
- EAG-12-294EXT was drilled from 532.5m to 808.5m