



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

*This Management's Discussion and Analysis ("MD&A"), prepared as of February 28, 2018, 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, 2017 and the unaudited condensed consolidated interim financial statements for the six months ended December 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 enhancing shareholder value through strategic investments in mineral resource companies with a focus on gold and copper-gold. Southern Arc's management team identifies highly prospective assets in politically safe jurisdictions and seeks to unlock their value by providing strategic investments, proven technical skills, global knowledge, and increased access to industry relationships. Southern Arc was incorporated in British Columbia on August 19, 2004. The Company's current portfolio of investments and projects includes:

- An investment in Japan Gold Corp. (53.06%), a Canadian junior company exploring for gold in Japan;
- An investment in Tethyan Resources plc (29.89%), a junior exploration company dual listed on the TSX-V and London AIM markets that is exploring for copper, gold and other base metals within the Tethyan mineral belt in Eastern Europe;
- An investment in PT Ancora Indonesia Resources, Tbk ("PT Ancora") (5.66%), an Indonesian company listed on the Indonesia Stock Exchange.

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 six month increments over the 36 months. Japan Gold is a mineral exploration company which focuses on the acquisition and exploration of resource 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 August 9, 2017, the Company completed an additional financing with Japan Gold Corp. where it acquired 12,500,000 units of Japan Gold at a price of \$0.40 for total proceeds of \$5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of Japan Gold. Each warrant is exercisable into one additional common share of Japan Gold at a price of \$0.40 per share for a period of 5 years. The units issued under the private placement will be subject to a four month hold period expiring on December 9, 2017. The Company currently owns 53.06% of Japan Gold's issued and outstanding common shares.

On November 21, 2016, the Company subscribed for 2,750,000 new ordinary shares in Tethyan Resources PLC ("Tethyan") at a price of \$0.216 per share for \$594,000. In addition to the subscription for new ordinary shares, the Company purchased 2,442,328 existing ordinary shares in Tethyan from Newmont Ventures Limited ("Newmont") for \$0.216 per share for \$527,543. On December 23, 2016, the Company completed an additional investment in Tethyan and subscribed for an additional 2,083,333 new ordinary shares at a price of \$0.216 per share for \$450,000. On March 24, 2017, the Company subscribed for an additional 1,107,407 new ordinary shares at a price of \$0.455 for \$504,114.

On November 14, 2017, the Company announced that it intends to make an additional investment of up to \$950,000 in Tethyan. The Company intends to subscribe for up to 3.167 million additional new ordinary shares of Tethyan at a price of \$0.30 per ordinary share on a post consolidated (1:6) basis (the "Placement"). The closing of the Placement is subject to a number of conditions including Tethyan completing the share consolidation on the basis of 1 new ordinary share for 6 existing ordinary

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

share and TSX Venture Exchange approval of the private placement of Tethyan. The Company has advanced \$400,000 to Tethyan as at December 31, 2017.

The Company currently holds 8,383,068 ordinary shares representing 29.89% of Tethyan's issued and outstanding ordinary shares. The Company has a first right of refusal on any further fundraisings undertaken by Tethyan for a period of two years to enable the Company to maintain its interest at 29.89% of Tethyan's issued share capital.

On December 12, 2017, the Company completed the sale of the West Lombok Property (the "Property") to PT Ancora Indonesia Resources, Tbk ("PT Ancora"), in consideration for a cash payment of US\$2,000,000 and a granting of a 3% Net Smelter Return royalty. Under the terms of the agreement, PT Ancora has the right to buy back the NSR from the Company at any time by paying an additional US\$2,000,000. The Company has used the cash proceeds from the sale to acquire 100 million shares of PT Ancora (5.66% of PT Ancora's issued and outstanding) from third parties in a private transaction.

Supplemental information

For the purpose of providing additional information, below is a summary of the Company's investments in Japan Gold and Tethyan at quoted market prices at February 28, 2018:

	<b>Number of securities</b>	<b>Fair market value</b>
Japan Gold common shares	36,250,000	\$ 9,062,500
Tethyan common shares	8,383,068	2,263,428
PT Ancora common shares	100,000,000	3,627,000
<b>Balance, February 28, 2018</b>		<b>\$ 14,952,928</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. ("Southern Arc") as at December 31, 2017 and February 28, 2018. For purposes of this supplementary information, the Company has provided its investment in Japan Gold and associate at quoted market prices.

	<b>Southern Arc</b>	
	<b>December 31, 2017</b>	<b>February 28, 2018</b>
Cash	\$ 3,077,924	\$ 2,764,514
Loan and other receivables	427,837	442,052
Prepaid expense and other deposits	53,152	44,100
Investment in Tethyan Resources Plc. (Note 5)	2,431,090	2,263,428
Investment in Japan Gold Corp.	11,600,000	9,062,500
Investment in PT Ancora.	3,569,728	3,627,000
<b>Total assets</b>	<b>\$ 21,159,731</b>	<b>\$ 18,203,594</b>
<b>Total liabilities</b>	<b>\$ (91,169)</b>	<b>\$ (50,580)</b>
<b>Net assets</b>	<b>\$ 21,068,562</b>	<b>\$ 18,153,014</b>

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

Investment in Osisko

As at December 31, 2017, the Company had sold all of its remaining investment in common shares and warrants of Osisko Mining Inc.

	<b>Number of securities</b>	<b>Fair market value</b>
Osisko common shares	-	\$ -
Osisko tradeable warrants	-	-
Osisko non-tradeable warrants	-	-
<b>Balance, December 31, 2017</b>		<b>\$ -</b>

	<b>Number of securities</b>	<b>Fair market value</b>
Osisko common shares	9,825	\$ 40,283
Osisko tradeable warrants	60,000	4,200
Osisko non-tradeable warrants	800,000	269,859
<b>Balance, June 30, 2017</b>		<b>\$ 314,342</b>

Overall, the Company's investment in Osisko resulted in the following:

	<b>Fair market value</b>
Proceeds from sale of shares and warrants, net of commissions	\$ 18,582,053
Original cost of investment	(8,850,366)
Cash used to exercise warrants and acquire shares	(4,922,700)
<b>Net cash received from Osisko investment</b>	<b>\$ 4,808,987</b>

The Company is listed 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.

**FINANCIAL SNAPSHOT**

	<b>December 31, 2017</b>	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Total assets	\$ 15,663,042	\$ 14,717,787	\$ 7,828,413
Exploration properties	2,163,804	103,263	-
Working capital	7,240,033	12,192,363	134,798
Net income (loss)	453,197	(791,240)	(702,220)
Net income (loss) attributable to the Company	1,282,114	2,368,093	(594,025)
Basic income (loss) per share	\$ 0.09	\$ 0.16	\$ (0.05)
Diluted income (loss) per share	\$ 0.06	\$ 0.12	\$ (0.05)

At the date of this MD&A, the Company had approximately \$6.4 million in working capital, of which \$3.1 million relates directly to Southern Arc.

**RECENT EVENTS**

On December 12, 2017, the Company completed the sale of the West Lombok Property (the "Property") to PT Ancora Indonesia Resources, Tbk ("PT Ancora"), in consideration for a cash payment of US\$2,000,000 and a granting of a 3% Net Smelter Return royalty. Under the terms of the agreement, PT Ancora has the right to buy back the NSR from the Company at any time

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

by paying an additional US\$2,000,000. The Company has used the cash proceeds from the sale to acquire 100 million shares of PT Ancora (5.66% of PT Ancora's issued and outstanding) from third parties in a private transaction.

PT Ancora, an Indonesian company listed on the Indonesia Stock Exchange (OKAS: IJ), acquired all of the issued and outstanding shares of the Company's Singaporean subsidiary Indotan Lombok Pte Ltd ("IL"). IL owns 90% of PT Indotan Lombok Barat Bangkit, an Indonesian company, which holds the IUP.

On November 14, 2017, the Company announced that it intends to make an additional investment of up to \$950,000 in Tethyan. The Company intends to subscribe for up to 3.167 million additional new ordinary shares of Tethyan at a price of \$0.30 per ordinary share on a post consolidated (1:6) basis (the "Placement"). The closing of the Placement is subject to a number of conditions including Tethyan completing the share consolidation on the basis of 1 new ordinary share for 6 existing ordinary share and TSX Venture Exchange approval of the private placement of Tethyan. As at the date of this MD&A, the Company has advanced \$400,000 to Tethyan.

On August 9, 2017, the Company completed a financing with Japan Gold Corp. where it acquired 12,500,000 units of Japan Gold at a price of \$0.40 for total proceeds of \$5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of Japan Gold. Each warrant is exercisable into one additional common share of Japan Gold at a price of \$0.40 per share for a period of 5 years. The units issued under the private placement will be subject to a four month hold period expiring on December 9, 2017. The Company currently owns 53.06% of Japan Gold's issued and outstanding common shares.

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 642,500 common shares for a total of \$442,871 at an average price of \$0.689 per common share.

On November 21, 2016, the Company subscribed for 2,750,000 new ordinary shares in Tethyan Resources PLC ("Tethyan") at a price of \$0.216 per share for \$594,000. In addition to the subscription for new ordinary shares, the Company purchased 2,442,328 existing ordinary shares in Tethyan from Newmont Ventures Limited ("Newmont") for \$0.216 per share for \$527,543. On December 23, 2016, the Company completed an additional investment in Tethyan and subscribed for an additional 2,083,333 new ordinary shares at a price of \$0.216 per share for \$450,000. On March 24, 2017, the Company subscribed for an additional 1,107,407 new ordinary shares at a price of \$0.455 for \$504,114. The Company currently holds 8,383,068 ordinary shares representing 29.9% of Tethyan's issued and outstanding ordinary shares. The Company has a first right of refusal on any further fundraisings undertaken by Tethyan for a period of two years to enable the Company to maintain its interest at 29.9% of Tethyan's issued share capital.

On September 15, 2016, Southern Arc 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, 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.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

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.

## **PROPERTY REVIEW AND OUTLOOK**

### **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.

Japan Gold has expanded the project portfolio to 210 prospecting rights applications over 17 projects covering 69,505 hectares on the three main islands of Japan, Hokkaido, Honshu and Kyushu. Thirty-two Prospecting Rights have been granted to the Company and the remaining applications have been accepted for further review. Thirteen 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 sold its interest in SAMJ to 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 now holds 53.06% of the issued and outstanding shares of Japan Gold.

On November 29, 2016, that the Japanese Ministry of Economy, Trade and Industry ("METI") 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, the METI 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 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. The regional exploration program at the Ikutahara Project 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, METI 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. Japan Gold also announced encouraging results from the 2016 regional exploration program at the Ikutahara Project. Complete results can be found in the Company's news release dated March 3, 2017.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

On April 25, 2017, Japan Gold made several 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 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, 23 of its 56 prospecting rights license applications were 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.

On May 31, 2017, Japan Gold expanded its portfolio in Japan with an extensions of thirteen new prospecting rights accepted at the Aibetsu Project. Japan Gold also commenced its 2017 regional work program, including mapping and soil sampling, at Aibetsu.

On June 1, 2017, Japan Gold concluded an agreement with Sumiko Resources Exploration & Development Co., Ltd. ("SRED") to manage and operate its drilling programs in Japan. To support this contract, Japan Gold has agreed to purchase three diamond core drill rigs that will be operated by SRED.

On July 28, 2017, Japan Gold expanded its project portfolio in Japan with the addition of the Tenryu Project and an extension to the Buho Project for a total of seven new prospecting rights applications totaling 2,269.2 hectares.

On August 9, 2017, Japan Gold completed a financing with the Company pursuant to which Southern Arc purchased 12,500,000 units of Japan Gold at a price of \$0.40 per unit for gross proceeds of \$5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of Japan Gold. Each warrant is exercisable into one additional common share of Japan Gold at a price of \$0.40 per share for a period of 5 years. The units (and securities underlying the units) issued under the private placement will be subject to a four month hold period expiring on December 9, 2017. The principal use of proceeds from the private placement is intended to fund \$3,650,000 in exploration expenditures with the remaining \$1,350,000 allocated for general working capital. Following the private placement, the Company owns approximately 53.06% of Japan Gold's issued and outstanding common shares.

On August 14, 2017, Japan Gold purchased three compact portable diamond core drill rigs which had arrived at Japan Gold's base of operations in Ikutahara.

On September 19, 2017, Japan Gold expanded its epithermal gold exploration portfolio in Japan with the addition of three new projects in north Hokkaido. The Onne, Fujimi and Harutomi Projects, comprising 21 applications (6,871 hectares collectively), cover historic gold-silver and mercury mines in a prospective and largely underexplored area south of Japan Gold's Ikutahara Project.

On October 10, 2017, Japan Gold further expanded its epithermal gold exploration portfolio in Japan with the addition of two new projects in the highly prospective Southern Kyushu Epithermal Gold Province. The Tobaru, and Ohra-Takamine Projects, comprising nine applications (3,028 hectares collectively), cover alteration zones and historic gold-silver mines in a prospective and relatively underexplored part of the province.

On November 28, 2017, Japan Gold announced receipt of its first drilling permit and initiation of the first scout drilling program at the Akebono prospect at the Company's Ikutahara Project in Hokkaido, Japan, The goal of the initial scout drilling program is to confirm and extend historic high-grade underground sampling to define the potential for high-grade shoots in the Akebono vein system, with results anticipated in February 2018.

On February 5, 2018, Japan Gold reported results from its first scout drill holes completed in late December 2017 on the Akebono prospect at its Ikutahara Project in Hokkaido, Northern Japan. These results support the presence of high grade gold shoots in the Akebono vein system previously indicated by historic sampling of underground workings. Complete results can be found in the Company's news release dated February 5, 2018.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

On February 28, 2018, Japan Gold reported results from its 2017 exploration program at the Aibetsu Project in North Hokkaido. The exploration program included rock chip sampling, detailed mapping and a soil grid geochemical survey over three historic gold-silver and mercury mines. Results confirm the presence of high-grade gold mineralization within and around the historic Tokusei mine workings and emphasize significant potential for extensions to the epithermal vein system at the Tokusei mine. Complete results can be found in the Company's news release dated February 28, 2018.

**Serbia - Tethyan Resources PLC Investment**

The Company holds a total of 8,383,068 common shares of Tethyan, which represents 29.89% of Tethyan's issued share capital, at an average price of \$0.24 per share for a total investment in associate of \$2,075,657. Tethyan is a junior exploration company listed on the TSX-V, with a focus on exploring for copper, gold and other base metals within the Western Tethyan Orogenic Belt in the European Balkan Region. Tethyan holds rights with respect to licenses in Serbia and is looking for other copper and gold projects in Eastern Europe. Tethyan has two active exploration projects in Serbia, the "Suva Ruda" project (a copper and gold porphyry target) and "Gokcanica" project (an epithermal and porphyry gold system). Tethyan currently has an option to purchase 100% of the Suva Ruda project from a Serbian private company Deep Research d.o.o at any time during an 8 year period for a €6,000,000 cash payment provided that Tethyan achieves certain exploration and payment milestones. In May 2016, Tethyan executed an option agreement with Rockstone Group LLC pursuant to which Tethyan can earn up to an 80% interest in the Gokcanica project licenses in Southern Serbia.

On December 14, 2016, Tethyan completed its 4 diamond drill hole program (total 2,318 metres) at the Rudnitsa copper-gold porphyry project located within the Suva Ruda exploration permit. 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). On February 28, 2017, Tethyan 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 raised £1 million before expenses from the issue of 3,703,704 new ordinary shares of 0.6 pence each in the capital of the Company ("Placing Shares") at a placing price of 27.0 pence per share ("the Placing"). The Placing was supported by both new and existing investors, including the Company, and a number of the Directors and senior management at Tethyan. The net proceeds of the Placing 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 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 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. 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 June 13, 2017, Tethyan provided a project update on the Suva Ruda Project announcing that it has signed an access agreement with the Municipality of Raska for the use of roads, and received regulatory approval for all drilling pads required for the 2017 drilling campaign on the Company's Suva Ruda Project. Tethyan announced that the current drilling program was progressing smoothly, with three drill holes completed and that mapping and soil sampling programs have commenced at additional exploration targets within the Suva Ruda exploration permit.

On September 4, 2017, Tethyan's ordinary shares would commence trading on the TSX Venture Exchange at market open on Wednesday September 6, 2017, under the symbol "TETH".

On September 14, 2017, Tethyan announced results of the drilling program completed in July 2017 at the Rudnitsa copper-gold porphyry prospect within the Suva Ruda exploration permit in Serbia. This drill program consisted of 4 diamond drill holes for a total of 2,127.6 metres. 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).

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

On September 26, 2017, Tethyan announced that it has completed substantial geophysical surveys at the Suva Ruda and Gokcanica Projects located in Serbia. Interpretation of the data collected by the surveys is expected to be completed and announced in October 2017.

On November 17, 2017, Tethyan consolidated its issued and outstanding share capital on the basis of six pre-consolidation ordinary shares for one new post-consolidation ordinary share. The resulting number of shares outstanding post-consolidation is 28,047,061.

On December 6, 2017, Tethyan announced that Mr. Sol Thacker has resigned from his role as Chief Financial Officer and Corporate Secretary and has assumed the role of Controller of the Company and that Mr. Vince Boon has been appointed as Chief Financial Officer and Ms. Eileen Au has been appointed as Corporate Secretary. Tethyan also announced that it has granted stock options to Directors, Officers and contractors of the Company totalling 1,120,000 incentive stock options, as per the terms of the Company's stock option plan. The options, which are subject to the policies of the TSX Venture Exchange, are exercisable at \$0.30 per share and have a term of five years.

On January 17, 2018, Tethyan announced results from soil sampling and mapping at the Kremice exploration target located in the northern part of the Suva Ruda license in Southern Serbia, which indicate potential for gold-copper porphyry mineralisation over a large area. Details can be found in the Company's news release dated January 17, 2018.

On February 14, 2018, Tethyan announced that it has entered into a binding letter of intent dated February 12, 2018, with Balkan Minerals Limited and its sole shareholder, Dr. Radomir Vukcevic, with respect to the proposed acquisition by Tethyan of all the shares of Balkan's wholly-owned Serbian subsidiary Taor d.o.o. Taor holds two exploration licenses totalling approximately 100 square kilometres situated adjacent to Tethyan's optioned Suva Ruda license in the historic Raška lead and zinc mining district in Southern Serbia. Upon completion of acquisition of Taor, Tethyan, will own or hold an option over approximately 300 square kilometres in this significant historical mining district with multiple known yet under-explored copper-gold and lead-zinc-silver historical resources and exploration prospects.

On February 26, 2018, Tethyan announced the terms of a non-brokered private placement of up to 4,800,000 units at a price of \$0.25 per unit for gross proceeds of up to \$1,200,000. Each unit will be comprised of one ordinary share and one-half of one transferable share purchase warrant of the Company. Each whole warrant will be exercisable into one ordinary share of the Company at an exercise price of \$0.35 per share for a period of three years from the closing date of the private placement. Southern Arc intends to invest up to \$360,000 and acquire up to 1,440,000 units under the private placement. The net proceeds from the private placement will be used to finance Tethyan's planned advancement of the Rudnitza copper-gold porphyry prospect in 2018, as well as other earlier-stage prospects toward the identification of new drill targets and for general working capital. Southern Arc presently owns 29.89% of the issued and outstanding ordinary shares of Tethyan on an undiluted basis and will not exceed 29.99% of the issued and outstanding ordinary shares of Tethyan on closing of the private placement

## **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 had 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.

On December 12, 2017, the Company completed the sale of the West Lombok Property (the "Property") to PT Ancora Indonesia Resources, Tbk ("PT Ancora"), in consideration for a cash payment of US\$2,000,000 and a granting of a 3% Net Smelter Return royalty. Under the terms of the agreement, PT Ancora has the right to buy back the NSR from the Company at any time

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

by paying an additional US\$2 million. The Company has used the cash proceeds from the sale to acquire 100 million shares of PT Ancora (5.66% of PT Ancora's issued and outstanding) from third parties in a private transaction.

PT Ancora, an Indonesian company listed on the Indonesia Stock Exchange (OKAS:IJ), acquired all of the issued and outstanding shares of the Company's Singaporean subsidiary Indotan Lombok Pte Ltd ("IL"). IL owns 90% of PT Indotan Lombok Barat Bangkit, an Indonesian company, which holds the IUP.

*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.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

**SUMMARY OF QUARTERLY RESULTS**

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total assets	\$ 15,663,042	\$ 14,216,538	\$ 14,717,787	\$ 17,063,255
Exploration properties	2,163,804	755,670	103,263	-
Working capital	7,240,033	8,802,477	12,192,363	9,112,101
Net income (loss)	1,855,548	(1,402,351)	(290,332)	4,120,479
Net income (loss) attributable to the Company	2,177,840	(895,726)	382,148	4,318,501
Basic income (loss) per share	0.15	(0.06)	0.03	0.27
Diluted income (loss) per share	0.11	(0.06)	0.02	0.21

  

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total assets	\$ 12,797,665	\$ 16,976,654	\$ 7,828,413	\$ 3,788,191
Exploration properties	-	-	-	-
Working capital	5,340,106	6,655,225	134,798	3,509,188
Net income (loss)	(1,916,599)	(2,704,788)	1,233,263	(1,676,378)
Net income (loss) attributable to the Company	(1,230,491)	(1,102,065)	1,307,676	(1,662,051)
Basic and diluted income (loss) per share	(0.13)	(0.18)	0.08	(0.12)

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

During the three-month period ended December 31, 2017, the Company had a net income of \$1,855,548 compared to a net loss of \$1,916,599 for the three-month period ended December 31, 2016. Significant fluctuations occurred in the following categories:

- During the quarter, the Company recorded a gain of \$2,827,405 relating to the sale of its subsidiaries which held the West Lombok property.
- The Company did not hold any investments in Osisko during the quarter and as a result, did not record any gain on sale of Osisko shares or change in fair value of investments in Osisko warrants (December 31, 2016: gain of \$655,066 and loss of \$856,839 respectively).
- During the quarter, the Company recorded its share of the loss in its investment in Tethyan of \$133,372 (December 31, 2016: \$Nil).
- During the quarter, the Company recorded an income tax recovery of \$132,789 (December 31, 2016: expense of \$292,354) resulting from temporary differences arising from fair value adjustment on available-for-sale investments.
- Share-based compensation was \$Nil (December 31, 2016: \$61,610) during the three-month period ended December 31, 2017 as there were no options granted during the quarter.
- Consulting fees in the current quarter were \$365,384 compared to \$392,796 in the same period in the previous quarter. This was higher due to increased activities related to the field work programs of Japan Gold during the three months ended December 31, 2017.
- Exploration expenses increased to \$58,038 due to the increase in exploration activities in Japan Gold compared to \$44,094 in the previous period.
- Investor relations and travel expense of \$46,159 and \$83,759 respectively (December 31, 2016: \$96,898 and \$379,816 respectively) decreased as there were fewer costs associated with materials and marketing for Japan Gold Corp during the current quarter.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED DECEMBER 31, 2017**

During the six-month period ended December 31, 2017, the Company had a net income of \$453,197 compared to a loss of \$4,621,387 for the six-month period ended December 31, 2016. Significant fluctuations occurred in the following categories:

- a) During the period, the Company recorded a gain of \$2,827,405 relating to the sale of its subsidiaries which held the West Lombok property.
- b) During the period, the Company recorded a gain of \$403,397 relating to the sale of its investment in Osisko shares (December 31, 2016: gain of \$914,756). The Company also recorded a change in fair value of investment Osisko warrants of \$269,356 (December 31, 2016: (\$740,284)).
- c) During the period, the Company recorded its share of the loss in its investment in Tethyan of \$315,251 (December 31, 2016: \$Nil).
- d) Share-based compensation was \$Nil (December 31, 2016: \$2,143,341) during the six-month period ended December 31, 2017 as there were no options granted during the quarter.
- e) Consulting fees in the current period were \$822,136 compared to \$579,137 in the same period in the previous year. 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.
- f) Professional fees in the current period were \$107,539 compared to \$255,541 in the same period last year. This decrease is due to less transactions this year.
- g) Exploration expenses increased to \$240,886 due to the increase in exploration activities in Japan Gold compared to \$118,160 in the previous period.
- h) Investor relations and travel expense of \$92,657 and \$222,988 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 December 31, 2017 was \$3,760,142 compared to \$11,763,403 from June 30, 2017. This decrease was mainly due to the \$5,000,000 private placement into Japan Gold by the Company during the six month period, which is reflected in the short-term investments of \$2,700,000 as at December 31, 2017. As at December 31, 2017, the Company's working capital was \$7,240,033 compared to a working capital of \$6,655,255 at June 30, 2017. Out of this amount, \$3,772,288 of working capital related to Japan Gold as at December 31, 2017.

Net cash used in operating activities for the period ended December 31, 2017 was \$2,532,963 compared to net cash used of \$2,169,307 during the period ended December 31, 2016.

Net cash from investing activities during the period ended December 31, 2017 included net cash proceeds received on sale of investments of \$3,647,400 (December 31, 2016 - \$1,894,755), \$400,000 in loan receivable to Tethyan, net cash used to acquire investments of \$5,749,073 (December 31, 2016: \$Nil), net cash used to purchase short term investment of \$4,550,000 (December 31, 2016: \$Nil), net cash received from redemption of short-term investment of \$2,400,000 (December 31, 2016: \$1,112,750), cash received from sale of IL of \$2,549,073, cash used in acquisition of property, plant and equipment of \$845,099 (December 31, 2016: \$9,542), and cash used in exploration and evaluation expenses of \$1,898,211 (December 31, 2016: \$Nil).

Financing activities during the period ended December 31, 2017 consist of \$383,492 of cash used to buy back the Company's shares.

The accompanying consolidated 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

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

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 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 officers of the Company. Key management compensation consists of the following:

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

During the period ended December 31, 2017, the Company and Japan Gold paid \$306,000 (December 31, 2016: \$380,000) 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, \$168,000 relates to management fees incurred by Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

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

**CURRENT SHARE DATA**

As at the date of this MD&A, the Company had 14,519,616 common shares issued, of which 14,389,616 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 September 30, 2017, the Company recorded share-based compensation of \$Nil as these options are fully vested in the previous year.

As at February 28, 2018, the Company had share options outstanding as follows:

	<b>Number of Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>Options</b>	889,000	\$ 0.32	November 26, 2020
	889,000		

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 previous year ended June 30, 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 \$206,000.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

## **SUBSEQUENT EVENTS**

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

## **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.

### **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.

### **Foreign exchange risk**

The Company currently operates in Japan and Indonesia. The Company could accordingly be at risk for foreign currency fluctuations.

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

### **Geopolitical risk**

The Company has properties in Indonesia and the Company has a 53.06% interest in Japan Gold, which has prospecting rights license applications and Prospecting Rights in Japan. In addition, the Company holds a 29.89% 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,

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

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.

**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, 2017 and 2016. 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*

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

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

- i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained in the near term. See Note 1.
- ii) The Company's assessment that it has control of Japan Gold Corp. (note 3) even though it owned less than 50% of ownership interest in an entity requires significant judgement and consideration 'de-facto' control as at the date of acquisition. De-facto control exists when the size of the Company's own voting rights relative to the size and dispersion of other vote holders give the Company the ability to direct the relevant activities of the entity. The Company now holds 53.06% 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 46.94% non-controlling interest. Should de-facto control be lost in the future, the Company would be required to de-consolidate its interest and Japan Gold Corp.
- iii) The determination of a subsidiary's functional currency often requires significant judgement where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

**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 receivables 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 and short term investments as available-for-sale.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

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 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.

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

**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 and short term investments 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. The Company continues to evaluate the impact of this standards on the consolidated financial statements.
- IFRS 15 - Revenue from Contracts with Customers contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 will be effective for the Company on July 1, 2018, with early adoption permitted. As the Company does not currently earn revenues, adoption of this standard is not expected to have any impact on the consolidated financial statements.
- IFRS 16 – Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for the Company on July 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company does not expect that adoption of this standard will have a material impact on the consolidated financial statements.

**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-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continues", "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*

**SOUTHERN ARC MINERALS INC.**  
**Management's Discussion and Analysis**  
**For the Three and Six months Ended December 31, 2017**

---

*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.*