



MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
MARCH 31, 2019 AND 2018**

SOUTHERN ARC MINERALS INC.
Management's Discussion and Analysis
For the Three and Nine Months Ended March 31, 2019

This Management's Discussion and Analysis ("MD&A"), prepared as of May 28, 2019, should be read in conjunction with the condensed consolidated interim financial statements of Southern Arc Minerals Inc. ("Southern Arc" or the "Company") for the period ended March 31, 2019 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 ("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. (31.90%), a Canadian junior company exploring for gold in Japan;
- An investment in Tethyan Resources plc (13.81%), a junior exploration company listed on the TSX-V 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 engaged in the field of natural resources and listed on the Indonesia Stock Exchange.
- An investment in Rise Gold Corp. (18.84%), an exploration company listed on the Canadian Securities Exchange, which owns the historic past producing Idaho-Maryland gold mine located in Nevada County, California, USA.

Supplemental information

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 March 31, 2019 and May 28, 2019. For purposes of this supplementary information, the Company has provided its investment in Japan Gold, Tethyan, Rise Gold and PT Ancora at quoted market prices.

	Southern Arc	
	March 31, 2019	May 28, 2019
Cash	\$ 634,373	\$ 508,094
Loan and other receivables	83,248	46,236
Prepaid expense and other deposits	22,363	22,363
Investment in PT Ancora.	1,438,200	1,551,000
Investment in Rise Gold Corp. shares	2,612,500	1,787,500
Investment in Rise Gold Corp. warrants	668,861	281,184
Investment in Tethyan Resources Plc. Shares	7,922,214	5,716,028
Investment in Tethyan Resources Plc. Warrants (at fair value)	393,572	227,004
Investment in Japan Gold Corp. shares (at quoted market price)	8,337,500	9,425,000
Investment in Japan Gold Corp warrants (at fair value)	1,433,187	1,313,725
Total assets	\$ 23,546,018	\$ 20,878,134
Total liabilities	\$ (2,856,766)	\$ (2,847,512)
Net assets	\$ 20,689,252	\$ 18,030,622

As at the date of this MD&A, the Company has 14,519,616 common shares issued, of which 14,389,616 are outstanding and 130,000 are treasury shares.

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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 focused on creating value through project generation and strategic investments in mineral resource companies with a focus on gold and copper-gold. The Company conducts its activities through wholly-owned subsidiaries, limited liability companies, partnerships and joint ventures.

FINANCIAL SNAPSHOT

	March 31, 2019	June 30, 2018	June 30, 2017
Total assets	\$ 23,223,746	\$ 11,933,836	\$ 14,717,787
Exploration properties	-	4,076,676	103,263
Working capital	9,856,132	4,603,197	12,192,363
Net income (loss)	4,347,084	(3,985,319)	(791,240)
Net income (loss) attributable to the Company	5,536,936	(4,079,524)	2,368,093
Basic income (loss) per share	\$ 0.38	\$ (0.28)	\$ 0.16
Diluted income (loss) per share	\$ 0.28	\$ (0.28)	\$ 0.12

At the date of this MD&A, the Company had approximately \$8.4 million in working capital.

RECENT EVENTS

On December 21, 2018, the Company's equity investment, Japan Gold, completed a private placement of \$6,650,000 which resulted in an issuance of 44,333,334 common shares at a price of \$0.15 per share. The Company purchased 10,000,000 shares under this offering and concurrently effected a private sale of its 10,000,000 freely tradeable shares to funds managed by a global investment manager. Following the close of the Japan Gold financing, there is no change in the total number of shares held by the Company. As a result of the financing, the Company now owns 31.9% of the issued and outstanding common shares of Japan Gold.

On October 23, 2018, Japan Gold, entered into a binding letter agreement with First Quantum Minerals Ltd. ("FQML") to explore four of its lithocap copper projects (collectively, the "Lithocap Projects" and each a "Project") in Japan. FQML committed to manage and oversee a systematic surface exploration reconnaissance program on each project prior to June 30, 2019. Upon completion of the initial exploration programs, FQML had the option to enter into a formal earn-in agreement on any Project individually. On April 5, 2019, FQML decided not to enter into a formal earn-in agreement following completion of an initial surface evaluation on the four lithocap copper projects identified in the binding letter agreement between the two companies.

On April 17, 2019, Tethyan Resources plc closed an underwritten private placement by issuing 6,250,000 ordinary shares at a price of \$0.80 per share for gross proceeds of \$5,000,000.

On January 31, 2019, Tethyan closed a non-brokered private placement by issuing 16,580,000 units at a price of \$0.20 per unit for gross proceeds of \$3,316,000. Each unit is comprised of one ordinary share of Tethyan and one transferable share purchase warrant of Tethyan, which is exercisable into one ordinary share of Tethyan at an exercise price of \$0.25 per share for a period of five years from the closing date. In connection with the financing by Tethyan, the Company has granted an exclusive call option to Augusta Investments Inc. ("Augusta") to purchase up to 5,000,000 of Southern Arc's ordinary shares in Tethyan. The call option is valid for a period of 18 months and is exercisable at a price of \$0.25 per share for a total purchase price of up to \$1,250,000. In addition to the call option and at the request of Augusta, the Company also deposited all of its 10,028,119 ordinary shares of Tethyan (including the 5,000,000 shares subject to the call option) into escrow for a period of 18 months.

On November 6, 2018, the Company purchased 7,500,000 units in Rise Gold at a price of C\$0.10 per unit for a purchase price of C\$750,000 by way of a private placement. Each unit consists of one share of Rise Gold's common stock and one-half of one share purchase warrant. Each whole warrant is exercisable into one additional share of Rise Gold's common stock at an exercise price of C\$0.13 per share until November 6, 2020. Along with this purchase, the Company also received 875,000 share purchase warrants as finder's fee. These finder's fee warrants have an exercise price of C\$0.13 per warrant and expire on October 16, 2020. Following the investment, the Company owns approximately 18.84% of Rise Gold's issued and outstanding shares of common stock.

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On October 26, 2018, the Company received US\$750,000 from the sale of its Taliwang project in 2014. A provision for impairment for this amount was recognized in a prior year. The Company also disposed of its 5% net smelter royalties in connection with the Taliwang project for an additional US\$500,000. In total, the Company received cash proceeds of US\$1,250,000 (\$1,629,375).

PROPERTY REVIEW AND OUTLOOK

Japan – Japan Gold Corp.

Further to its diversification strategy announced in December 2012, Southern Arc seeks to identify and invest in undervalued mineral exploration opportunities in politically safe jurisdictions. Japan is one of the most stable and corruption-free jurisdictions in the world and is regarded by Southern Arc's management as highly prospective yet largely underexplored, despite a history of significant gold production and known mineral occurrences

When the Japan Mining Act was amended in 2012 for the first time allowing foreign mineral companies the ability to hold exploration and mining permits, the Company's wholly owned subsidiary, Japan Gold KK (formerly Southern Arc Minerals Japan KK), began reviewing Japan's extensive geoscientific database and historical gold production data to pinpoint areas with good exploration potential.

On September 15, 2016, Southern Arc sold its interest in Japan Gold KK 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.

Since September 2016, Japan Gold has expanded its project portfolio which now comprises of 68 Prospecting Rights and 216 prospecting rights applications accepted for a combined area of 71,529 hectares over 17 separate projects. Twelve of the Projects, in Hokkaido and Kyushu, cover areas with known gold occurrences and a history of mining and are prospective for high-grade epithermal gold mineralization. Five of the Projects, in southern Hokkaido and northern Honshu, cover areas of known gold occurrences and gold-bearing lithocaps, which could indicate the presence of porphyry mineralization.

Having prospecting rights applications accepted by the Ministry of Economy, Trade and Industry ("METI"), reserves the land for Japan Gold and allows for active surface exploration programs such as mapping, surface sampling and geophysics. Granting of Prospecting Rights by the METI allows for more advanced forms of exploration, such as drilling.

To date, the Company holds the following Prospecting Rights:

- 38 Prospecting Rights have been granted at the Ikutahara Project (13,286 hectares)
- 5 Prospecting Rights at the Ohra-Takamine Project (1,681 hectares)
- 9 Prospecting Rights at the Eboshi Project (3,080 hectares)
- 4 Prospecting Rights at the Tobaru Project (1,347 hectares)
- 12 Prospecting Rights at the Kamitsue Project (4,069 hectares)

On February 5, 2018, Japan Gold reported results from its first scout drilling program 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.

On March 1, 2018, Japan Gold announced its corporate strategy in 2018. The strategy has two parts. Firstly, to undertake a series of work programs at several projects throughout Japan. Japan Gold has generated compelling drill targets, focusing on high grade epithermal veins in and around historic mines and workings, and will seek to rapidly progress these targets to the permitting phase so that they can be drill tested in 2018. Secondly, the Company is actively seeking joint venture partners to accelerate exploration on its significant Japan portfolio and is currently updating its website to give details on each of its projects.

On September 12, 2018, Japan gold announced that its five prospecting rights applications over the Ohra-Takamine Project in the Southern Kyushu Epithermal Gold Province, Japan have been granted as full Prospecting Rights by METI. On October 24, 2018, Japan Gold announced that six additional prospecting rights applications at the Ohra-Takamine Project in the Southern Kyushu Epithermal Gold Province of Japan have been accepted by METI. The six new applications total 2,024 hectares and add to the existing area of granted prospecting rights, 1,681 hectares at the Ohra-Takamine Project.

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On September 12, 2018, Japan Gold announced that its five prospecting rights applications over the Ohra-Takamine Project in the Southern Kyushu Epithermal Gold Province in Japan have been granted as full Prospecting Rights by METI. The Ohra-Takamine Project totals 1,681 hectares covering historical gold-silver mines in the highly gold endowed Hokusatsu-Kushikino mining district, in the Southern Kyushu Epithermal Gold Province.

On October 2, 2018, Japan Gold announced that four of its prospecting rights applications over the Tobaru Project have been converted to Prospecting Rights by METI. The Tobaru Project totals 1,347 hectares covering a large alteration zone adjacent and along strike to the Fuke epithermal gold mine in the highly gold endowed Hokusatsu-Kushikino mining district, in the Southern Kyushu Epithermal Gold Province.

On October 23, 2018, Japan Gold entered into a binding letter agreement with First Quantum Minerals Ltd. ("FQML") to explore four of its lithocap projects (collectively, the "Lithocap Projects" and each a "Project") in Japan. FQML had committed to manage and oversee a systematic surface exploration reconnaissance program on each project prior to June 30, 2019. Upon completion of the initial exploration programs, FQML had the option to enter into a formal earn-in agreement ("Option Agreement") on any Project individually, pursuant to which FQML could have earned-in to 51% of a Project by completing a minimum of US\$5 million in total exploration expenditures prior to June 30, 2022. For any project that FQML could option, it would endeavor to maintain minimum average annual expenditures of US\$1 million per year during the initial earn-in period. Upon earning a 51% interest in a Project, FQML would have the right to earn an additional 29% interest in a Project by solely funding the Project until FQML made a "Decision to Mine", increasing FQML's ownership in a Project to 80%. On April 5, 2019, FQML decided not to enter into a formal earn-in agreement following completion of an initial surface evaluation on the four lithocap copper projects identified in the binding letter agreement between the two companies.

On October 24, 2018, Japan Gold announced that six additional prospecting rights applications at the Ohra-Takamine Project in the Southern Kyushu Epithermal Gold Province, Japan have been accepted by METI. The six new applications total 2,024 hectares and add to the existing area of granted prospecting rights (1,681 hectares) at the Ohra-Takamine Project.

On November 6, 2018, Japan Gold announced that a further fifteen applications have been converted to Prospecting Rights at its Ikutahara Project. The new Prospecting Rights cover high priority targets in the Kitano-o gold district and the Ryuo mine areas and allow for drill testing to commence in the 2019 season. Out of the 56 prospecting rights license applications over the Ikutahara Project, 38 have now been converted to Prospecting Rights by METI.

On November 7, 2018, Japan Gold announced that its twelve prospecting rights applications over the Kamitsue Project on the island of Kyushu have been converted to Prospecting Rights by METI. The Kamitsue project is included in the binding letter agreement with FQML to explore the Company's prospective lithocap projects. The Company and FQML are currently on the ground at Kamitsue undertaking geological mapping and sampling as part of this joint initiative.

On December 21, 2018, Japan Gold completed a private placement of \$6,650,000 which resulted in an issuance of 44,333,334 common shares at a price of \$0.15 per share. The Company purchased 10,000,000 shares under this offering and concurrently effected a private sale of its 10,000,000 freely tradeable shares to funds managed by a global investment manager. Following the close of the Japan Gold financing, there is no change in the total number of shares held by the Company. As a result of the financing, the Company now owns 31.9% of the issued and outstanding common shares of Japan Gold.

On February 19, 2019, Japan Gold announced the enhancement of its capabilities in Japan through obtaining twelve work permits to bring expert expat drillers into the country.

On March 19, 2019, Japan Gold announced that a fourth drill rig is being imported into Japan and approvals have been received for an additional six experienced drilling personnel to support Kyushu drilling operations. The additional drill rig and drill support personnel enhances Japan Gold's capabilities for its drilling programs due to begin in May on Hokkaido and in June on Kyushu.

More details, including project details and exploration progress, can be found on the company's website at www.japangold.com

Serbia - Tethyan Resources PLC Investment

The Company holds a total of 10,028,119 common shares of Tethyan, which represents 13.81% of Tethyan's issued share capital, at an average price of \$0.25 per share. Tethyan is a junior exploration company listed on the TSX-V and is an active

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explorer for gold and base metals within Eastern Europe, more specifically Serbia. The Company's exploration projects are located in the Raska Municipality of Southern Serbia and include the "Rudnica" project (a copper and gold porphyry target) and the "Kizevak" project (a silver-zinc-lead vein-type target). The Company has early-stage grassroots exploration projects including the "Bucje" and "Zukovac" projects in Eastern Serbia and the "Cernac" and "Bistrice" projects in Kosovo.

On April 17, 2019, Tethyan Resources plc closed an underwritten private placement by issuing 6,250,000 ordinary shares at a price of \$0.80 per share for gross proceeds of \$5,000,000.

On January 31, 2019, Tethyan closed a non-brokered private placement by issuing 16,580,000 units at a price of \$0.20 per unit for gross proceeds of \$3,316,000. Each unit is comprised of one ordinary share of Tethyan and one transferable share purchase warrant of Tethyan, which is exercisable into one ordinary share of Tethyan at an exercise price of \$0.25 per share for a period of five years from the closing date.

In connection with the financing by Tethyan, the Company has granted an exclusive call option to Augusta Investments Inc. ("Augusta") to purchase up to 5,000,000 of Southern Arc's ordinary shares in Tethyan. The call option is valid for a period of 18 months and is exercisable at a price of \$0.25 per share for a total purchase price of up to \$1,250,000. In addition to the call option and at the request of Augusta, the Company also deposited all of its 10,028,119 ordinary shares of Tethyan (including the 5,000,000 shares subject to the call option) into escrow for a period of 18 months. If the call option is exercised in full or in part, the optioned shares will be released to Augusta against payment to the Company for such shares.

More details, including project details and exploration progress, can be found on the company's website at www.tethyan-resources.com

California - Rise Gold Corp.

On April 18, 2018, Southern Arc announced that it has participated in the non-brokered private placement of Rise Gold Corp. ("Rise Gold"), a company listed on the Canadian Securities Exchange. The Company purchased 20,000,000 units of Rise Gold at a price of \$0.10 per unit for the aggregate amount of \$2,000,000.

Rise Gold is an exploration-stage mining company with its principal asset being the Idaho-Maryland Gold Mine located near Grass Valley, California USA. The Idaho-Maryland Gold Mine is a major past producing high grade gold mine with total past production of 2,414,000 oz of gold at an average mill head grade of 17 gpt gold from 1866-1955. It was producing up to 129,000 oz gold per year before being forced to shut down in 1942 by the U.S. government in WWII. Details of historic production disclosure in Rise press release dated April 4th 2017 and available at www.sedar.com

Rise Gold owns 175 acres of industrial zoned fee-simple land in Nevada County, California along with 2,800 acres of private mineral rights which encompasses the Idaho-Maryland Gold Project.

On October 16, 2018, Rise Gold completed a strategic initial investment in the financing of C\$1.75 million through the purchase of 17,500,000 Units with Yamana Gold Inc. through a wholly-owned subsidiary, Meridian Jerritt Canyon Corp (the "Acquiror"). As a result of the investment, the Acquiror now owns approximately 12.6% of Rise Gold's issued and outstanding shares. In connection with the financing, Rise Gold has granted the Acquiror a right to participate in any future equity financings of Rise Gold to maintain and increase its equity ownership up to 19.9% of the issued and outstanding shares of Rise Gold.

On November 6, 2018, the Company purchased 7,500,000 units in Rise Gold at a price of C\$0.10 per unit for a purchase price of C\$750,000 by way of a private placement. Each unit consists of one share of Rise Gold's common stock and one-half of one share purchase warrant. Each whole warrant is exercisable into one additional share of Rise Gold's common stock at an exercise price of C\$0.13 per share until November 6, 2020. Following the investment, the Company owns approximately 18.84% of Rise Gold's issued and outstanding shares of common stock.

On March 1, 2019, Rise Gold completed a non-brokered private placement and raised \$1,827,472 through the issuance of 18,274,724 units at a price of \$0.10 per Unit. Each Unit comprises of one share of common stock and one-half of one share purchase warrants where one whole warrant entitles the holder to acquire one share at an exercise price of \$0.13 per share until March 1, 2021. Yamana Gold Inc. purchased 10,049,724 Units, through its wholly-owned subsidiary Meridian Jerritt Canyon Corp, upon conversion of the principal amount and accrued interest of the Committed Funds of \$1,000,000 loaned to Rise Gold

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as described in Rise Gold’s February 15, 2019 news release. Following the conversion, the Acquiror owns 27,549,724 shares and warrants to purchase an aggregate of 14,057,600 shares of Rise Gold representing approximately 16.77% of Rise Gold. On May 21, 2019, Rise Gold announced additional assay results from on-going diamond core drilling at the Idaho-Maryland Gold Project. More details, including project details and exploration completed to date, can be found on the company’s website at www.risegoldcorp.com

Indonesia

West Lombok Property (Lombok Island)

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 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.

On October 26, 2018, the Company received US\$750,000 from the sale of its Taliwang project in 2014. A provision for impairment for this amount was recognized in a prior year. The Company also disposed of its 5% net smelter royalties in connection with the Taliwang project for an additional US\$500,000. In total, the Company received cash proceeds of US\$1,250,000 (\$1,629,375).

SUMMARY OF QUARTERLY RESULTS

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Total assets	\$ 23,223,746	\$ 18,672,678	\$ 10,306,370	\$ 11,933,836
Exploration properties	-	5,069,217	4,221,704	4,076,676
Working capital	9,956,132	9,750,113	2,560,037	4,603,197
Net income (loss)	5,209,720	645,739	(1,508,375)	(908,189)
Net income (loss) attributable to the Company	5,209,720	1,156,804	(1,093,507)	(511,741)
Basic income (loss) per share	0.36	0.08	(0.08)	(0.03)
Diluted income (loss) per share	0.26	0.06	(0.08)	(0.03)

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Total assets	\$ 14,124,676	\$ 15,663,042	\$ 14,216,538	\$ 14,717,787
Exploration properties	3,479,354	2,163,804	755,670	103,263
Working capital	8,311,290	7,240,033	8,802,477	12,192,363
Net income (loss)	(1,137,515)	1,855,548	(1,402,351)	(290,332)
Net income (loss) attributable to the Company	(433,704)	2,177,840	(895,726)	382,148
Basic income (loss) per share	(0.03)	0.15	(0.06)	0.03
Diluted income (loss) per share	(0.03)	0.11	(0.06)	0.02

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2019

During the three-month period ended March 31, 2019, the Company had a net income of \$5,209,720 compared to a net loss of \$1,137,515 for the three-month period ended March 31, 2018. Significant fluctuations occurred in the following categories:

- a) During the quarter ended March 31, 2019, the Company recorded a gain of \$6,700,991 from the deconsolidation of Japan Gold. The Company's percentage holdings in Japan Gold Corp. was diluted from 53.09% to 31.90% due to an equity financing by Japan Gold in December 2018, which resulted in a loss of control by the Company in Japan Gold. The Company now considers Japan Gold as an equity investment and recorded its share of the loss in its investment in Japan Gold of \$340,081 for the quarter.
- b) During the quarter ended March 31, 2019, the Company recorded a gain on investments of \$645,612 (March 31, 2018: \$Nil). The increase is mainly the result of an increase in the fair value of Rise, Tethyan and Japan Gold warrants.
- c) During the quarter ended March 31, 2019, the Company recorded an income tax recovery of \$708,015 (March 31, 2018: income tax expense of \$41,269) resulting from temporary differences arising from fair value adjustment on financial asset through comprehensive income investments.
- d) During the quarter ended March 31, 2019, the Company recorded a loss on fair value adjustment on derivative liability of \$2,509,634 (March 31, 2018: \$Nil). This loss resulted from an increase in the fair value of the derivative liability the Company recorded relating to the call option that Augusta has on 5,000,000 of the Company's common shares of Tethyan.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MARCH 31, 2019

During the nine-month period ended March 31, 2019, the Company had a net income of \$4,347,084 compared to net loss of \$3,077,131 for the nine-month period ended March 31, 2018. Significant fluctuations occurred in the following categories:

- a) During the period ended March 31, 2019, the Company recorded a gain of \$6,700,991 from the deconsolidation of Japan Gold. The Company's percentage holdings in Japan Gold Corp. was diluted from 53.09% to 31.90% due to an equity financing by Japan Gold in December 2018, which resulted in a loss of control by the Company in Japan Gold. The Company now considers Japan Gold as an equity investment and recorded its share of the loss in its investment in Japan Gold of \$340,081 for the period.
- b) During the period ended March 31, 2019, the Company recorded its share of the loss in its equity investment in Tethyan of \$460,683 (March 31, 2018: \$541,379) up to January 31, 2019. The Company then reclassified its equity investment in Tethyan to financial asset through comprehensive income investment due to the decrease in the Company's percentage holdings in Tethyan as a result of dilution from equity financings by Tethyan. In connection with this occurrence, the Company recorded a gain on disposition of investment in associate of \$654,651 (March 31, 2018: \$Nil). The Company currently holds 13.81% of Tethyan and does not have significant influence over the operations and activities of Tethyan.
- c) During the period ended March 31, 2019, the Company recorded a fair value gain on investments of \$346,847 (March 31, 2018: \$134,041). The increase is the result of an increase in the fair value of Rise, Tethyan and Japan Gold warrants.
- d) During the period ended March 31, 2019, the Company recorded an income tax recovery of \$708,015 (March 31, 2018: \$91,400) resulting from temporary differences arising from fair value adjustment on financial asset through comprehensive income investments.
- e) Investor relations and travel expense during the period ended March 31, 2019 of \$88,514 and \$81,889 respectively (March 31, 2018: \$250,782 and \$281,701 respectively) decreased as there were fewer costs associated with materials and marketing for Japan Gold Corp.
- f) During the period ended March 31, 2019, the Company incurred \$251,245 (March 31, 2018: \$Nil) in share-based compensation expense. This was as a result of stock option issuances by both Southern Arc and Japan Gold.
- g) During the period ended March 31, 2019, the Company received proceeds of \$1,629,375 in connection to a sale of the Company's Taliwang property, which was previously written off.
- h) During the period ended March 31, 2019, the Company recorded a loss on fair value adjustment on derivative liability of \$2,509,634 (March 31, 2018: \$Nil). This loss resulted from an increase in the fair value of the derivative liability the Company recorded relating to the call option that Augusta has on 5,000,000 of the Company's common shares of Tethyan.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position at March 31, 2019 was \$634,373 compared to \$1,173,385 from June 30, 2018. As at March 31, 2019, the Company's working capital was \$9,856,132 compared to a working capital of \$4,603,197 at June 30, 2018.

Net cash used in operating activities for the period ended March 31, 2019 was \$284,604 compared to \$2,623,744 during the period ended March 31, 2018.

Net cash used in investing activities during the period ended March 31, 2019 included net cash proceeds received on sale of investments of \$Nil (March 31, 2018 - \$3,647,400), net cash used to purchase short term investment of \$Nil (March 31, 2018: \$4,550,000), net cash received from redemption of short-term investment of \$600,000 (March 31, 2018: \$3,350,000), net cash used for acquisition of investment of \$750,000 (March 31, 2018: \$5,749,073), cash received from repayment of loan receivable of \$1,174,446 (March 31, 2018: advance of \$408,700) and cash used in exploration and evaluation expenses of \$1,278,854 (March 31, 2018: \$3,376,091).

The Company did not have any financing activities during the period ended March 31, 2019. During the period ended March 31, 2018, \$405,352 of cash was 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 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:

	Three months ended March 31, 2019	Three months ended March 31, 2018	Nine months ended March 31, 2019	Nine months ended March 31, 2018
Management fees	\$ 120,000	\$ 450,000	\$ 627,000	\$ 756,000
Share-based compensation	\$ 161,659	\$ -	\$ 161,659	\$ -

During the period ended March 31, 2019, the Company and Japan Gold paid \$627,000 (March 31, 2018: \$756,000) 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, \$282,000 relates to management fees incurred by Japan Gold. Management fees include administrative, finance, accounting, investor relations and consulting services.

On August 29, 2018, the Company entered into a loan agreement with Promincon Pte, a company controlled by a director of the Company, for US\$500,000. The loan matures three months after its issue and the Company will pay a one-time fee of 5% of the principal amount. The loan is secured by the shares of Tethyan owned by the Company. As at March 31, 2019, this loan including the fee payable was repaid in full. The above transactions occurred in the normal course of operations and are recorded at the consideration established and agreed to by the related parties.

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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.

As at May 28, 2019, the Company had share options outstanding as follows:

	Number of Options	Exercise Price	Expiry Date
Options	859,000	\$ 0.32	November 26, 2020
	577,000	\$ 0.35	December 14, 2023
	1,436,000		

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

The Company entered into a lease agreement for office space in Vancouver with annual rent expense of approximately \$206,000.

SUBSEQUENT EVENTS

There are no subsequent events.

RISKS AND UNCERTAINTIES

The nature of the Company's operations exposes the Company to credit risk, liquidity risk, market risk and geopolitical risk, which may have a material effect on cash flows, operations and comprehensive income.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company reduces its credit risk by maintaining its bank accounts at large financial institutions. Accounts receivable consists of amounts receivable from the Canadian federal government for the refundable GST amounts. The Company assess the collectability and fair value of this receivable at each reporting period.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal year. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1 in the accompanying financial statements.

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Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on the Company's cash is minimal.

Foreign exchange risk

The Company currently has investments in companies who operate in Japan, Serbia, United States and Indonesia. As the Company does not directly operate in these countries, the Company's exposure to foreign currency fluctuations is limited.

Geopolitical risk

The Company had properties in Indonesia and the Company has a 31.90% interest in Japan Gold, which has prospecting rights license applications and Prospecting Rights in Japan. In addition, the Company holds a 13.81% interest in Tethyan Resources which has projects in Serbia. As such, the Company is subject to political, economic and other uncertainties, including, but not limited to, changes in policies and regulations or the personnel administering them, changes with regard to foreign ownership of property rights, exchange controls and royalty and tax increases, and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are to be conducted, as well as risks of loss due to civil strife, acts of war and insurrections. If a dispute arises regarding the Company's property interests, the Company cannot rely on western legal standards in defending or advancing its interests.

Industry

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

Gold and metal prices

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

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, 2018 and 2017. 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

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require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

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

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

Critical accounting judgements

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

- i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained in the near term.
- ii) The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.
- iii) The Company's assessment of the economic recoverability and probability of future economic benefits of exploration and evaluation costs capitalized, subject to impairment analysis.
- iv) The classification of the Company's investments as an investment in associate or investment held as available for sale is determined by reviewing whether the Company has significant influence based on the percentage of holdings and other qualitative factors. The Company's investments held as available for sale and investment in associate is subject to evaluation of significant and prolonged declines in value. The Company considers an investment to be impaired if there is a decline of 20% or more of an investment's quoted market price that persists for period of nine months or more.

New accounting standards and pronouncements

- 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. The Company is in the process of finalizing its IFRS 16 transition impact calculations and lease accounting procedures and policies. As a result of adoption of IFRS 16, the Company's lease payments may no longer be recognized as an expense in office and miscellaneous and interest on lease obligations may be presented as financing expense with depreciation expense recognized on the right of use assets. The Company does not expect that the adoption of this standard will have a material impact on the consolidated financial statements.

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

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

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

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