Southern Arc
MINERALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2019 AND 2018

(Unaudited- Expressed in Canadian dollars)

This Management's Discussion and Analysis ("MD&A"), prepared as of February 25, 2020, should be read in conjunction with the unaudited condensed consolidated interim financial statements of Southern Arc Minerals Inc. ("Southern Arc" or the "Company") for the six months ended December 31, 2019 and the audited financial statements for the year ended June 30, 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. (25.87%), a Canadian junior company exploring for gold in Japan;
- An investment in Tethyan Resources Corp. (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. (12.47%), 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.

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

	December 31, 2019	June 30, 2019	June 30, 2018
Total assets	**$ 15,656,601**	$ 17,455,389	$ 11,933,836
Exploration properties	**-**	-	4,076,676
Working capital	**3,340,517**	471,347	2,803,197
Net income (loss)	**811,996**	4,622,204	(3,580,703)
Net income (loss) attributable to the Company	**811,996**	5,442,472	(1,841,413)
Basic income (loss) per share	**$ 0.05**	$ 0.38	$ (0.14)
Diluted income (loss) per share	**$ 0.05**	$ 0.35	$ (0.14)

At the date of this MD&A, the Company had approximately $1.4 million in working capital.

Supplemental information

For the purpose of providing additional information regarding the investments available to Southern Arc, below is a summary of the standalone net assets of the Company as at December 31, 2019 and February 25, 2020. For the purposes of this supplementary information, the Company has provided its investment in Japan Gold Corp. at quoted market price rather than on equity basis.

		December 31, 2019		February 25, 2020
Cash	$	1,606,488	$	1,455,212
Investment in PT Ancora.		1,842,400		998,400
Investment in Rise Gold Corp. shares		1,870,000		2,007,500
Investment in Rise Gold Corp. warrants		189,333		194,185
Investment in Tethyan Resources Plc. shares		1,403,937		1,454,077
Investment in Tethyan Resources Plc. Warrants		12,435		11,709
Investment in Japan Gold Corp. shares (at quoted market price)		9,968,750		12,143,750
Investment in Japan Gold Corp warrants		1,312,754		1,774,612
Total investment assets	**$**	**18,206,097**	**$**	**20,039,445**
Total derivative liability	**$**	**(43,498)**	**$**	**(31,637)**
Net investment assets	**$**	**18,162,599**	**$**	**20,007,808**

As at the date of this MD&A, the Company has 19,224,616 common shares issued, of which 19,094,616 are outstanding and 130,000 are treasury shares.

RECENT EVENTS

On January 6, 2020, the Company closed the second and final tranche of its previously announced non-brokered private placement. The Company sold 850,000 common shares at a price of $0.35 per share for gross proceeds of $297,500 which was all purchased by John Proust, the Company's CEO and Chairman.

On November 1, 2019, the Company closed a non-brokered private placement through the issuance of 2,150,000 common shares at a price of $0.35 per share for gross proceeds of $752,500. No finder's fees were paid in connection with the financing and proceeds will be used for working capital. John Proust, the Company's Chairman and CEO, purchased 1,150,000 shares ($402,500) of the private placement.

On November 20, 2019, 280,000 stock options were exercised at an average exercise price of $0.33 per share for proceeds of $92,600.

On November 21, 2019, 1,355,000 share purchase warrants were exercised by a related party at an exercise price of $0.32 per share for proceeds of $433,600.

Investment in Japan Gold Corp.

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.

On August 22, 2019, Japan Gold completed a private placement of $7,141,166 which resulted in an issuance of 26,448,763 units at a price of $0.27 per unit. Each unit consisted of one common share of Japan Gold and one-half of a transferable common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of Japan gold at a price of $0.42 per common share for a period of 24 months from closing. The Company purchased 1,648,200 units under this offering and concurrently effected a private sale of 1,648,200 Japan Gold shares at $0.27 per share. The Company has retained the 824,100 warrants that it purchased.

Following the close of the Japan Gold financings, there were no changes in the total number of shares held by the Company. As a result of the financings in Japan Gold, the Company now owns 25.87% of the issued and outstanding common shares of Japan Gold.

Investment in Tethyan Resources Corp. (formerly Tethyan Resources PLC)

On April 17, 2019, Tethyan Resources Corp 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. The Company did not participate in this financing.

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.

Investment in Rise Gold Corp.

On August 20, 2019, Rise Gold Corp. completed two tranches of a non-brokered private placement totalling $3,933,619 through the sale of 5,619,456 units. Each unit comprises of one common share and one half of one share purchase warrant entitling the holder to acquire one common share of Rise Gold Corp. at an exercise price of $1.00 for a period of three years from the date of issuance. The Company did not participate in this financing and currently holds 12.47% of Rise Gold Corp.

On November 6, 2018, the Company purchased 750,000 units in Rise Gold at a price of $1.00 per unit for a purchase price of $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 $1.30 per share until November 6, 2020. Along with this purchase, the Company also received 87,500 share purchase warrants as finder's fee. These finder's fee warrants have an exercise price of $1.30 per warrant and expire on October 16, 2020. Following the investment, the Company owned approximately 18.84% of Rise Gold's issued and outstanding shares of common stock.

Taliwang property

On October 26, 2018, the Company received US$750,000 from the sale of its Taliwang project in 2014. A provision for impairment for the full carrying value of the property 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.

Pursuant to its diversification strategy, 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 then 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, the Company sold its interest in Japan Gold KK to Japan Gold in exchange for 23,750,000 common shares of Japan Gold.

Since September 2016, Japan Gold has expanded its project portfolio which now comprises of 74 Prospecting Rights and 570 prospecting rights applications accepted for a combined area of 176,370 hectares over 30 separate gold projects. Twenty-nine of the Projects, in Hokkaido, Honshu and Kyushu, cover areas with known historic gold occurrences and a history of mining and are prospective for high-grade epithermal gold 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.

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 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 January 31, 2019, 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 exercise 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 2,000,000 units of Rise Gold at a price of $1.00 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 November 6, 2018, the Company purchased 750,000 units in Rise Gold at a price of C$1.00 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$1.30 per share until November 6, 2020. Following the investment, the Company owned approximately 18.84% of Rise Gold's issued and outstanding shares of common stock.

Indonesia

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 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

	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Total assets	15,656,601	$ 16,896,929	$ 17,455,389	$ 23,223,746
Working capital	3,340,517	1,846,582	471,347	9,956,132
Net income (loss)	(980,680)	1,792,676	275,120	5,209,720
Net income (loss) attributable to the Company	(980,680)	1,792,676	169,455	5,209,720
Basic income (loss) per share	(0.06)	0.12	0.02	0.36
Diluted income (loss) per share	(0.06)	0.12	0.01	0.26

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Total assets	$ 18,672,678	$ 10,306,370	$ 11,933,836	$ 14,124,676
Exploration properties	5,069,217	4,221,704	4,076,676	3,479,354
Working capital	9,750,113	2,560,037	2,803,197	8,311,290
Net income (loss)	645,739	(1,508,375)	(503,573)	(1,137,515)
Net income (loss) attributable to the Company	1,156,804	(1,093,507)	(297,011)	(433,704)
Basic income (loss) per share	0.08	(0.08)	(0.03)	(0.03)
Diluted income (loss) per share	0.06	(0.08)	(0.03)	(0.03)

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

During the three-month period ended December 31, 2019, the Company had a net loss of $980,680 compared to a net income of $645,739 for the three-month period ended December 31, 2018. Significant fluctuations occurred in the following categories:

a) During the quarter ended December 31, 2019, the Company recorded a realized and unrealized loss on its investments of $778,230 (December 31, 2018: gain of $70,671).

b) Company also recorded its share of the loss in its investment in Japan Gold of $250,081 (December 31, 2018: loss on investment in Tethyan of $243,373).

c) During the quarter ended December 31, 2019, the Company recorded a gain on fair value adjustment on derivative liability of $297,611 (December 31, 2018: $Nil). This gain resulted from a decrease 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.

d) During the three-month period ended December 31, 2019, the company recorded a gain of $Nil on sale of property (December 31, 2018: $1,629,375).

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED DECEMBER 31, 2019

During the six-month period ended December 31, 2019, the Company had a net income of $811,996 compared to a net loss of $862,636 for the six-month period ended December 31, 2018. Significant fluctuations occurred in the following categories:

e) During the period ended December 31, 2019, the Company recorded a realized and unrealized loss on its investments of $242,120 (December 31, 2018: $298,765).

f) Company also recorded its share of the loss in its investment in Japan Gold of $618,035 (December 31, 2018: loss on investment in Tethyan of $427,700).

g) During the period ended December 31, 2019, the Company recorded a gain on fair value adjustment on derivative liability of $1,495,639 (December 31, 2018: $Nil). This gain resulted from a decrease 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.

h) During the period period ended December 31, 2019, the company recorded a gain of $Nil on sale of property (December 31, 2018: $1,629,375).

i) During the period ended December 31, 2019, the Company recorded a gain on dilution on its investment in Japan Gold of $603,940 (December 31, 2018: Gain on dilution on investment in Tethyan of $148,032).

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position at December 31, 2019 was $1,606,488 compared to $435,968 from June 30, 2019. As at December 31, 2019, the Company's working capital was $3,340,517 compared to a working capital of $471,347 at June 30, 2019.

Net cash used in operating activities for the period ended December 31, 2019 was $315,169 compared to cash provided by operating activities of $369,685 during the period ended December 31, 2018.

The Company did not have any investing activities during the period ended December 31, 2019. During the period ended December 31, 2018, $600,000 of cash redeemed from short-term investment by a former subsidiary of the Company, $750,000 spent in acquisition of additional investment in Rise Gold, 5,000,000 of cash spent for purchase of additional short-term investment by a former subsidiary of the Company, offset by $1,278,854 in exploration and evaluation expenditures.

Net cash provided by financing activities during the period ended December 31, 2019 was $1,485,689 (December 31, 2018: $7,312,960). This included lease payments of $100,440 for the Company's office lease, cash raised through private placement of $1,037,529, cash received from option and warrant exercise of $548,600.

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 investing 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 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 December 31, 2019	Three months ended December 31, 2018	Six months ended December 31, 2019	Six months ended December 31, 2018
Management fees	$ 115,000	$ 248,000	$ 235,000	$ 507,000
Share-based compensation	$ -	$ 161,659	$ -	$ 161,659

During the period ended December 31, 2019, the Company paid $235,000 (December 31, 2018: $507,000) in management fees to J. Proust & Associates Inc., a private company controlled by John Proust, the Chief Executive Officer and Chairman of the Company. Of this amount, $Nil (December 31, 2018: $282,000) relates to management fees incurred by the previous subsidiary, 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 matured three months after its issue and the Company paid a one-time fee of 5% of the principal amount. The loan was secured by the shares of Tethyan owned by the Company. As at June 30, 2019, this loan including the one-time 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.

CURRENT SHARE DATA

As at the date of this MD&A, the Company has 19,224,616 common shares issued, of which 19,094,616 are outstanding and 130,000 are treasury shares.

As at February 25, 2020, the Company had share options outstanding as follows:

	Number of Options	Exercise Price	Expiry Date
Options	659,000	$ 0.32	November 26, 2020
	477,000	$ 0.35	December 14, 2023
	1,136,000		

As at the date of this MD&A, the Company had 2,661,667 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 a remaining lease term of 39 months and an annual rent expense of approximately $206,000.

SUBSEQUENT EVENTS

Subsequent to the period ended December 31, 2019, the Company closed the second and final tranche of its previously announced non-brokered private placement. The Company sold 850,000 common shares at a price of $0.35 per share for gross proceeds of $297,500.

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.

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.

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, 2019 and 2018. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

Significant accounting judgements and estimates

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

Critical accounting estimates

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

i) The calculation of share-based compensation requires estimates of volatility, forfeiture rates and market prices related to the issuance of share options. These estimates impact share-based compensation expense and share-based payment reserve.

ii) The determination of fair value of investments in non-tradable warrants, which are derivative instruments, requires assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact mark to market gains and losses recognized in profit or loss.

Critical accounting judgements

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

i) The Company's assessment of its ability to continue as a going concern requires judgements about whether sufficient financing will be obtained in the near term. See Note 1.

ii) The classification of the Company's investments as an investment in associate or financial assets through comprehensive income 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 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.

Changes in accounting policies and disclosures

IFRS 16, Leases, replaces IAS 17, and the policy 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.

As a result of adoption of IFRS 16 on July 1, 2019, the Company's payments related to arrangements that meet the definition of a lease under IFRS 16 are no longer recognized as an expense in office and miscellaneous and interest on lease obligations are presented as financing expense with depreciation expense recognized on the right of use assets. IFRS 16 was applied using the modified retrospective approach, where the cumulative effect of initial application is recognized in deficit on July 1, 2019, with no restatement of comparative figures. Right-of-use assets are measured at amounts equal to the corresponding lease liabilities, which resulted in no adjustment to deficit on transition.

In applying IFRS 16, the Company elected to apply, under the modified retrospective approach, to recognize exemptions related to short-term and low value leases. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short term leases. Judgment was applied in adopting IFRS 16 to identify contracts within the scope of IFRS 16, evaluating lease renewal terms and determining the discount rate used to present value the lease arrangements. On transition, lease liabilities were measured at present value of the remaining lease payments under the agreement term. Right-of-use assets are measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.

On July 1, 2019, upon adoption of IFRS 16, the Company recognized an increase in right-of-use assets and lease liabilities of $630,963, with no adjustment to deficit, related to its office lease. The incremental borrowing rate for lease liabilities initially recognized on adoption of IFRS 16 was 10%. (See Note 6).

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.