JAPAN GOLD CORP.

(Formerly Sky Ridge Resources Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR SIX MONTHS ENDED DECEMBER 31, 2016 AND TWELVE MONTHS ENDED JUNE 30, 2016

(Expressed in Canadian dollars)

Independent auditors' report

To the Shareholders of
Japan Gold Corp. [formerly Sky Ridge Resources Ltd.]

We have audited the accompanying consolidated financial statements of **Japan Gold Corp.** [formerly Sky Ridge Resources Ltd.], which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Japan Gold Corp.** [formerly Sky Ridge Resources Ltd.] as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of Southern Arc Minerals Japan KK for the year ended June 30, 2016 were audited by another auditor, who expressed an unmodified opinion on those statements on August 12, 2016.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
May 1, 2017

JAPAN GOLD CORP.
(Formerly Sky Ridge Resources Ltd.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

As at		December 31, 2016		June 30, 2016
Assets				
Current				
Cash	$	40,362	$	516
Short-term investment (Note 4)		5,200,000		-
Accounts receivable		44,690		-
Prepaid expenses and deposits		205,556		7,754
		5,490,608		8,270
Non-Current Assets				
Property, plant and equipment (Note 5)		68,984		-
Total assets	$	5,559,592	$	8,270
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 7)	$	146,953	$	46,104
Due to related party (Note 7)		-		910,835
Total liabilities		146,953		956,939
Shareholders' equity				
Share capital (Note 6)		11,908,322		10,300
Contributed surplus		1,710,434		-
Accumulated other comprehensive loss		(2,328)		-
Deficit		(8,203,789)		(958,969)
Total shareholders' equity		5,412,639		(948,669)
Total liabilities and shareholders' equity	$	5,559,592	$	8,270

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issuance on May 1, 2017:

On behalf of the Board of Directors

"Michael Andrews" Director *"John Proust"* Director

The accompanying notes are an integral part of these consolidated financial statements.

JAPAN GOLD CORP.
(Formerly Sky Ridge Resources Ltd.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR SIX MONTHS ENDED DECEMBER 31, 2016 AND TWELVE MONTHS ENDED JUNE 30, 2016
(Expressed in Canadian dollars)

	December 31, 2016	June 30, 2016
Expenses		
Audit	$ 32,000	$ -
Consulting	587,354	302,290
Depreciation	2,351	-
Filing and regulatory	41,840	-
Foreign exchange gain	(11,598)	(6,097)
General and administrative	162,045	40,916
Interest expense	-	33,559
Insurance	10,159	12,138
Investor relations	14,670	-
Management fees	138,000	-
Marketing	462,189	-
Professional fees	11,258	53,932
Share-based compensation (Note 6)	1,464,483	-
Transfer agent	21,875	-
Travel	549,312	28,894
Loss before other items	3,485,938	465,632
Other items		
Interest income	(2,033)	(5)
Reverse acquisition cost (Note 2)	4,694,258	-
	4,692,225	(5)
Net loss for the period	8,178,163	465,627
Exchange difference on translation of foreign currency	2,328	-
Net comprehensive loss for the period	$ 8,180,491	$ 465,627
Loss per share		
Basic and diluted loss per share	$ (0.23)	$ (0.93)
Weighted average number of shares outstanding	35,573,164	500,000

The accompanying notes are an integral part of these consolidated financial statements.

JAPAN GOLD CORP.
(Formerly Sky Ridge Resources Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR SIX MONTHS ENDED DECEMBER 31, 2016 AND TWELVE MONTHS ENDED JUNE 30, 2016
(Expressed in Canadian dollars)

For the period ended	December 31, 2016	June 30, 2016
Cash flows from operating activities		
Net loss for the period	$ (8,178,163)	$ (465,627)
Adjustments for:		
Share-based compensation	1,464,483	-
Depreciation	2,351	-
Interest expense	-	33,559
Reverse acquisition cost (Note 2)	4,376,101	-
Changes in non-cash working capital items:		
Accounts receivable and prepaid expenses	(240,327)	(1,285)
Accounts payable and accrued liabilities	(197,801)	27,183
Net cash used in operating activities	(2,773,356)	(406,170)
Cash flows from investing activities		
Short-term investment purchased (Note 4)	(6,000,000)	-
Short-term investment redeemed (Note 4)	1,130,000	-
Acquisition of property, plant and equipment (Note 5)	(71,335)	-
Net cash used in investing activities	(4,941,335)	-
Cash flows from financing activities		
Shares issued from financing, net of share issue cost (Note 6)	6,780,375	-
Cash received from reverse acquisition (Note 2)	646,333	-
Cash paid for reverse acquisition (Note 2)	318,157	
Cash received from warrant exercise	12,000	-
Advances from related party	-	400,868
Net cash provided by financing activities	7,756,865	400,868
Change in cash during the period	$ 42,174	$ (5,302)
Effect of foreign exchange on cash	(2,328)	-
Cash, beginning of the period	$ 516	5,818
Cash, end of the period	$ 40,362	$ 516

The accompanying notes are an integral part of these consolidated financial statements.

JAPAN GOLD CORP.

(Formerly Sky Ridge Resources Ltd.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR SIX MONTHS ENDED DECEMBER 31, 2016 AND TWELVE MONTHS ENDED JUNE 30, 2016

(Expressed in Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance, June 30, 2015	12,264,120	$ 10,300	$ -	$ -	$ (493,342)	$ (483,042)
Comprehensive loss for the year	-	-	-	-	(465,627)	(465,627)
Balance, June 30, 2016	12,264,120	$ 10,300	$ -	$ -	$ (958,969)	$ (948,669)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance, June 30, 2016	12,264,120	$ 10,300	$ -	$ -	$ (958,969)	$ (948,669)
Shares issued for RTO (Note 2)	25,000,000	5,151,598	-	-	-	5,151,598
Gain on intercompany debt forgiveness	-	-	-	-	933,343	933,343
Shares issued for private placement, net (Note 2)	17,500,000	6,780,375	-	-	-	6,780,375
Shares issued for finders' fee	83,625	-	-	-	-	-
Shares issued for acquisition cost (Note 2)	500,000	200,000	-	-	-	200,000
Share-based compensation (Note 2)	-	-	1,464,483	-	-	1,464,483
Warrants exercised (Note 2)	100,000	12,000	-	-	-	12,000
Net loss for the period	-	-	-	-	(8,178,163)	(8,178,163)
Foreign currency translation	-	-	-	(2,328)		(2,328)
Balance, December 31, 2016	55,447,745	$ 12,154,273	$ 1,464,483	$ (2,328)	$ (8,203,789)	$ 5,412,639

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Japan Gold Corp. ("Japan Gold" or "the Company") (previously Sky Ridge Resources Ltd.) was incorporated under the laws of British Columbia.

On September 15, 2016, the Company changed its name to Japan Gold from Sky Ridge Resources Ltd. ("Sky Ridge") upon completing a transaction (the "Transaction") in which the Company issued shares to shareholders of Southern Arc Minerals Japan KK ("SAMJ") to acquire all of SAMJ's issued and outstanding shares. This resulted in SAMJ becoming a wholly owned subsidiary of Japan Gold. Following the completion of the Transaction, the Company became the Resulting Issuer and continued trading on the TSX Venture Exchange ("TSX-V") under the symbol "JG". See Note 2.

The Company is engaged in the acquisition and exploration of resource properties in Japan. The Company's head office is at Suite 669 – 650 Howe Street, Vancouver, British Columbia, Canada, V6C 0B4.

The Company is currently in the process of acquiring, exploring and evaluating potential properties in northern Hokkaido and northern Honshu, Japan. Japan Gold has lodged 160 prospecting rights license applications in Japan, nine of which have been granted as Prospecting Rights.

The Company has not generated significant revenues or cash flows from operations. These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2016, the Company has a working capital of $5,343,655, representing funds available to cover on-going operating costs. The Company has incurred negative cash flows from operations, recorded a loss of $8,178,163 for the six months ended December 31, 2016, and has an accumulated deficit of $8,203,789 as at December 31, 2016.

The Company's ability to continue on a going concern basis depends on its ability to successfully raise financing. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These audited consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

(Expressed in Canadian dollars)

2. ACQUISITION

On September 15, 2016, the Company closed a transaction with SAMJ whereby the Company acquired all of the issued and outstanding common shares of SAMJ and SAMJ became a wholly owned subsidiary of the Company. Under the terms of the Transaction, the Company acquired 100% of the issued and outstanding shares of SAMJ by issuing to former SAMJ shareholders 25,000,000 post consolidated shares of the Company (the "Acquisition"). In connection with the Acquisition, the Company also completed a financing for gross proceeds of $7,000,000 for 17,500,000 common shares at a price of $0.40 per share. The Company also issued 500,000 shares in finders' fee and granted 4,724,950 share options to directors, officers and consultants of the Company exercisable at $0.40 with a ten-year expiry.

In accordance with IFRS 3, *Business Combinations*, the substance of the Acquisition was a reverse acquisition of a non-operating company. The transaction does not constitute a business combination since Sky Ridge does not meet the definition of a business under the standard. As a result, under IFRS, the Transaction is accounted for as a capital transaction with SAMJ being identified as the acquirer and the transaction being measured at the fair value of the equity consideration issued to Sky Ridge. The comparative figures included in these financial statements are those of SAMJ.

IFRS 2, *Share-based Payments*, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Since SAMJ shareholders have been issued shares with a fair value in excess of the net assets received, IFRS 2 dictates that the difference is recognized in comprehensive loss as a reverse transaction cost.

The fair value of the consideration in the Acquisition is determined be reference to the completed private placement at $0.40 per share. Accordingly, the value of the share capital (12,264,120 shares) owned by the former shareholders of Sky Ridge at the time of the Transaction was $4,905,648. In addition, $245,951 relating to the share-based payments for previous option holders was added to total consideration.

The allocation of the purchase price of the reverse transaction cost is as follows:

Purchase price		
Number of shares held by former shareholders of Sky Ridge		12,264,120
Share price	$	0.40
	$	4,905,648
Share-based payments for previous option holders		245,951
Total consideration	$	5,151,599
Fair value of net liabilities of Sky Ridge prior to the Acquisition		
Cash	$	646,333
Other receivable		2,165
Short-term investments		330,000
Payables		(3,000)
Net assets assumed	$	975,498
		(4,176,101)
Transaction cost		(318,157)
Shares issued for acquisition cost		(200,000)
Reverse acquisition cost	$	(4,694,258)

3. SIGNIFICANT ACCOUNTING POLICIES

Change in fiscal year-end

The Company changed its fiscal year-end from June 30 to December 31, effective December 31, 2016 in order to coincide the Company's annual reporting as a public company with its peers in the mining industry. Accordingly, the current consolidated financial statements are prepared for six months from July 1, 2016 to December 31, 2016. As a result, the figures stated in the consolidated statements of loss and comprehensive loss, changes in equity, cash flows and the related notes are compared to the consolidated financial statements for the year ending June 30, 2016. The consolidated statements of financial position are as at December 31, 2016 and June 30, 2016. As such, these amounts may not be entirely comparable.

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements have been prepared under the historical cost basis, with the exception of financial instruments that are measured at fair value, as explained in the accounting policies and methods of application set out below. The comparative figures presented in these consolidated financial statements are also in accordance with IFRS.

These consolidated financial statements were approved for issuance by the Company's Board of Directors on May 1, 2017.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned Japanese subsidiary, SAMJ. All intercompany balances and transactions have been eliminated on consolidation. The Company consolidates subsidiaries where it has the ability to exercise control. Control over an investee is defined to exist when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Particularly, the Company controls investees, if and only if, the Company has all of the following: power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns.

Significant accounting judgments and estimates

The preparation of these consolidated 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. These financial statements include estimates that, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, which could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) The estimated fair values of the Company's financial assets and liabilities, are by their nature, subject to measurement uncertainty.

ii) The application of the Company's accounting policy for exploration expenditure requires estimates in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the year the new information becomes available.

iii) The determination of fair value of shares and share-based compensation which require assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact fair value to be recognized in profit or loss.

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

i) The Company's assessment of its ability to continue as a going concern requires judgments about whether sufficient financing will be obtained in the near term. See Note 1.
ii) The Company's assessment of its functional and reporting currency of the legal parent company is denominated in Canadian dollars while the functional currency at the subsidiary is denominated in the Japanese yen.

Exploration properties

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation, in addition to acquisition costs, are recognized and capitalized by geographical area. Prior to receiving legal rights, the costs are expensed. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors, and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration activities, including general administrative overhead costs, are expensed in the period in which they occur.

If economically recoverable ore reserves are developed, capitalized costs of the related property are first tested for impairment and then reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of an exploration property is impaired, that property is written down to its estimated fair value. An exploration property is reviewed for impairment annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset (if any). When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment are amortized over the estimated useful life of the assets using the straight-line method to allocate their cost to their residual values over their estimated lives, as follows:

Furniture and equipment	4 years
Building	5 years

Foreign currency translation

The functional and reporting currency of the legal parent company is the Canadian dollar while the functional currency of the subsidiary company is the Japanese yen. Transactions in currencies other than the functional currency are recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Income and expenses for each statement of comprehensive loss are translated at average exchange rates for the period and all resulting foreign exchange translation differences are recognized in other comprehensive income as cumulative translation adjustments.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties subject to common control are also considered to be related. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Loss per share

The Company presents basic per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In reporting periods when a loss is incurred, potential issuance of shares would be anti-dilutive and, therefore, basic and diluted loss per share are the same.

Share-based payment transactions

The Company's share option plan allows the Company to grant options to its employees and consultants. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

The fair value for employee options is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which these deductions can be applied. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company would recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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 consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss. The Company does not have any assets classified as fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 is 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 not classified any financial assets as available for sale.

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

Financial liabilities

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

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss. The Company has not classified any financial liabilities 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 recognized at amortized cost using the effective interest method of amortization.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards and pronouncements

- IFRS 9 - *Financial Instruments*. This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - *Financial Instruments: Recognition and measurement, derecognition of financial assets and financial liabilities*. The required adoption date for IFRS 9 is January 1, 2018.

- IFRS 15 - *Revenue from Contracts with Customers*. This IFRS establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- IFRS 16 - *Leases*. This IFRS, which supersedes IAS 17 - *Leases*, specifies how to recognize, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied.

- IFRS 11 *Joint Arrangements* - IFRS 11, "Joint Arrangements" (IFRS 11) was amended by the IASB on May 6, 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016.

- Amendments to IFRS 2 *Share-based Payment* - In June 2016, amendments to IAS 2 were issued to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted.

- Amendments to IAS 7 – *Disclosure Initiative* - In January 2016, amendments to IAS 7 were issued to clarify IAS 7 to improve information provided to users of financial statements regarding an entity's financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

The Company does not expect to apply these standards prior to their mandatory effective date. At this time, the Company does not anticipate that the above standards would have a significant impact on the financial statements of the Company.

(Expressed in Canadian dollars)

4. SHORT-TERM INVESTMENT

As part of the Acquisition, the Company received $330,000 in a short-term investment in the form of a Guaranteed Investment Certificate ("GIC"). This GIC is held in an investment account earning interest at a rate of between 0.6% and 0.8% per annum and can be redeemed at any time. During the six months ended December 31, 2016, the Company purchased an additional $6,000,000 in GICs which earns interest at 0.8% per annum and redeemed $1,130,000 to fund the Company's day-to-day operations.

5. PROPERTY, PLANT AND EQUIPMENT

Cost		**Property**
At June 30, 2016	$	-
Purchases		77,264
Foreign exchange		(6,115)
At December 31, 2016	$	71,149
Accumulated depreciation		
At June 30, 2016	$	-
Depreciation		2,351
Foreign exchange		(186)
At December 31, 2016	$	2,165
Total carrying value, June 30, 2016	$	-
Total carrying value, December 31, 2016	**$**	**68,984**

6. SHARE CAPITAL

Authorized capital

The Company is authorized to issue an unlimited number of common and preferred shares without par value.

On September 15, 2016, the Company closed the Transaction with SAMJ whereby the Company acquired all of the issued and outstanding common shares of SAMJ and SAMJ became a wholly owned subsidiary of the Company and consolidated Share Capital 2:1. Under the terms of the Transaction, the Company acquired 100% of the issued and outstanding shares of SAMJ by issuing to former SAMJ shareholders 25,000,000 post-consolidated shares of the Company (the "Acquisition"). In connection with the Acquisition, the Company also completed a financing for gross proceeds of $7,000,000 for 17,500,000 common shares at a price of $0.40 per share. The Company also issued 500,000 shares in finders' fees at $0.40 per share for $200,000. In connection with this financing, the Company paid cash of $219,625 in share issue costs.

Share options

The Company has established a "rolling" Share Option Plan (the "Plan") in compliance with the TSX-V's policy for granting share options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options have expiry dates of no later than 10 years after the grant date. Vesting of options is determined by the Board of Directors at the time of grant.

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

Share options (continued)

As at December 31, 2016, all share options are fully vested. A summary of the changes in share options is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2016	-	$ -
Granted – prior to Acquisition	819,826	$ 0.26
Granted – post Acquisition	4,724,950	0.40
Outstanding and exercisable at December 31, 2016 (remaining average contractual life is 8.87 years)	5,544,776	$ 0.38

During the six months ended December 31, 2016, Sky Ridge granted 44,000 share options to consultants and charitable organizations of the Company at an exercise price of $0.37 per share, exercisable until March 16, 2026.

Subsequent to the Acquisition, the Company granted an additional 4,724,950 share options to directors, officers, consultants and charitable organizations of the Company exercisable at $0.40 with a ten year expiry. These options vested immediately and as a result, the Company recorded a share-based compensation expense of $1,464,483 in the consolidated statements of loss and comprehensive loss (June 30, 2016: $Nil).

The following weighted average assumptions were used for the Black-Scholes valuation of share options granted during the year ended December 31, 2016:

		December 31, 2016
Risk-free interest rate		0.56%
Expected life of options (in years)		10.00
Annualized volatility		75%
Share price	$	0.40
Fair value of options granted	$	0.31
Forfeiture rate		-
Dividend rate		-

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

The following table summarizes information about the share options outstanding as at December 31, 2016:

Outstanding and exercisable	Weighted average exercise price		Expiry date	Weighted average remaining contractual life (years)
141,663	$	0.30	March 15, 2017	0.20
200,000	$	0.20	March 15, 2017	0.20
33,334	$	0.30	November 2, 2020	2.84
16,666	$	0.30	January 19, 2022	5.05
125,000	$	0.30	March 7, 2022	5.18
108,331	$	0.30	January 7, 2023	6.02
13,332	$	0.30	March 25, 2023	6.23
137,500	$	0.20	October 8, 2025	8.78
44,000	$	0.37	March 16, 2026	9.21
4,724,950	$	0.40	September 15, 2026	9.71
5,544,776	$	0.38		8.87

Subsequent to the six months ended December 31, 2016, 341,663 stock options were exercised at exercise prices of $0.20 and $0.30 for total proceeds of $82,500.

Warrants

During the six months ended December 31, 2016, the Company received $12,000 as a result of 100,000 share purchase warrants being exercised.

As at December 31, 2016, the Company had no share purchase warrants outstanding.

7. RELATED PARTY TRANSACTIONS

Key management and personnel compensation

Key management personnel include the directors of the Company. Key management compensation consists of the following:

		December 31, 2016		June 30, 2016
Management fees	$	98,000	$	-
Share-based compensation		1,116,000		-

During the six months ended December 31, 2016, the Company incurred $98,000 (June 30, 2016: $Nil) in management fees to a private company controlled by the CEO of the Company. This fee is inclusive of administrative, finance and accounting fees, as well as certain office expenses. As at December 31, 2016, accounts payable and accrued liabilities included $Nil (June 30, 2016: $Nil) payable to the related entity.

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

During the previous period ended June 30, 2016, the Company owed $910,835 to Southern Arc Minerals Inc., the former parent company of SAMJ. This debt was forgiven as part of the Acquisition.

8. FINANCIAL INSTRUMENTS

The nature of the Company's operations exposes the Company to liquidity risk and market 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.

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 such as accounts payable and accrued liabilities are classified as current. 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.

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company currently does not have any significant credit 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 currently exposed to interest rate risk to the extent that the cash and short-term investment maintained at the financial institutions are subject to a floating rate of interest. The interest rate risk on the Company's cash and short-term investment is minimal.

The Company also operates in Japan and is subject to foreign currency fluctuations primarily on its cash and accounts payable and accrued liabilities denominated in Japanese yen ("Yen").

At December 31, 2016, the Company had Yen 1,012,600 (approximately CDN$11,645) in cash, and Yen 3,844,513 (approximately CDN$44,212) in accounts payable and accrued liabilities. As at December 31, 2016, Yen amounts were converted at a rate of 0.01150 to CDN$1. A 10% fluctuation in foreign exchange would result in a net change of approximately CDN$1,164.

Fair value

IFRS requires disclosure about fair 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 carrying values of the Company's receivables and short-term investments and accounts payable and accrued liabilities approximate their fair values.

(Expressed in Canadian dollars)

9. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

	December 31, 2016	June 30, 2016
Loss for the period, before income taxes	$ (8,178,163)	$ (465,627)
Tax rate	26.0%	25.0%
Expected income tax recovery	$ (2,126,322)	$ (116,407)
Items not deductible for income tax purposes	1,601,273	8,390
Effect of foreign exchange	-	(1,220)
Tax benefits unrecognized	525,049	109,237
Income tax expense	$ -	$ -

Deferred income tax assets have not been recognized for the following temporary differences:

	December 31, 2016	June 30, 2016
Non-capital loss carry forwards	$ 2,065,063	$ 1,079,621
Share issuance costs	180,853	-
	$ 2,245,916	$ 1,079,621

The Company has accumulated losses of $1,172,334 for deduction against future years' Canadian taxable income and accumulated losses of $892,728 in Japan. These losses expire in the years ending from 2025 to 2036.

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of unproven mineral properties, and to maintain a flexible capital structure. The Company considers items included in shareholders' equity as capital, which consists of shares issued to its parent company and deficit. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or return capital to its shareholder.

The Company currently does not produce any revenue and has relied on existing cash balances and capital financing to fund its operations. The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management in the year ended December 31, 2016.