



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2018 AND 2017**

*(Unaudited – expressed in Canadian dollars)*

**JAPAN GOLD CORP.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2018**

**Notice of No Auditor Review**

The accompanying unaudited condensed consolidated interim financial statements of Japan Gold Corp. for the three and nine month period ended September 30, 2018 have been prepared by the Company's management and approved by the Audit Committee and Board of Directors of the Company.

In accordance with National Instrument 51-102, the Company discloses that its independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

**JAPAN GOLD CORP.**

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited - expressed in Canadian dollars)

As at	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 172,335	\$ 682,218
Short-term investment (Note 3)	-	2,700,000
Accounts receivable	26,433	26,090
Prepaid expenses and deposits	91,168	86,084
	289,936	3,494,392
<b>Non-Current Assets</b>		
Deposit	37,850	14,243
Exploration and evaluation assets (Note 4)	4,221,704	3,019,520
Property, plant and equipment (Note 5)	582,598	783,833
<b>Total assets</b>	<b>\$ 5,132,088</b>	<b>\$ 7,311,988</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 516,489	\$ 581,824
Related party loan (Note 7)	323,625	-
<b>Total liabilities</b>	<b>840,114</b>	<b>581,824</b>
<b>Shareholders' equity</b>		
Share capital (Note 6)	15,745,821	15,745,821
Contributed surplus	3,023,536	3,023,536
Accumulated other comprehensive loss	569,895	412,860
Deficit	(15,047,278)	(12,452,053)
<b>Total shareholders' equity</b>	<b>4,291,974</b>	<b>6,730,164</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,132,088</b>	<b>\$ 7,311,988</b>

Nature and continuance of operations and going concern (Note 1)

Subsequent events (Note 11)

Approved by the Board of Directors and authorized for issuance on November 26, 2018:

**On behalf of the Board of Directors**"Michael Andrews" Director"John Proust" Director

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

**JAPAN GOLD CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited - expressed in Canadian dollars)

For the periods ended	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>Expenses</b>				
Audit	\$ 10,000	\$ 10,000	\$ 45,925	\$ 37,000
Consulting (Note 7)	184,098	397,974	1,045,894	1,473,664
Depreciation (Note 5)	460	7,368	1,801	24,459
Filing and regulatory	-	29,038	25,503	58,391
Foreign exchange loss (gain)	202,954	1,040	96,031	18,057
General and administrative	102,813	135,660	269,710	262,852
General exploration	3,984	131,561	7,243	230,091
Insurance	8,679	12,322	28,423	36,742
Investor relations	6,285	7,406	193,851	13,535
Management fees (Note 7)	144,000	84,000	444,000	252,000
Marketing	23,102	37,089	64,056	172,409
Professional fees	148,067	10,541	179,208	20,003
Salaries	-	29,389	-	29,389
Share-based compensation (Note 6)	-	-	-	63,102
Transfer agent	3,543	6,245	6,696	13,846
Travel	53,767	133,474	215,934	313,213
<b>Loss before other items</b>	<b>\$ 891,752</b>	<b>\$ 1,033,107</b>	<b>\$ 2,624,275</b>	<b>\$ 3,018,753</b>
<b>Other items</b>				
Interest income	(7,859)	(29,050)	(29,050)	(21,165)
	(7,859)	(29,050)	(29,050)	(21,165)
<b>Net loss for the period</b>	<b>883,893</b>	<b>1,004,057</b>	<b>2,595,225</b>	<b>2,997,588</b>
Foreign exchange loss (gain) on translation of foreign operations	14,596	3,734	(157,035)	127,280
<b>Net comprehensive loss for the period</b>	<b>\$ 898,489</b>	<b>\$ 1,007,791</b>	<b>\$ 2,438,190</b>	<b>\$ 3,124,868</b>
<b>Loss per share</b>				
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.05)
<b>Weighted average number of shares outstanding</b>				
	68,314,409	55,789,408	68,314,409	55,653,497

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

**JAPAN GOLD CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited - expressed in Canadian dollars)

	September 30,	September 30,
<b>For the nine month period ended</b>	2018	2017
<b>Cash flows from operating activities</b>		
Net loss for the period	\$ (2,595,225)	\$ (2,997,588)
Adjustments for:		
Share-based compensation	-	63,102
Depreciation (Note 5)	1,801	24,459
Unrealized foreign exchange expense	112,618	-
Changes in non-cash working capital items:		
Accounts receivable and prepaid expenses	(28,096)	74,974
Accounts payable and accrued liabilities	(85,509)	223,497
Net cash used in operating activities	(2,594,411)	(2,611,556)
<b>Cash flows from investing activities</b>		
Short-term investment redeemed (Note 3)	2,700,000	5,200,000
Purchase of short-term investment	-	(4,550,000)
Acquisition of exploration and evaluation assets (Note 4)	(921,257)	(769,027)
Acquisition of property, plant and equipment (Note 5)	-	(692,288)
Net cash provided by (used in) investing activities	1,778,743	(811,315)
<b>Cash flows from financing activities</b>		
Shares issued from financing, net of share issue cost	-	5,000,000
Cash received from share options exercised	-	87,499
Loan from related party (Note 7)	323,625	-
Net cash provided by financing activities	323,625	5,087,499
<b>Change in cash during the period</b>	<b>\$ (492,043)</b>	<b>\$ 1,664,628</b>
Effect of foreign exchange on cash	(17,840)	(96,595)
Cash, beginning of the period	682,218	40,362
<b>Cash, end of the period</b>	<b>\$ 172,335</b>	<b>\$ 1,608,395</b>

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

**JAPAN GOLD CORP.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
(Unaudited - expressed in Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total Equity
Balance, December 31, 2016	55,447,745	\$ 11,908,322	\$ 1,710,434	(2,328)	\$ (8,203,789)	\$ 5,412,639
Shares issued for private placement, net	12,500,000	5,000,000	-	-	-	5,000,000
Shares issued for options exercised	366,664	87,499	-	-	-	87,499
Share-based compensation	-	-	63,102	-	-	63,102
Net loss for the period	-	-	-	-	(2,997,588)	(2,997,588)
Foreign currency translation	-	-	-	(127,280)	-	(127,280)
Balance, September 30, 2017	68,314,409	\$ 16,995,821	\$ 1,773,536	(129,608)	\$ (11,201,377)	\$ 7,438,372

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance, December 31, 2017	68,314,409	\$ 15,745,821	\$ 3,023,536	412,860	\$ (12,452,053)	\$ 6,730,164
Net loss for the period	-	-	-	-	(2,595,225)	(2,595,225)
Foreign currency translation	-	-	-	157,035	-	157,035
Balance, September 30, 2018	68,314,409	\$ 15,745,821	\$ 3,023,536	569,895	\$ (15,047,278)	\$ 4,291,974

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

**JAPAN GOLD CORP.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

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**1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN**

Japan Gold Corp. (“Japan Gold” or “the Company”) 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” and trades on the OTC Markets (“OTCQB”) under the symbol “JGLDF”. 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 650-669 Howe Street, Vancouver, British Columbia, Canada, V6C 0B4.

The Company is exploring and evaluating potential properties in Japan. Japan Gold has lodged 216 prospecting rights license applications in Japan, 68 of which have been granted as Prospecting Rights.

The Company has not generated revenues or cash flows from operations. These condensed consolidated interim 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 September 30, 2018, the Company has a working capital deficiency of \$550,178 (December 31, 2017 - \$2,912,568), representing funds available to cover on-going operating costs. The Company has incurred negative cash flows from operations of \$2,594,411 for the period ended September 30, 2018 (September 30, 2017 - \$2,611,556), and has an accumulated deficit of \$15,047,278 as at September 30, 2018 (December 31, 2017 - \$12,452,053).

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. This material uncertainty may cast significant doubt upon the Company’s ability to continue as a going concern. These condensed consolidated interim 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

These condensed consolidated interim 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 unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and follow the same accounting policies and methods of application as the Company’s most recent annual financial statements.

These consolidated financial statements were approved for issuance by the Company’s Board of Directors on November 26, 2018.

### **Basis of consolidation**

These condensed consolidated interim 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.

### **New accounting standards and pronouncements**

- IFRS 9 – In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of January 1, 2018. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.
- 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.

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.



**JAPAN GOLD CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

**3. SHORT-TERM INVESTMENT**

During period ended September 30, 2018, the Company redeemed \$2,700,000 in GIC to fund day-to-day operations for a balance of \$Nil remaining as at September 30, 2018 (December 31, 2017 - \$2,700,000).

**4. EXPLORATION AND EVALUATION ASSETS**

	<b>Ikutahara project</b>	<b>Eboshi project</b>	<b>Total</b>
<b>Opening, January 1, 2017</b>	\$ -	\$ -	\$ -
Consulting	836,605	20,698	857,303
Supply stock and materials	866,314	-	866,314
Depreciation	137,891	-	137,891
Drilling	617,357	-	617,357
Geochemistry	40,761	8,331	49,092
Geophysics	7,947	1,449	9,396
Insurance	10,666	-	10,666
Travel	93,680	11,788	105,468
Field supplies	283,924	11,076	295,000
Foreign currency translation adjustment	62,265	8,768	71,033
<b>Balance, December 31, 2017</b>	<b>\$ 2,957,410</b>	<b>\$ 62,110</b>	<b>\$ 3,019,520</b>
Consulting	568,831	29,956	598,787
Insurance	9,535	-	9,535
Depreciation	228,757	-	228,757
Travel	117,926	3,877	121,803
Field supplies	171,975	19,157	191,132
Foreign currency translation adjustment	51,809	361	52,170
<b>Balance, September 30, 2018</b>	<b>\$ 4,106,243</b>	<b>\$ 115,461</b>	<b>\$ 4,221,704</b>

On December 1, 2016, the Japanese Ministry of Energy, Trade and Industry (“METI”) granted the Company Prospecting Rights over its nine contiguous applications covering the Eboshi project in northern Honshu.

On May 18, 2017, the Company announced that 23 of its 56 prospecting rights license applications over the Ikutahara Project in Northern Hokkaido, Japan, have been granted as Prospecting Rights by METI. The 19,114 hectare Ikutahara Project comprises a total of 56 prospecting rights license applications covering 16 historic gold mines and workings. The 23 Prospecting Rights covers 8,033 hectare and includes the high priority Akebono target.

During the year ended December 31, 2017, the Company announced that it has expanded its project portfolio in Japan with the addition of a Tenryu Project and an extension to the Buho project. METI has accepted a total of 7 new prospecting rights applications totaling 2,269 hectares. During the period ended September 30, 2018, the Company received 5 prospecting rights by METI to its Ohra-Takamine Project which totals 1,681 hectares. The Company now holds priority over these areas and is authorized to commence surface exploration.

Subsequent to September 30, 2018, the Company received an additional 15 Prospecting Rights at its Ikutahara Project in Northern Hokkaido. 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. The Company also received 4 Prospecting Rights on its Tobaru Project which totals 1,347 hectares and 12 Prospecting Rights over its Kamitsue Project on the Island of Kyushu, Japan which totals 4,069 hectares.

The Company’s current project portfolio consists of 216 prospecting rights license applications for a combined area of 71,529 hectares over 17 separate projects on the three main islands of Japan. 68 of these applications have been granted as Prospecting Rights.

**JAPAN GOLD CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

**5. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost</b>	<b>Heavy Equipment</b>	<b>Vehicles</b>	<b>Building</b>	<b>Land</b>	<b>Furniture and Fixtures</b>	<b>Total</b>
At December 31, 2016	\$ -	\$ -	\$ 50,091	\$ 9,200	\$ 12,045	71,336
Purchases	737,777	60,998	8,303	2,536	85,993	895,607
Foreign currency translation adjustment	(7,775)	(312)	(1,427)	(320)	(1,208)	(11,042)
At December 31, 2017	\$ 730,002	\$ 60,686	\$ 56,967	\$ 11,416	\$ 96,830	\$ 955,901
Purchases	-	-	-	-	-	-
Foreign currency translation adjustment	15,756	971	939	267	11,390	29,323
At September 30, 2018	\$ 745,758	\$ 61,657	\$ 57,906	\$ 11,683	\$ 108,220	\$ 985,224
<b>Accumulated depreciation</b>						
At December 31, 2016	\$ -	\$ -	\$ 1,808	\$ -	\$ 544	\$ 2,352
Depreciation capitalized to exploration and evaluation assets	102,366	35,525	-	-	-	137,891
Depreciation	-	-	15,189	-	16,636	31,825
At December 31, 2017	\$ 102,366	\$ 35,525	\$ 16,997	\$ -	\$ 17,180	\$ 172,068
Depreciation capitalized to exploration and evaluation assets	168,410	26,132	9,894	-	24,321	228,757
Depreciation	-	-	-	-	1,801	1,801
At September 30, 2018	\$ 270,776	\$ 61,657	\$ 26,891	\$ -	\$ 43,302	\$ 402,626
<b>Total carrying value, December 31, 2017</b>	<b>\$ 627,636</b>	<b>\$ 25,161</b>	<b>\$ 39,970</b>	<b>\$ 11,416</b>	<b>\$ 79,650</b>	<b>\$ 783,833</b>
<b>Total carrying value, September 30, 2018</b>	<b>\$ 474,982</b>	<b>\$ -</b>	<b>\$ 31,015</b>	<b>\$ 11,683</b>	<b>\$ 64,918</b>	<b>\$ 582,598</b>

During the year ended December 31, 2017, the Company purchased from PT. Promincon Indonesia (“PMC”) three compact portable diamond core drill rigs, other equipment and consumables for a total of \$US1,224,702 (\$1,593,493). Out of this amount \$855,716 relating to supply stock and materials were classified as exploration and evaluation assets and \$737,777 was recorded as property, plant and equipment. PMC manufactures a range of portable diamond core drill rigs and is an established diamond core drilling contracting company incorporated in Indonesia. A director and officer of Japan Gold has a controlling interest in PMC, which is a related entity.

**JAPAN GOLD CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

**6. SHARE CAPITAL****Authorized capital**

The Company is authorized to issue an unlimited number of common and preferred shares without par value. There are currently no preferred shares issued and outstanding.

On August 9, 2017, the Company completed a financing with Southern Arc Minerals Inc., pursuant to which Southern Arc purchased 12,500,000 units of Japan Gold at a price of \$0.40 per unit for gross proceeds of \$5,000,000. Each unit consists of one common share and one transferable common share purchase warrant of the Company. Each warrant is exercisable into one additional common share of the Company at a price of \$0.40 per share for a period of five years. The units (and securities underlying the units) issued under the private placement were subject to a four month hold period expiring on December 9, 2017. The shares issued with the private placement units were fair valued using the market price on the date of the issuance. The residual value of \$0.10 per warrant was allocated to the share purchase warrants,

**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.

As at September 30, 2018, 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
Granted	275,000	\$ 0.40
Exercised	(366,664)	0.40
Forfeited	(25,000)	0.40
Expired	(125,000)	0.40
Outstanding and exercisable at December 31, 2017 (remaining average contractual life is 8.46 years)	5,303,112	\$ 0.40
Outstanding and exercisable at September 30, 2018 (remaining average contractual life is 7.71 years)	5,303,112	\$ 0.40

During the twelve month period ended December 31, 2017, the Company granted 275,000 share options to a consultant of the Company. These options vested immediately resulting in a share-based compensation of \$63,102.

**JAPAN GOLD CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

**6. SHARE CAPITAL (continued)****Share options (continued)**

The following weighted average assumptions were used for the Black-Scholes valuation of share options granted twelve month period ended December 31, 2017):

		<b>December 31, 2017</b>
Risk-free interest rate		0.56%
Expected life of options (in years)		10.00
Expected volatility		75%
Share price	\$	0.40
Fair value of options granted	\$	0.23
Forfeiture rate		-
Dividend rate		-

The following table summarizes information about the share options outstanding as at September 30, 2018:

<b>Outstanding and exercisable</b>	<b>Weighted average exercise price</b>	<b>Expiry date</b>	<b>Weighted average remaining contractual life (years)</b>
33,333	\$ 0.30	November 2, 2020	2.09
16,666	\$ 0.30	January 19, 2022	3.30
125,000	\$ 0.30	March 7, 2022	3.43
108,331	\$ 0.30	January 7, 2023	4.27
13,332	\$ 0.30	March 25, 2023	4.48
112,500	\$ 0.20	October 8, 2025	7.03
44,000	\$ 0.37	March 16, 2026	7.46
4,574,950	\$ 0.40	September 15, 2026	7.96
275,000	\$ 0.40	October 28, 2026	8.08
<b>5,303,112</b>	<b>\$ 0.40</b>		<b>7.71</b>

**Warrants**

As at September 30, 2018, the Company had 12,500,000 share purchase warrants outstanding at an exercise price of \$0.40 per share for a period of 5 years in connection with the private placement to Southern Arc.

**JAPAN GOLD CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

**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:

	Three months ended		Three months ended		Nine months ended		Nine months ended	
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
Management fees	\$	144,000	\$	84,000	\$	444,000	\$	252,000
Consulting fees	\$	254,149	\$	144,205	\$	505,037	\$	390,925

During the nine month period ended September 30, 2018, the Company incurred \$444,000 (September 30, 2017: \$252,000) in management fees to a private company controlled by the CEO of the Company. Management fees include administrative, finance and accounting fees, as well as certain office expenses. As at September 30, 2018, accounts payable and accrued liabilities included \$98,700 (December 31, 2017: \$Nil) payable to the related entity.

During the nine months ended September 30, 2018, the Company paid \$126,000 (September 30, 2017: \$Nil) in consulting fees to a private company controlled by a director of the Company. The Company also paid \$244,994 in consulting fees to an officer of the Company. During the period ended September 30, 2018, the Company also paid \$8,043 (September 30, 2017:\$Nil) in consulting fees to a director of the Company. As at September 30, 2018, \$Nil, \$25,922 and \$Nil respectively, were outstanding and payable (December 31, 2017: \$Nil, \$29,638 and \$Nil respectively).

During the period ended December 31, 2017, the Company purchased three compact portable diamond core drill rigs, other equipment and consumables for a total of US\$1,224,702 (\$1,593,493) from PMC. Out of this amount \$855,716 was classified as exploration and evaluation assets and \$737,777 was recorded as property, plant and equipment. PMC manufactures a range of portable diamond core drill rigs and is an established diamond core drilling contracting company incorporated in Indonesia. A director and officer of Japan Gold has a controlling interest in PMC, which is a related entity. As at September 30, 2018, accounts payable and accrued liabilities included \$Nil (September 30, 2017: \$Nil) payable to the related entity.

During the nine months ended September 30, 2018, the Company accrued \$82,456 (September 30, 2017: \$71,293) in rent and office expenses relating to the Company's head office. As at September 30, 2018, \$30,135 of these fees were included in accounts payable and accrued liabilities. This amount is owed to Southern Arc Minerals Inc., a related party and parent company (December 31, 2017: \$Nil).

The Company also received US\$250,000 (\$323,625) in advances from Southern Arc Minerals Inc. during the period ended September 30, 2018 (September 30, 2017:\$Nil).

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

## **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 or ¥").

At September 30, 2018, the Company had ¥2,553,375 (approximately CDN\$29,108) in cash, and ¥22,336,366 (approximately CDN\$254,635) in accounts payable and accrued liabilities. As at September 30, 2018, Yen amounts were converted at a rate of ¥0.01140 to CDN\$1. A 10% fluctuation in foreign exchange would result in a net change of approximately CDN\$22,553.

### **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.

**JAPAN GOLD CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

**9. 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 period ended September 30, 2018.

**10. SEGMENTED INFORMATION**

The breakdown by geographic area as at September 30, 2018 is as follows:

		<b>Canada</b>		<b>Japan</b>	<b>Consolidated</b>
Current assets	\$	205,756	\$	84,180	\$ 289,936
Non-current assets		-		4,842,152	4,842,152
Total assets		205,756		4,926,332	5,132,088
Total liabilities	\$	585,479	\$	254,635	\$ 840,114

The breakdown by geographic area as at December 31, 2017 is as follows:

		<b>Canada</b>		<b>Japan</b>	<b>Consolidated</b>
Current assets	\$	2,858,159	\$	636,233	\$ 3,494,392
Non-current assets		-		3,817,596	3,817,596
Total assets		2,858,159		4,453,829	7,311,988
Total liabilities	\$	68,808	\$	513,016	\$ 581,824

**JAPAN GOLD CORP.**

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For nine months ended September 30, 2018 and 2017

(Unaudited – expressed in Canadian dollars)

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**11. SUBSEQUENT EVENTS**

On October 23, 2018, the Company entered into a binding letter agreement (“Letter Agreement”) with First Quantum Minerals Ltd. (“FQML”) to explore four of its prospective lithocap projects (collectively the “Lithocap Projects” and each a “Project”) located on the islands of Hokkaido, Honshu and Kyushu, Japan. The Lithocap Projects represent exploration targets for shallow-level epithermal gold and deeper porphyry copper-gold deposits. Pursuant to the Letter Agreement, FQML has committed to manage and oversee a systematic surface exploration reconnaissance on each Project prior to June 30, 2019.

Upon completion of the initial exploration program, FQML will have the option to enter into a formal earn-in agreement (“Option Agreement”) on any Project individually, to which FQML may earn-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 options, it will 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 makes a “Decision to Mine”, increasing FQML’s ownership in a Project to 80%.

Subsequent to the period ended September 30, 2018, the Company received additional advances of US\$250,000 and \$300,000 from Southern Arc Minerals Inc.