

# Sky Ridge Resources Ltd.

## Management's Discussion and Analysis of Financial Condition and Results of Operations Second Quarter Report – June 30, 2016

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The following discussion is management's assessment and analysis of the results and financial condition of Sky Ridge Resources Ltd. (the "Company"), and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes. The preparation of financial data is in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") and all figures are reported in Canadian dollars unless otherwise indicated.

Certain information included in this discussion may constitute forward looking statements. Forward looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. The effective date of this report is August 8, 2016.

### Description of Business

The Company is incorporated under the laws of British Columbia and publicly listed on the NEX board of the TSX Venture Exchange. The address of the Company's registered office is 2200-885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3E8. The Company's principal business activity is the acquisition and exploration of natural resource properties.

### Acquisition of Southern Arc Minerals Japan

Subsequent to June 30, 2016, the Company announced that it had entered into a letter of intent effective July 4, 2016, pursuant to which the Company has agreed to acquire Southern Arc Minerals Japan KK ("SAMJ") (the "Acquisition"). SAMJ is a wholly-owned subsidiary of Southern Arc Minerals Inc. ("Southern Arc").

The following are highlights of the Acquisition:

- Launch of Japan Gold Corp., the first foreign mineral exploration company to focus solely on Japan
- 80 mineral prospecting license applications across eight distinct projects prospective for gold and porphyry mineralization, including several historical high-grade gold mines
- Experienced management team and Board of Directors
- Proposed \$7 million financing at \$0.20 to undertake exploration and advance the properties

Southern Arc, an arm's length company, is listed on the TSX Venture Exchange (the "TSX-V") under the symbol "SA". In exchange for its ownership of SAMJ, Southern Arc will receive 50,000,000 pre-Consolidation (as defined below) common shares of the Company.

In connection with the proposed Acquisition, the Company intends to complete a private placement financing involving the issuance of 35,000,000 pre-Consolidation common shares at a price of \$0.20 per share, for gross proceeds to the Company of \$7,000,000 (the "Concurrent Financing").

The Company intends to change its name to "Japan Gold Corp." upon completion of the Acquisition.

Closing of the Acquisition is subject to a number of conditions including entering into definitive agreements, consolidation of the Company's existing share capital on a one (1) for two (2) basis (the "Consolidation"), completion of the Concurrent Financing, receipt of all required shareholder, regulatory and third party consents, including TSX-V approval, and the satisfaction of other customary closing conditions. The Acquisition cannot close until the required approvals are obtained. There can be no assurance that the Acquisition will be completed as proposed or at all.

The Acquisition will constitute a reverse takeover of the Company by Southern Arc under the policies of the NEX Board and the TSX-V. Trading in the Company's common shares will remain halted pending further filings with the TSX-V.

The Tertiary volcanic arc terrains of Japan host 76 known past-producing gold mines and five one-million-plus-ounce gold deposits. These include one of the world's highest-grade gold mines, the Hishikari Mine on Kyushu Island, which has

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been in production since 1985. The Hishikari Mine had produced 210.2 tons (more than 6 million ounces) of gold as of March 2014 and continues to produce more than 200,000 ounces of gold per year at a grade averaging 40 g/t gold. Management considers Japan to be largely underexplored despite a history of significant gold production and known mineral occurrences.

Southern Arc's leadership team has long recognized Japan's prospectivity for gold, silver and copper. When Japan's mining laws were changed in 2012 to re-activate the mining industry, Southern Arc moved quickly to review historical data and identify key exploration targets and was the first foreign exploration company to apply for prospecting licenses.

According to Southern Arc, based on a desktop review of historical gold production and Japan's extensive geoscientific database, it pinpointed areas that are very compelling from a geological perspective. SAMJ initially lodged 38 contiguous exploration applications in northern Hokkaido targeting high-grade epithermal gold deposits. Subsequently, SAMJ lodged another 42 prospecting rights license applications throughout Hokkaido and northern Honshu targeting three other prospective epithermal gold areas and four areas of gold-bearing advanced argillic alteration lithocaps, which could indicate the presence of a porphyry mineral environment. The combined area under application by SAMJ currently comprises 27,153 hectares over the eight project areas.

All 80 of the prospecting rights license applications have been accepted for further government review, reserving the land for SAMJ and allowing low impact forms of exploration to immediately commence, such as mapping, surface sampling and geophysics. According to Southern Arc, SAMJ has completed an extensive review of the Metal Mining Agency of Japan database, which includes detailed and relevant information about historical drilling results and mine production. Field work to date has comprised mostly confirmatory checking of historical mine works and MMAJ alteration mapping, with a focus on the lithocap/porphyry targets.

Ikutawara is SAMJ's most advanced project, with some mapping/sampling and orientation ground magnetics completed in 2015. The Ikutawara applications host numerous historical gold workings including the Kitano-o mine, which has recorded production of 96,450 ounces of gold between 1924 and 1943 from sinterous and sub-sinter quartz veins. According to Southern Arc, SAMJ has located several high-priority exploration targets which require varying levels of work to focus drilling. Upon receipt of the prospecting licenses, SAMJ intends to commence with trenching and drilling at the Ikutawara targets while continuing with preliminary exploration on the other projects.

Japan is considered one of the most stable and corruption-free jurisdictions in the world. The mining regulatory framework is well established and transparent, with easy access to government officials and a comprehensive support program to facilitate stakeholder consultation. According to Southern Arc, SAMJ deliberately chose applications in sparsely populated areas with a history of mining, and has received strong local support to date.

The technical information above has been reviewed by Southern Arc's President & Chief Operating Officer, Dr. Mike Andrews, PhD, FAusIMM, who is a Qualified Person as defined by National Instrument 43-101.

### **Overall Performance and Results of Operations**

Total assets increased to \$356,638 at June 30, 2016, from \$276,041 at December 31, 2015. The most significant asset at June 30, 2016, was cash of \$354,017 (December 31, 2015: \$272,881). The increase in cash was due to \$195,851 received on the issuance of shares, net of share issuance costs, partially offset by \$114,715 used in operating activities.

#### ***Three months ended June 30, 2016 and 2015***

During the three months ended June 30, 2016, the Company recorded a loss of \$44,394 (2015: \$29,650).

Expenses incurred during the three months ended June 30, 2016, were as follows:

- Advisory and consulting fees of \$37,914 (2015: \$22,500)
- Office and administration of \$3,064 (2015: \$3,054)

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- Regulatory and transfer agent fees of \$1,916 (2015: \$1,865)
- Professional fees of \$1,500 (2015: \$2,250)

Advisory and consulting fees were incurred pursuant to a corporate administration mandate agreement, as well as geological consulting fees, to which the increase in advisory and consulting fees relates. Professional fees consisted of accrued audit fees. Office and administration consisted almost entirely of rent.

#### ***Six months ended June 30, 2016 and 2015***

During the six months ended June 30, 2016, the Company recorded a loss of \$112,603 (2015: \$59,735).

Expenses incurred during the six months ended June 30, 2016, were as follows:

- Advisory and consulting fees of \$84,831 (2015: \$45,000)
- Share-based compensation of \$12,344 (2015: nil)
- Office and administration of \$6,163 (2015: \$6,144)
- Regulatory and transfer agent fees of \$6,145 (2015: \$4,184)
- Professional fees of \$3,120 (2015: \$4,467)

Advisory and consulting fees were incurred pursuant to a corporate administration mandate agreement, as well as geological consulting fees, to which the increase in advisory and consulting fees relates. Share-based compensation was the fair value of share options granted during the period. Professional fees consisted of accrued audit fees. Office and administration consisted almost entirely of rent.

#### **Liquidity and Capital Resources**

As at June 30, 2016, the Company had working capital of \$352,103. The Company has sufficient resources to settle outstanding liabilities and fund its operations, however to proceed with its intended acquisition program the Company will need to secure the necessary financing.

The Company has no bank debt or banking credit facilities in place.

#### **Outstanding Share Data**

On February 3, 2014, the Company's common shares were consolidated on the basis of one post-consolidated share for every three pre-consolidated shares. All common share, share option and share purchase warrant figures in this Management's Discussion and Analysis have been retrospectively restated to present post-consolidation amounts.

Subsequent to June 30, 2016, 4,200,000 share purchase warrants were exercised for gross proceeds of \$476,000.

As at the date of this report, there were 21,328,107 common shares issued and outstanding.

As at the date of this report, there were 1,639,663 share options and 3,400,000 warrants outstanding.

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#### Summary of Quarterly Results

The following is a summary of quarterly financial information prepared in accordance with IFRS:

	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Finance income	\$ -	\$ -	\$ -	\$ 2
Operating expenses	(44,394)	(55,865)	(59,182)	(36,720)
Share-based compensation	-	(12,344)	(53,145)	-
Loss and comprehensive loss for the period	\$ (44,394)	\$ (68,209)	\$ (112,327)	\$ (36,718)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)

  

	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Finance income	\$ 41	\$ 41	\$ 89	\$ 108
Operating expenses	(30,126)	(30,126)	(35,152)	(30,229)
Loss and comprehensive loss for the period	\$ (30,085)	\$ (30,085)	\$ (35,063)	\$ (30,121)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

Operating expenses increased in Q4 2015 due to geological consulting fees. Share-based compensation during Q1 2016 and Q4 2015 was recorded as the fair value of share options granted during the periods.

#### Related Party Transactions

During the six months ended June 30, 2016, share issue costs of \$2,029 (2015: nil) were incurred to Cassels Brock & Blackwell LLP, a company of which Jeff Durno (a director of the Company) is a partner. As at June 30, 2016, nil (December 31, 2015: \$3,105) owed to this firm is included in trade and other payables. These transactions are in the normal course of operations and are recorded at fair value.

#### Critical Accounting Policies and Estimates

The Company has prepared the accompanying financial statements in accordance with IAS 34, using accounting policies consistent with IFRS. Significant accounting policies are described in Note 3 of the Company's financial statements as at and for the year ended December 31, 2015.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The most significant accounts that require estimates as the basis for determining the stated amounts include inputs used in the valuation of share-based payments and provision for deferred income tax.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include the Company's use of the Black-Scholes Option Pricing Model to calculate the fair value stock options. The model requires the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and common share purchase warrants. The assumptions and models used for estimating fair value of stock options and common share purchase warrants are disclosed in Note 4 of the audited financial statements.

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## Change in Accounting Policy

Effective January 1, 2016, the Company retrospectively changed its accounting policy for equity offerings consisting of common shares and warrants when both instruments are classified as equity. The Company no longer bifurcates the proceeds between the common share and the warrant where both qualify as equity instruments.

The change in accounting policy resulted in changes to the Company's shareholders' equity. There was no other impact to the Company's financial statements.

### Total shareholders' equity

	Note	As previously reported	Effect of change in accounting policy	As restated under new policy
<b>At December 31, 2014</b>				
Share Capital	(a)	\$ 22,853,736	\$ 375,034	\$ 23,228,770
Equity reserve	(a)	2,530,180	(375,034)	2,155,146
Deficit		(25,263,215)	-	(25,263,215)
		120,701	-	120,701
<b>At June 30, 2015</b>				
Share Capital	(a)	22,853,736	375,034	23,228,770
Equity reserve	(a)	2,530,180	(375,034)	2,155,146
Deficit		(25,322,950)	-	(25,322,950)
		60,966	-	60,966
<b>At December 31, 2015</b>				
Share Capital	(a)	23,078,737	441,478	23,520,215
Equity reserve	(a)	2,649,769	(441,478)	2,208,291
Deficit		(25,471,995)	-	(25,471,995)
		256,511	-	256,511
<b>At June 30, 2016</b>				
Share Capital		23,716,066	-	23,716,066
Equity reserve		2,220,635	-	2,220,635
Deficit		(25,584,598)	-	(25,584,598)
		\$ 352,103	\$ -	\$ 352,103

(a) The proceeds of equity offerings where both instruments were classified as equity were fully allocated to share capital.

## Recent accounting standards not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

*IFRS 9 – Financial Instruments* is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The

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new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

### **Risks and Uncertainties**

The Company is engaged in the acquisition and exploration of natural resource properties, an inherently risky business, and there is no assurance that economically recoverable resources will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of economically recoverable resources.

Exploration activities require large amounts of capital. There is a risk that during the current difficult economic situation the Company will not be able to raise sufficient funds to finance its projects to a successful development and production stage. While the Company's management and technical team carefully evaluate all potential projects prior to committing the Company's participation and funds, there is a high degree of risk that the Company's exploration efforts will not result in discovering economically recoverable resources.

The Company depends on the business and technical expertise of its management team and there is little possibility that this dependence will decrease in the near term.

### **Financial Instruments**

#### ***Financial Risk Management***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

#### ***Fair Value Measurements***

Financial instruments are recorded at fair value on the statements of financial position and are classified using a fair value hierarchy that establishes three levels to reflect the significance of the inputs used in making the measurements:

*Level 1* – quoted prices in active markets for identical assets or liabilities.

*Level 2* – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either direct (i.e. as prices) or indirectly (i.e. derived from prices); and

*Level 3* – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

None of the Company's financial instruments are held at fair value. The fair values of cash and trade and other payables approximate their book values because of the short-term nature of these instruments.

#### ***Financial Instrument Risk Exposure***

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

#### ***Credit Risk***

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company's only significant exposure to credit risk is on its bank accounts. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

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### *Liquidity Risk*

The Company's cash is invested in business accounts which are available on demand. Management has concluded that the Company has adequate financial resources to settle obligations as at June 30, 2016.

### *Interest Rate Risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

## **Management's Report on Internal Control over Financial Reporting**

In connection with National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

## **Outlook**

The Company is currently seeking opportunities in the natural resource industry.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).