Condensed Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

For the Three Months Ended December 31, 2016
(Stated in Canadian Dollars)

Unaudited

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NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements have been prepared by the Company's management and the Company’s independent auditors have not performed a review of these condensed interim consolidated financial statements.

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Financial Position
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	December 31, 2016	September 30, 2016 (audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 23,111	$ 35,636
Prepaid expenses and other assets	27,853	33,960
Portfolio investments (note 7)	213,695	433,575
	264,659	503,171
Property, Plant and Equipment (note 5)	12,983	17,675
	$ 277,642	$ 520,846
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,900,709	$ 1,770,674
Other loans payable (note 8)	113,427	62,770
	2,014,136	1,833,444
Shareholders' Equity		
Capital Stock (note 9)	37,325,374	37,305,374
Contributed Surplus	7,857,355	7,857,355
Accumulated Deficit	(46,919,223)	(46,475,327)
	(1,736,494)	(1,312,598)
	$ 277,642	$ 520,846

Basis of Presentation and Going Concern (note 2)
Subsequent Events (note 14)

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

Approved on behalf of the Board

"Alan Shefsky", Director   "Martin Cooper", Director

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss
For the Three Months Ended December 31, 2016
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	2016	2015
		Restated (note 4)
Expenses		
Salaries and benefits	$ 111,130	$ 112,739
Publicity and investor relations	16,731	13,508
Listing and filing fees	8,067	20,432
Administrative	26,800	45,089
Finance charge (note 9(ii))	20,000	-
Professional fees	41,811	27,843
Directors' fees	8,250	7,950
Share-based compensation	-	51,576
Energy project expenditures	1,866	-
Exploration and evaluation expenditures (recoveries)	27,010	73,331
Write off of resource properties	-	-
Income on disposal of resource properties		
Amortization	4,692	1,427
Less:		
Non-refundable deposit from letter of intent (note 11)	(20,000)	
Dividend income	(9)	-
Loss on portfolio investments (note 7)	48,588	-
Impairment of portfolio investments (note 7)	148,960	-
	(443,896)	(353,895)
Loss Before Income Taxes	(443,896)	(353,895)
Deferred Income Tax Recovery	-	29,924
Net Loss and Comprehensive Loss	$ (443,896)	$ (323,971)
Loss per Share - basic and diluted	$ (0.002)	$ (0.002))
Weighted Average Number of Common Shares Outstanding - basic and diluted	209,862,147	192,280,657

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity
For the Three Months Ended December 31
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2015	188,873,749	$ 36,641,533	$ 7,422,467	$ (26,829,825)	$ 17,234,175
Shares issued pursuant to private placements	7,384,180	230,529	-	-	230,529
Warrants issued pursuant to private placement	-	-	108,756	-	108,756
Shares issued on exercise of stock options	150,000	8,833	(1,333)	-	7,500
Share issuance costs - cash	-	(15,658)	-	-	(15,658)
Share issuance costs - compensation warrants	-	(466)	466	-	-
Share-based compensation expense	-	-	51,576	-	51,576
Net loss for the period	-	-	-	(197,318)	(197,318)
Balance - December 31, 2015	196,407,929	$ 36,864,771	$ 7,581,932	$ (27,027,143)	$ 17,419,560

	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2016	209,596,930	$ 37,305,374	$ 7,857,355	$ (46,475,327)	$ (1,312,598)
Shares issued pursuant to loan payable (note 9ii)	400,000	20,000	-	-	20,000
Net loss for the period	-	-	-	(443,896)	(443,896)
Balance - December 31, 2016	209,996,930	$ 37,325,374	$ 7,857,355	$ (46,919,223)	$ (1,736,494)

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow
For the Three Months Ended December 31
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	2016	2015
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	$ (104,866)	$ (422,796)
Cash Flows from Investing Activities		
Proceeds from Letter of Intent	20,000	-
Purchase of investments	(37,786)	-
Proceeds from sale of investments	60,127	-
	42,341	-
Cash Flows from Financing Activities		
Issuance of capital stock and warrants	-	376,709
Issuance costs	-	(15,658)
Proceeds from loan	50,000	-
	50,000	361,051
Change in cash	(12,525)	(61,745)
Cash and cash equivalents - beginning of period	35,636	100,595
Cash and cash equivalents - end of period	$ 23,111	$ 38,850

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

1. Nature of Operations

Pele Mountain Resources Inc. (the "Company") is a publicly listed company incorporated in Canada and continued under the Ontario Corporations Act. The Company's common shares trade on the TSX Venture Exchange under the symbol "GEM".

The registered address, principal address and records office of the Company is located at 2200 Yonge Street, Unit 905, Toronto, Ontario.

The Company holds a 100% interest in the Eco Ridge Project which has large 43-101 uranium and rare earth resources. The Company has also begun to assess the potential to develop energy and energy storage projects in Northern Ontario. Tech Company's continued existence is dependent upon the discovery of economically recoverable reserves or the successful development of one of the Company's other pojects including the rare earth processing or energy projects and the ability of the Company to obtain the necessary financing to develop these properties and projects.

2. Basis of Presentation and Going Concern

These condensed interim consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, Eco Ridge Development Corporation ("ERDC"), (formerly known as First Canadian Uranium Inc.), Pele Diamond Corporation ("Pele Diamond"), Pele Gold Corporation ("Pele Gold"), Mountain Pass Resources, Inc. ("Mountain Pass") and Sage Power Corporation ("Sage"). All intercompany accounts and transactions have been eliminated.

The Company's condensed interim consolidated financial statements reflect the results of operations for the three months ended December 31, 2016, and the assets, liabilities and shareholders' equity as at December 31, 2016 and September 30, 2016.

a) Statement of Compliance

The Company's interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The IAS 34 interim financial statements do not include all of the information required for annual financial statements.

The policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of December 31, 2016. The date the Board of Directors approved the statements is February 23, 2017.

2. Basis of Presentation and Going Concern (continued)

b) Going Concern

The Company's ability to continue as a going concern is dependent upon, but not limited to, its ability to raise financing necessary to fund its exploration and development programs and general and administrative expenses, maintain its resource properties, discharge its liabilities as they become due and generate positive cash flows from operations. There is no certainty that the Company will be successful in raising financing given the current condition of the financial markets, and as such there is significant uncertainty the Company will be able to continue as a going concern.

The condensed interim consolidated financial statements are prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of the business. Accordingly, these condensed interim consolidated financial statements do not give effect to adjustments that may be necessary, should the Company be unable to continue as a going concern. If the going concern assumption is not used then the adjustments required to report the Company's assets and liabilities at liquidation values could be material to these condensed interim consolidated financial statements.

c) Basis of Measurement

The Company's condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value. Some prior year accounts have been reclassified to better conform with the current year's presentation.

d) Functional and Presentation Currency

The Company and its subsidiaries' functional currency is Canadian dollars and the condensed interim consolidated financial statements are presented in Canadian dollars.

3. Significant Accounting Policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended September 30, 2016, as described in Note 3 of those financial statements, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which are applicable for annual periods beginning on or after October 1, 2016.

4. Prior Period Change in Accounting Policy

During the year ended September 30, 2016, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and deferred exploration and evaluation expenditures of mineral properties to the specific mineral properties, net of recoveries received. Under the new policy, acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred.

The consolidated financial statement impact for the three months ended December 31, 2015 is as follows:

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Comprehensive Loss (Summary)			
Exploration and evaluation expenditures	$ -	$ 73,331	$ 73,331
Write off of resource properties	498	(498)	-
Deferred income tax recovery	83,744	(113,668)	(29,924)
Net loss and comprehensive loss	(197,318)	(126,653)	(323,971)
Loss per share	$ (0.001)	$ (0.001)	$ (0.002)

	As previously reported	Effect of change in accounting policy	As restated
Consolidated Statements of Cash Flow (Summary)			
Cash paid to suppliers and employees	$ (285,799)	$ (136,997)	$ (422,796)
Cash flows from operating activities	(285,799)	(136,997)	(422,796)
Resource properties expenditures	(136,997)	136,997	-
Cash flows from investing activities	(136,997)	136,997	-
Change in cash	$ -	$ -	$ -

5. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2015	$ 152,659	$ 50,439	$ 9,612	$ 27,951	$ 95,409	$ 336,070
Additions	-	2,130	-	-	-	2,130
Disposals	-	-	-	-	-	-
Balance - September 30, 2016	152,659	52,569	9,612	27,951	95,409	338,200
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - December 31, 2016	$ 152,659	$ 52,569	$ 9,612	$ 27,951	$ 95,409	$ 338,200
Accumulated Amortization						
Balance - October 1, 2015	$ 147,853	$ 42,112	$ 8,792	$ 20,330	$ 95,409	$ 314,496
Amortization for the period	1,442	2,817	246	1,524	-	6,029
Balance - September 30, 2016	149,295	44,929	9,038	21,854	95,409	320,525
Amortization for the period	1,009	2,292	172	1,219	-	4,692
Balance - December 31, 2016	$ 150,304	$ 47,221	$ 9,210	$ 23,073	$ 95,409	$ 325,217
Net Book Value						
As at September 30, 2016	$ 3,364	$ 7,640	$ 574	$ 6,097	$ -	$ 17,675
As at December 31, 2016	$ 2,355	$ 5,348	$ 402	$ 4,878	$ -	$ 12,983

6. Resource Properties

The cumulative spending on each of the Company's properties is as follows:

	October 1, 2016	Net Additions (Recoveries)	Dispositions	December 31, 2016
Eco Ridge Project (i)	$ 16,420,706	$ 26,680	$ -	$ 16,447,386
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	672,529	330	-	672,859
	$ 17,093,235	$ 27,010	$ -	$ 17,120,245
Timmins Project (iii)[(1)]	$ (122,796)	$ -	$ -	$ (122,796)
Sudbury Project (iv)[(1)]	(78,720)	-	-	(78,720)
	$ (201,516)	$ -	$ -	$ (201,516)

	October 1, 2015	Net Additions (Recoveries)	Dispositions	December 31, 2015
Eco Ridge Project (i)	$ 16,192,388	$ 72,833	$ -	$ 16,265,221
Ardeen Gold Project (ii)	3,188,445	-	-	3,188,445
Mountain Pass Project (v)	665,095	498	-	665,593
	$ 20,045,928	$ 73,331	$ -	$ 20,119,259
Timmins Project (iii)[(1)]	$ (122,796)	$ -	$ -	$ (122,796)
Sudbury Project (iv)[(1)]	(78,720)	-	-	(78,720)
	$ (201,516)	$ -	$ -	$ (201,516)

[(1)] The Company has received consideration from its joint venture partners or optionees in excess of its costs incurred to date.

6. Resource Properties (continued)

(i) Eco Ridge Project (Elliot Lake, Ontario)

The Eco Ridge Project is currently comprised of 394 mining claim units (September 30, 2016 - 394 mining claim units) and three mining leases (September 30, 2016 - three) covering approximately 7,800 hectares (September 30, 2016 - 7,800 hectares) in northern Ontario.

During the year ended September 30, 2005, the Company acquired a 100% beneficial interest in its original Elliot Lake uranium property by way of staking. It included a total of 15 mining claims (comprised of 122 mining claim units) covering nearly 2,023 hectares.

During the year ended September 30, 2007, the Company expanded its Elliot Lake Project through the following acquisitions:

a) entered into a purchase agreement with CanAlaska Uranium Ltd. ("CanAlaska") to purchase a 100% interest in five unpatented mining claims comprising the Pardee Uranium Property (the "Pardee Claim Group"). The Pardee Claim Group includes 60 mining claim units located east of the city of Elliot Lake covering approximately 970 hectares and tying on to the southern boundary of one of the Company's original Elliot Lake claim blocks.

As consideration for the purchase, the Company paid to CanAlaska a total of $13,000 in cash, issued 60,000 common shares in the capital of the Company at the aggregate fair value of $12,000 and agreed to complete and file certain qualified assessment work. CanAlaska has retained a 1.75% Net Smelter Return Royalty (the "NSR Royalty") on the Pardee Claim Group, of which 1.0% can be bought back by the Company for a total of $1,000,000.

b) purchased a 100% interest in 101 mining claim units, known as the Platina Claim Group (the "Platina Claim Group") along the eastern and southern boundaries of its Eco Ridge Project from Precambrian Ventures Ltd. ("Precambrian"). Pursuant to the original purchase and an amending agreement, the Company has paid $80,000 in cash and issued 425,000 common shares to Precambrian. The amending agreement also requires the payment of up to an additional $150,000 in cash subject to, and in accordance with, the following conditions and provisions:

- $75,000 on the twentieth day after the completion of a positive feasibility study in respect of the Platina Claim Group; and

- $75,000 on the twentieth day after commencement of commercial production in respect of the Platina Claim Group.

- Precambrian continues to retain a 1.75% NSR royalty, of which the Company may buy back 1% for $1,000,000.

6. Resource Properties (continued)

(i) Eco Ridge Project (continued)

c) purchased a 100% interest in 5 mining claims comprised of 77 claim units located immediately adjacent to the southern boundary of its Eco Ridge Project.

Pursuant to the original purchase agreement and an amending agreement, the Company paid $82,000 in cash and issued 190,000 common shares to the vendors. The Company has also agreed to pay an additional $40,000 in cash on the date which is the 20th day after the completion by the Company of a positive feasibility study in respect of the five mining claims, if and when such feasibility study is completed.

The vendors continue to retain a 3.0% NSR royalty, of which the Company may buy back 1.5% for $1,500,000.

d) acquired 14 additional mining claims comprised of 140 mining claim units by way of staking.

During the year ended September 30, 2009, the Company signed a 21-year lease agreement (the "Lease") with the City of Elliot Lake (“City”) in respect of surface rights to key mining claims owned by the Company at its Eco Ridge Project in Northern Ontario. The Lease includes the City's surface rights to a total of 48 surface patents comprising of approximately 796 hectares and includes an option for the Company to purchase the surface rights under certain circumstances. The annual lease payment is $2,388.

During the year ended September 30, 2011, the Company entered into two mining leases (the “Mining Leases”) with the Province of Ontario for the Eco Ridge Project. Nine existing mining claims were converted into the Mining Leases. The Mining Leases provide the Company an exclusive right to mine the near surface portion of the Eco Ridge deposit and include surface rights that allow for siting of project infrastructure and processing facilities. The Mining Leases are for a period of 21 years (commencing on March 1, 2011) and are renewable. The Mining Leases cover an area of 1,550 hectares and the annual lease payments total $4,652.

During the year ended September 30, 2014, the Company entered into an NSR Royalty Agreement pursuant to which the Company was assigned a mining lease for the mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Project. In exchange for the assignment of the lease, the Company has granted a 1.5% NSR return to the previous lessee, Rio Algom Exploration Inc.. The Company has renewed the acquired Mining Lease for an additional 21-year term commencing October 1, 2014.

6. Resource Properties (continued)

(ii) Ardeen Gold Project (Moss Lake, Thunder Bay, Ontario)

Prior to the disposition of the Ardeen Gold Project during the year ended September 30, 2016, the Company had a 49% undivided legal and beneficial interest in 290 mining claim units and 4 patented mining claims located within Moss Township in the district of Thunder Bay, Ontario.

The Company acquired 41 mining claim units and 2 patented mining claims from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997. Under the terms of the purchase and sale agreement, the Company is required to issue an aggregate of 240,000 common shares to the vendors contingent on the property going into commercial production. The balance of the property was acquired through a series of acquisition agreements (some of which are subject to royalty interests to the vendors) and through staking campaigns.

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), whereby their respective operating subsidiaries will sell their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd.. In consideration for the sale, Kesselrun has agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. The Company (and Chalice) will be granted certain NSR royalties over certain mining claims. In combination with pre-existing NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. On August 9, 2016, the transaction closed and as 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun. Refer to Note 7(b) for the valuation of the Kesselrun shares received as consideration.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 4 mining claims (September 30, 2016 - 4 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 22 mining claim units (September 30, 2016 - 22 mining claim units).

During the year ended September 30, 2008, the Company entered into a purchase and sale agreement with Fletcher Nickel Inc. (“Fletcher”) to sell its 100% interest in the Timmins Project to Fletcher. As at September 30, 2009, the Company had received cash payments totalling $175,000 and 600,000 Fletcher shares with a total fair value of $420,000 as at the time of issuance, and these amounts had been recorded as a reduction to the carrying value of the Timmins Project.

However, Fletcher failed to make the remaining payments that were due pursuant to the purchase and sale agreement. During the year ended September 30, 2010, Fletcher and the Company agreed to terminate the purchase and sale agreement and the Timmins Project continues to be 100% owned by the Company.

6. Resource Properties (continued)

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 4 mining claims (September 30, 2016 - 4 mining claims) comprised of 52 mining claim units (September 30, 2016 - 52 mining claim units) covering approximately 830 hectares. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for $1,000,000.

During the year ended September 30, 2006, the Company entered into an option agreement with Wallbridge Mining Company Ltd. (“Wallbridge”). Wallbridge has the right to earn a 60% interest by issuing 1,050,000 common shares to the Company (of which all 1,050,000 shares have been issued) and incurring $1,200,000 in exploration expenditures by December 31, 2009. Wallbridge has the right to increase its interest to 72.5% by completing a bankable feasibility study and arranging the financing for the project through to commercial production.

Wallbridge has fulfilled its commitments under the Option Agreement and, accordingly, a new Joint Venture with Pele was established January 1, 2010, with Wallbridge owning 60% and Pele owning a 40% interest in the Joint Venture. Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to 64% as of December 31, 2016, and accordingly, the Company owns a 36% interest.

(v) Mountain Pass Project (Mountain Pass, California)

During the year ended September 30, 2012, the Company acquired mining claims comprising 75 contiguous hectares located in south-eastern California in exchange for 4,000,000 common shares of the Company. The seller agreed to a 12 month contractual hold period on its shares after closing. The seller has retained a 2% production royalty (the “Production Royalty”) on all minerals mined on the property, subject to the right of the Company to buy back 1% of the Production Royalty for 2,000,000 United States Dollars, escalated annually by a factor equal to the Producer Price Index.

In addition to a Phase 1 Exploration Program completed during the year ended September 30, 2014, the Company must complete a total of 2,000,000 United States Dollars of exploration work on the property by September 26, 2017. The Phase 1 Exploration Program includes: compilation of historic data, geological mapping, radiometric survey, sampling of pits and trenches, surface sampling, petrological analysis, mineralogical analysis and drill program planning.

If the Company sells the mining claims to an arm’s length third party, the seller will receive 10% of the proceeds from the sale and a minimum royalty (the “Minimum Royalty”) of $12,000 per year will become payable to the seller, increasing by $12,000 per year until it reaches a maximum of $120,000 per year. The Minimum Royalty shall not apply in the case of an earn-in agreement with a third party while work on the property is advancing.

6. Resource Properties (continued)

(v) Mountain Pass Project (continued)

The seller has been granted a security interest in the mining claims to secure performance of certain terms in the Agreement. The Company has issued a total of 200,000 common shares to two arm's length individuals as a fee for services related to the introduction of the Company to the seller.

(vi) Festival Project (Wawa, Ontario)

In 2004, Goldcorp Inc. and Pele began exploring the Festival Project, north of Wawa. The Festival Project is owned by Pele Mountain and Goldcorp Inc. under a joint venture that was entered into in 2006 with each company owning 50%. In 2010 the original 101 square kilometre exploration license for the Festival Project expired and the Project was consequently written off by Pele due to inactivity.

In 2013, the Company and Goldcorp Inc. reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmont's Island Gold Mine as well as several past-producing gold mines including Argonaut's Magino Mine. The term of the License is for five years commencing on January 1, 2013 and may be extended for an additional 5-year term. All minerals produced and marketed from the Licensed Area are subject to a 3% royalty payable to the Licensor.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to greater than 50% of the joint venture and Pele's interest is less than 50%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

7. Portfolio Investments

a) Zara Resources Inc.

During the year ended ended September 30, 2013, the Company acquired 2,250,000 common shares of Zara Resources Inc. ("Zara") and 4,750,000 non-voting convertible 5% Preference Shares of Zara Resources Inc. in satisfaction of the purchase price of $700,000 related to the divestiture of the Pigeon River project. During the year ended September 30, 2013, the Company sold all 2,250,000 of the common shares at a realized loss of $102,508. The Preference Shares are convertible at the exclusive option of Zara at an exchange ratio equal to the original issue price of the Zara common shares of $0.10 per share, divided by the current market price of the Zara common shares, which is defined as being its 10 day weighted average closing price (the "Exchange Ratio").

7. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

The 5% dividends declared on the Preference Shares rank in priority to dividends payable on any other class of shares issued by Zara, and any accumulation of dividends will bear interest at 5% per annum. The 5% dividends are payable in common shares of Zara based on the Exchange Ratio. Partial payment of the 2014 and 2015 dividends were received in January 2015. Partial payment of the 2016 dividend was received in January 2016. The Company acquired a total of 1,415,900 common shares of Zara as a dividend in kind.. The Preference Shares are classified as available for sale and, as such, are valued at cost in the absence of a quoted market price in an active market and the fact that their fair value cannot be reliably measured. The Preferred Shares were previously classified as fair value through profit and loss and this change in classification did not affect the carrying value. As a result of the change in classification, the Company has moved the Preferred Shares from a current asset to a long-term asset.

During the year ended September 30, 2014, the Company determined the Preferred Shares to be partially impaired and incurred a write-down of $263,051. During the year ended September 30, 2015, the Company determined the Preferred Shares to be fully impaired and incurred a write-down of $211,949.

Zara is a junior resource company based in Toronto, Ontario, whose common shares are listed for trading on the Canadian National Stock Exchange (CNSX). As the common shares of Zara are thinly traded and there is no public market for the Preference Shares which are not listed, posted or quoted for trading on any exchange or quotation system, these securities are illiquid. As at December 31, 2016, the Company does not intend to dispose of the Preferred Shares. The Company's holdings are summarized below:

Zara Preferred Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2015	4,750,000	$ 475,000	$ -
One for ten share consolidation	(4,275,000)	-	-
Balance - September 30, 2016 and December 31, 2016	475,000	$ 475,000	$ -

7. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2015	940,900	$ 4,705	$ 4,705
One for ten share consolidation	(846,810)	-	-
Dividend payment in kind	475,000	11,875	11,875
Sale at $0.05 per share	(94,090)	(4,705)	(4,705)
Change in fair value	-	-	(9,500)
Balance - September 30, 2016	475,000	11,875	2,375
Sale at $0.005 per share	(475,000)	(11,875)	(2,375)
Balance - December 31, 2016	-	$ -	$ -

b) Kesselrun Resources Ltd.

As part of the consideration received in the purchase agreement for the Ardeen Project in Note 6(ii), the Company holds the following common shares of Kesselrun Resources Ltd.:

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014 and September 30, 2015	-	$ -	$ -
Shares received as consideration for sale	1,960,000	527,400	527,400
Change in fair value	-	-	(96,200)
Balance - September 30, 2016	1,960,000	527,400	431,200
Sale of shares	(392,000)	(86,240)	(86,240)
Change in fair value			(148,960)
Balance - December 31, 2016	$ 1,568,000	$ 441,160	$ 196,000

c) Manulife Premium Investment Savings Account

	Number of Units	Cost	Fair Value
Balance - October 1, 2016	-	$ -	$ -
Purchase of units	3,779	37,786	37,786
Sale of units	(2,010)	(20,100)	(20,100)
Dividend income	1	9	9
Balance - December 31, 2016	1,770	$ 17,695	$ 17,695

8 Other Loans Payable

a) During the year ended September 30, 2016, the Company entered into a $100,000 loan agreement with an arm's length lender. The loan carries an interest rate of 6% per annum. During the year ended September 30, 2016, $50,000 of the loan proceeds were advanced to the Company with the remaining $50,000 received during the period ended December 31, 2016. As consideration for the loan, the Company issued 400,000 of its common shares ("Bonus Shares") to the lender at an issue price of $0.05 per share upon receipt of the final $50,000. The Bonus Shares are subject to a statutory hold period of four months from the date of issuance. The Company is to repay the loan from the first proceeds realized from the sale of the Company's shares of Kesselrun Resources Ltd. unless otherwise authorized by the lender. During the period ended December 31, 2016, the lender authorized the Company to use certain of the proceeds from the sale of shares of Kesselrun for uses other than the repayment of the loan. The carrying value of the Kesselrun shares at December 31, 2016 is $196,000. The principal and interest will be due on or before November 1, 2017.

b) During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars ($13,427 as at December 31, 2016) by an arm's length lender to maintain the Company's Mountain Pass Project. The advance is non-interest bearing and is payable on demand that requires more than one year notice. As at December 31, 2016, the Company has not received a demand notice and thus has classified the advance as a long term debt.

9. Capital Stock

Authorized

Unlimited common shares

Issued

	Number	Amount
Balance - October 1, 2015 (i)	188,873,749	$ 36,641,533
Issued for private placements	17,588,180	537,767
Issued pursuant to debt settlement	2,785,001	139,250
Issued on exercise of stock options	350,000	22,025
Less: Share issuance costs - cash	-	(32,883)
Less: Share issuance costs - compensation warrants	-	(2,318)
Balance - September 30, 2016 (i)	209,596,930	37,305,374
Issued pursuant to loan agreement (ii)	400,000	20,000
Balance - December 31, 2016 (i)	209,996,930	$ 37,325,374

9. Capital Stock (continued)

(i) The Company is conditionally committed to issue an additional 240,000 common shares as described in Note 6(ii).

(ii) During the three months ended December 31, 2016, the Company issued 400,000 common shares to an arm's length lender pursuant to a loan agreement as described in Note 8(a) at an issue price of $0.05 per share. The Company has recognized a finance charge expense of $20,000 during the period ended December 31, 2016 with respect to the issuance of these shares.

10. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares in any given 12 month period. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

The following summarizes the stock option activities:

	Three months ended December 31, 2016			Three months ended December 31, 2015		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Beginning balance	20,730,000	$	0.08	15,386,250	$	0.10
Granted	-		-	3,468,750		0.05
Exercised	-		-	(150,000)		(0.05)
Expired	(3,580,000)		(0.14)	(1,830,000)		(0.13)
Outstanding at period end	17,150,000	$	0.08	16,875,000	$	0.08
Exercisable at period end	17,150,000	$	0.08	16,875,000	$	0.08

The Company had the following stock options outstanding at December 31, 2016:

Number of Options	Exercisable	Exercise Price		Expiry Date
4,250,000	4,250,000	$	0.10	December 31, 2018
9,225,000	9,225,000	$	0.05	December 31, 2019
3,675,000	3,675,000	$	0.05	December 31, 2020
17,150,000	17,150,000			

10. Stock Options, Warrants and Shareholder Rights Plan (continued)

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. The fair value of warrants issued and outstanding is reflected in contributed surplus. Amounts for warrants that are subsequently exercised are transferred from contributed surplus to capital stock.

The following summarizes the warrant activities:

	Three months ended December 31, 2016		**Three months ended December 31, 2015**	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Beginning balance	29,225,409	$ 0.06	17,156,791	$ 0.09
Issued	-	-	7,440,180	0.06
Expired	(56,000)	(0.05)	(5,659,562)	(0.12)
Outstanding and exercisable at period end	29,169,409	$ 0.06	18,937,409	$ 0.06

The Company had the following warrants outstanding at December 31, 2016:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
1,757,029	BBB	Common shares	$ 0.07	December 24, 2017
8,012,200	CCC	Common shares	$ 0.07	April 13, 2018
1,700,000	DDD	Common shares	$ 0.07	May 25, 2018
5,250,000	EEE	Common shares	$ 0.05	November 20, 2018
2,134,180	FFF	Common shares	$ 0.07	May 20, 2017
4,155,000	GGG	Common shares	$ 0.07	August 4, 2017
5,049,000	HHH	Common shares	$ 0.05	February 4, 2019
1,000,000	HHH	Common shares	$ 0.05	February 5, 2019
112,000		Common shares	$ 0.05	February 4, 2017
29,169,409				

10. Stock Options, Warrants and Shareholder Rights Plan (continued)

(iii) Shareholders' Rights Plan

The Company's Board of Directors approved a shareholders' rights plan ("Rights Plan"), effective January 31, 2007, which was ratified at the 2007, 2010, 2013, and 2016 annual shareholders' meetings. This Rights Plan is intended to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take over bid for the Company, and was designed to discourage discriminatory or unfair bids and to provide management, if appropriate, with sufficient time to pursue alternatives to maximize shareholder value.

11. Letter of Intent

During the three months ended December 31, 2016, the Company received a non-refundable deposit of $20,000 in connection with a non-binding letter of intent with respect to a potential transaction involving one of the Company's properties. Subsequent to the period ended December 31, 2016, this non-binding letter of intent expired.

12. Related Party Transactions

During the three months ended December 31, 2016, the Company entered into the following related party transactions:

a) Consulting fees of $22,500 were earned by Martin Cooper, a director and officer of the Company. As at December 31, 2016, accounts payable and accrued liabilities included $120,000 payable to this director and officer.

b) Legal fees of $8,814 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at December 31, 2016, accounts payable and accrued liabilities included $130,314 payable to this law

c) Accounting fees of $9,000 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at December 31, 2016, accounts payable and accrued liabilities included $159,212 accrued to this accounting firm.

d) Consulting fees of $nil were incurred with a company in which John Wilkinson, a director of the Company, is an officer. As at December 31, 2016, accounts payable and accrued liabilities included $57,654 payable to this director.

12. Related Party Transactions (continued)

e) Compensation earned by directors and other members of key management personnel for the three months ended December 31, 2016 were as follows:

Salaries and benefits (CEO and CFO)	$	77,500
Directors' fees		8,250
	$	85,750

As at December 31, 2016, accounts payable and accrued liabilities included $34,000 of directors' fees and $878,675 of wages payable.

13. Financial Instruments and Other Risks

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

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 directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at December 31, 2016, the Company's cash and cash equivalents are categorized as Level 1 measurement. The portfolio investments in the common shares of Zara Resources Inc. and Kesselrun Resources Ltd. are categorized as Level 1 measurement. The portfolio investments in the preferred shares of Kesselrun Resources Ltd. are categorized as a Level 2 measurement.

Fair Values

Except as disclosed elsewhere in these financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company is not exposed to any significant credit risk as at December 31, 2016. The Company's cash and cash equivalents are either on deposit with two highly rated banking groups in Canada or invested in bankers acceptance notes or guaranteed investment certificates issued by two highly rated Canadian banking groups.

13. Financial Instruments and Other Risks (continued)

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company has current assets of $264,659 and current liabilities of $2,014,136. All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of $1,749,477 as at December 31, 2016.

Market Risk

(i) Interest rate risk

The Company has cash and cash equivalents balances and it has debt bearing interest at 6%.

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. As at December 31, 2016, the Company had accounts payable of $59,335 denominated in US currency.

(iii) Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

(iv) Equity Price Risk

The Company is exposed to price risk with respect to equity prices on its investments held for trading and available for sale. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

Sensitivity Analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at December 31, 2016, the Company's cash and cash equivalents are not subject to significant interest rate fluctuations within the next three months. As at December 31, 2016, the Company is not subject to significant foreign exchange fluctuations.

14. Subsequent Events

Subsequent to the three months ended December 31, 2016:

a) The Company received an additional 475,000 common shares of Zara as a dividend payment in kind on its Zara preferred shares. The 475,000 preferred shares held by the Company were then converted into 950,000 common shares. The Company sold all 1,425,000 common shares for proceeds of $20,000.

b) The Company was advanced $35,000 by a company controlled by a director.

c) The Company sold 392,000 common shares of Kesselrun for gross proceeds of $37,351.

d) 112,000 warrants expired unexercised.