Condensed Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

For the Three Months Ended December 31, 2017
(Stated in Canadian Dollars)

Unaudited

INDEX

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, 2017	September 30, 2017 (audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 94,355	$ 173,892
Prepaid expenses and other assets	42,938	52,191
	137,293	226,083
Property, Plant and Equipment (note 4)	-	10,629
	$ 137,293	$ 236,712
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 13)	$ 624,415	$ 1,510,962
Other loans payable (note 7)	-	102,334
	624,415	1,613,296
Shareholders' Equity		
Capital Stock (note 8)	37,979,268	37,315,374
Contributed Surplus	7,921,178	7,921,178
Accumulated Deficit	(46,387,568)	(46,613,136)
	(487,122)	(1,376,584)
	$ 137,293	$ 236,712

Basis of Presentation and Going Concern (note 2)
Subsequent Event (note 13)

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

Approved on behalf of the Board

Signed "Martin Cooper" , Director

Signed "Richard Cooper" , Director

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss
For the Three Months Ended December 31, 2017
Unaudited - See Notice to Reader
Stated in Canadian Dollars

	2017	2016
Expenses		
Salaries and benefits	$ 8,894	$ 111,130
Publicity and investor relations	1,143	16,731
Listing and filing fees	7,328	8,067
Administrative	8,067	26,800
Finance charge (note 7(a))	-	20,000
Professional fees	17,089	41,811
Directors' fees	-	8,250
Energy project expenditures	-	1,866
Exploration and evaluation expenditures (recoveries)	(44,878)	27,010
Amortization	675	4,692
Loss on disposition of property, plant and equipment	8,383	-
Less:		
Non-refundable deposit from letter of intent (note 10)		(20,000)
Dividend income	-	(9)
Gain on settlement of debt	(232,269)	-
Loss on portfolio investments (note 6)	-	48,588
Impairment of portfolio investments (note 6)	-	148,960
	225,568	(443,896)
Net Income (Loss) and Comprehensive Income (Loss)	$ 225,568	$ (443,896)
Income (Loss) per Share - basic	$ 0.011	$ (0.021)
Income (Loss) per Share - diluted	$ 0.009	$ (0.021)
Weighted Average Number of Common Shares Outstanding - basic and diluted	21,332,410	20,986,215

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, 2016	20,959,353	$ 37,305,374	$ 7,857,355	$ (46,475,327)	$ (1,312,598)
Shares issued pursuant to loan payable	40,000	10,000	-	-	10,000
Net loss for the period	-	-	-	(443,896)	(443,896)
Balance - December 31, 2016	20,999,353	$ 37,315,374	$ 7,857,355	$ (46,919,223)	$ (1,746,494)

	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2017	20,999,353	$ 37,315,374	$ 7,921,178	$ (46,613,136)	$ (1,376,584)
Shares issued pursuant to setlement of debt (note 8ii)	10,213,745	663,894	-	-	663,894
Net loss for the period	-	-	-	225,568	225,568
Balance - December 31, 2017	31,213,098	$ 37,979,268	$ 7,921,178	$ (46,387,568)	$ (487,122)

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

	2017	2016
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	$ (81,107)	$ (104,866)
Cash Flows from Investing Activities		
Proceeds from disposition of property, plant and equipment	1,570	-
Proceeds from Letter of Intent	-	20,000
Purchase of investments	-	(37,786)
Proceeds from sale of investments	-	60,127
	1,570	42,341
Cash Flows from Financing Activities		
Proceeds from loan	-	50,000
	-	50,000
Change in cash	(79,537)	(12,525)
Cash and cash equivalents - beginning of period	173,892	35,636
Cash and cash equivalents - end of period	$ 94,355	$ 23,111
Significant Non-Cash Transactions Not Disclosed Above		
Common shares issued on settlement of debt	$ 663,894	$ -
Gain on settlement of debt	$ 232,269	$ -

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 66 Wellington Street West, Suite 4100, Toronto, Ontario.

The Company is a Canadian mineral company that was formed to acquire mineral resource properties in Canada and to carry out mineral exploration and development activities thereon in search of economic deposits of metals and minerals and has focused on generating and selling interests in mineral projects in Northern Ontario since 1996. The Company, either directly or through its wholly-owned subsidiaries, holds a number of interests in mineral properties.

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, 2017 and 2016, and the assets, liabilities and shareholders' equity as at December 31, 2017 and September 30, 2017.

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, 2017. The date the Board of Directors approved the statements is February 22, 2018.

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, 2017, 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, 2017.

4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2016	$ 152,659	$ 52,569	$ 9,612	$ 27,951	$ 95,409	$ 338,200
Additions	-	-	-	-	-	-
Disposals	(152,659)	-	-	-	(95,409)	(248,068)
Balance - September 30, 2017	-	52,569	9,612	27,951	-	90,132
Additions	-	-	-	-	-	-
Disposals	-	(52,569)	(9,612)	(27,951)	-	(90,132)
Balance - December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -
Accumulated Amortization						
Balance - October 1, 2016	$ 149,295	$ 44,929	$ 9,038	$ 21,854	$ 95,409	$ 320,525
Amortization for the period	1,010	2,290	172	1,220	-	4,692
Disposals	(150,305)	-	-	-	(95,409)	(245,714)
Balance - September 30, 2017	-	47,219	9,210	23,074	-	79,503
Amortization for the period	-	401	30	244	-	675
Disposals	-	(47,620)	(9,240)	(23,318)	-	(80,178)
Balance - December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -
Net Book Value						
As at September 30, 2017	$ -	$ 5,350	$ 402	$ 4,877	$ -	$ 10,629
As at December 31, 2017	$ -	$ -	$ -	$ -	$ -	$ -

5. Resource Properties

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

	October 1, 2017	Net Additions (Recoveries)	Dispositions	December 31, 2017
Eco Ridge Project (i)	$ 50,189	$ (44,878)	$ -	$ 5,311
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	-	-	-	-
	$ 50,189	$ (44,878)	$ -	$ 5,311
Timmins Project (iii)(1)	$ (122,796)	$ -	$ -	$ (122,796)
Sudbury Project (iv)(1)	(78,720)	-	-	(78,720)
	$ (201,516)	$ -	$ -	$ (201,516)

	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)

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

5. Resource Properties (continued)

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

The Eco Ridge Project, owned 100% by Eco Ridge Development Corporation, a wholly owned subsidiary of the Company, was located in Elliot Lake, Ontario. The Eco Ridge property included over 8,600 contiguous hectares comprised of 394 mining claim units and three Mining Leases.

Following an internal review of its Eco Ridge project, Pele's Board concluded that due to continuing weak uranium and rare earth prices, Eco Ridge remained uneconomic and offered limited short or mid-term benefit to shareholders. Moreover, due to prevailing weak rare earth prices, Pele had also been unable to generate the necessary support for its proposed monazite processing facility in Elliot Lake. Therefore, the Company entered into a sale agreement with an arm's-length purchaser to sell the claims, surface rights and leases comprising Eco Ridge for gross proceeds of $380,000 payable in cash, which closed on June 1, 2017.

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

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 preexisting 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.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 2 mining claims (September 30, 2017 - 3 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 8 mining claim units (September 30, 2017 - 11 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 totaling $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.

5. **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, 2017 - 4 mining claims) comprised of 52 mining claim units (September 30, 2017 - 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, 2017 (September 30, 2017 - 64%), and accordingly, the Company owns a 36% interest (September 30, 2017 - 36%).

(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.

The Company failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, and the claims are in the process of being transferred back to the original owner.

5. Resource Properties (continued)

(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 approximately 51% of the joint venture and Pele’s interest is approximately 49%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

6. Portfolio Investments

a) Zara Resources Inc.

During the year 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. 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").

6. 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.

During the year ended September 30, 2015, the Company determined the Preferred Shares to be fully impaired.

Zara is a junior resource company based in Toronto, Ontario, whose common shares are listed for trading on the Canadian Stock Exchange (CSE). 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.

During the period ended March 31, 2017, 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.

The Company's holdings are summarized below:

Zara Preferred Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2016	475,000	$ 475,000	$ -
Conversion to common shares	(475,000)	(475,000)	-
Balance - September 30, 2017 and December 31, 2017	-	$ -	$ -

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2016	475,000	$ 11,875	$ 2,375
Sale at $0.005 per share	(475,000)	(11,875)	(2,240)
Dividend payment in kind	475,000	11,875	2,375
Conversion of preferred shares	950,000	475,000	4,750
Sale at $0.05 per share	(1,425,000)	(477,375)	(20,000)
Gain on sale	-	-	12,740
Balance - September 30, 2017 and December 31, 2017	-	$ -	$ -

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 - September 30, 2016	1,960,000	$ 527,400	$ 431,200
Sale of shares	(1,960,000)	(527,400)	(185,960)
Loss on sale	-	-	(245,240)
Balance - September 30, 2017 and December 31, 2017	$ -	$ -	$ -

c) Manulife Premium Investment Savings Account

	Number of Units	Cost	Fair Value
Balance - September 30, 2016	1,770	$ 17,695	$ 17,695
Sale of units	(1,770)	(17,695)	(17,695)
Balance - September 30, 2017 and December 31, 2017	-	$ -	$ -

7. 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. In addition, once the loan is repaid from the first proceeeds from sale of the Kesselrun shares, the Company is required to pay 50% of any additional proceeds from the sale of the Kesselrun shares less initial principal, interest, commission fees, and bank charges. 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 40,000 of its common shares ("Bonus Shares") to the lender at an issue price of $0.50 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 year ended September 30, 2017, the Company sold all of its shares in Kesselrun Resources Ltd. 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 and for interest to cease accruing as at June 15, 2017. The principal and interest is past due. Interest payable of $4,124 and $40,872 of proceeds payable has been accrued up to June 15, 2017 and is included in accounts payable and accrued liabilities. During the year ended September 30, 2017, the Company repaid $58,000 to the arm's length lender. During the three months ended December 31, 2017, the Company settled the outstanding principal of $42,000 and accounts payable and accrued liabilities of $45,000 by issuing 966,667 common shares (note 8(ii)).

b) During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars ($12,770 CAD as at September 30, 2017) by an arm's length lender to maintain the Company's Mountain Pass Project. The advance was non-interest bearing and payable on demand that requires more than one year notice. During the year ended September 30, 2017, the Company received an additional advance of 10,000 United States Dollars ($12,368 CAD) with the same terms and conditions as the previous advance. During the three months ended December 31, 2017, the Company issued 385,045 common shares in full settlement of this loan (note 8(ii)).

c) During the year ended September 30, 2017, the Company borrowed $35,000 from a company controlled by a director of the Company. The loan carries an interest rate of 12% calculated daily with principal and interest due on or before July 25, 2017, which was subsequently extended to August 15, 2017. Interest payable of $2,094 had been accrued to September 30, 2017, and was included in accounts payable and accrued liabilities as at September 30, 2017. In addition to the loan, a placement fee of $5,000 was payable by the Company upon maturity of the loan. Finance charges payable of $5,000 were included in accounts payable and accrued liabilities as at September 30, 2017. During the three months ended December 31, 2017, the Company settled the loan payable of $35,000 and accounts payable and accrued liabilities of $7,094 by issuing 249,036 common shares (note 8(ii)).

8. Capital Stock

Authorized

Unlimited common shares

Issued

	Number	Amount
Balance - October 1, 2016 (i)	20,959,353	$ 37,305,374
Issued pursuant to loan agreement	40,000	10,000
Balance - September 30, 2017 (i)	20,999,353	37,315,374
Issued pursuant to debt settlement agreements (ii)	10,213,745	663,894
Balance - December 31, 2017 (i)	31,213,098	$ 37,979,268

(i) The Company is conditionally committed to issue an additional 24,000 common shares related to the property described in Note 5(ii).

(ii) During the three months ended December 31, 2017, pursuant to several debt settlement agreements to settle various accounts payable and other loans payable, the Company issued 10,213,745 common shares from treasury with a deemed fair value of $663,894 in full and final satisfaction of $781,413 of indebtedness, including a total of $94,221 of indebtedness owed by the Company to related party creditors that was forgiven.

9. 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.

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

The following summarizes the stock option activities:

	Three months ended December 31, 2017		Three months ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	1,715,000	$ 0.60	2,073,000	$ 0.80
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(358,000)	(1.40)
Outstanding at period end	1,715,000	$ 0.60	1,715,000	$ 0.60
Exercisable at period end	1,715,000	$ 0.60	1,715,000	$ 0.60

The Company had the following stock options outstanding at December 31, 2017:

Number of Options	Exercisable	Exercise Price	Expiry Date
67,500	67,500	$ 0.500	May 31, 2018
30,000	30,000	$ 1.000	May 31, 2018
756,200	756,200	$ 0.500	June 1, 2018
200,000	200,000	$ 1.000	June 1, 2018
195,000	195,000	$ 1.000	December 31, 2018
345,000	345,000	$ 0.500	December 31, 2019
121,300	121,300	$ 0.500	December 31, 2020
1,715,000	1,715,000		

9. 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, 2017		Three months ended December 31, 2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	2,276,823	$ 0.60	2,922,541	$ 0.60
Issued	-	-	-	-
Expired	(175,703)	(0.70)	(5,600)	(0.50)
Outstanding and exercisable at period end	2,101,120	$ 0.59	2,916,941	$ 0.06

The Company had the following warrants outstanding at December 31, 2017:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
801,220	CCC	Common shares	$ 0.70	April 13, 2018
170,000	DDD	Common shares	$ 0.70	May 25, 2018
525,000	EEE	Common shares	$ 0.50	November 20, 2018
504,900	HHH	Common shares	$ 0.50	February 4, 2019
100,000	HHH	Common shares	$ 0.50	February 5, 2019
2,101,120				

(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.

10. 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. During the year ended September 30, 2017, this non-binding letter of intent expired.

11. Related Party Transactions

During the three months ended December 31, 2017, the Company entered into the following related party transactions:

a) Consulting fees and salary of $Nil were earned by Martin Cooper, a director and officer of the Company. Pursuant to a debt settlement agreement, this director and officer agreed to a final payment of $42,750, in full satisfaction of total indebtedness of $157,500, $12,750 of which was paid during the three months ended December 31, 2017. As at December 31, 2017, accounts payable and accrued liabilities included $30,000 payable to this director and officer.

b) Legal fees of $13,285 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. Pursuant to a debt settlement agreement, the Company issued 3,238,072 common shares to this law firm to settle debt of $220,189. As at December 31, 2017, accounts payable and accrued liabilities included $12,368 payable to this law firm.

c) Accounting fees of $9,000 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. Pursuant to a debt settlement agreement, the Company issued 2,961,469 common shares to this accounting firm to settle debt of $201,380. As at December 31, 2017, accounts payable and accrued liabilities included $24,000 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. Pursuant to a debt settlement agreement this company waived debt of $39,089 and the Company issued 383,227 common shares to this company to settle the remaining debt of $26,059. As at December 31, 2017, accounts payable and accrued liabilities included $Nil payable to this director.

e) Compensation earned by directors and other members of key management personnel for the three months ended December 31, 2017 were as follows:

Salaries and benefits (CFO)	$ 7,500

Pursuant to various debt settlement agreements, directors of the Company waived accrued directors' fees owed to them in the aggregate amount of $29,730, and accepted 312,097 common shares of the Company to settle the remaining accrued directors' fees of $21,370.

12. 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, 2017, the Company's cash and cash equivalents are categorized as Level 1 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, 2017. 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.

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, 2017, the Company has current assets of $137,293 and current liabilities of $624,415. 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 $487,122 as at December 31, 2017.

12. Financial Instruments and Other Risks (continued)

Market Risk

(i) Interest rate risk

The Company has cash and cash equivalents balances and the Company's current policy is to invest any excess cash in highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates. These short term money market investments are subject to interest rate fluctuations.

(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, 2017, the Company had accounts payable of $33,292 denominated in US currency. At December 31, 2017, if the Canadian Dollar had weakened (strengthened) 10 percent against the United States Dollar with all other variables held constant, the net loss for the year would have been $3,329 higher (lower).

(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.

(v) 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, 2017, the Company's cash and cash equivalents are not subject to significant interest rate fluctuations within the next three months.

13. Subsequent Event

Subsequent to the three months ended December 31, 2017, the Company issued 4,930,098 common shares from treasury in full and final satisfaction of $335,246 of indebtedness pursuant to a debt settlement agreement.