

# **Peloton Minerals Corporation**

**(Formerly Montana Gold Mining Company Inc.)**

**Condensed Interim Consolidated Financial Statements**

(Expressed in United States Dollars)

**(unaudited)**

**For the Nine and Three Months Ended September 30,  
2016**

## **Management's Responsibility for Interim Financial Statements**

The accompanying unaudited condensed interim financial statements of Peloton Minerals Corporation (the "Company" or "Peloton") are the responsibility of management.

The unaudited condensed interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34, "Interim Financial Reporting", using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

**"Edward Ellwood"**  
(signed)

**"Eric Plexman"**  
(signed)

### **Notice to Reader**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

**Peloton Minerals Corporation**  
**Interim Consolidated Statements of Financial Position**  
(Expressed in United States Dollars)  
**As at**  
(unaudited)

	September 30, 2016	December 31, 2015
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 161,599	\$ 363
HST receivable	4,187	8,775
Prepaid expenses	2,851	1,258
	<b>168,637</b>	<b>10,396</b>
<b>Equipment</b> (Note 4)	<b>90,799</b>	<b>87,225</b>
<b>Reclamation bonds</b> (Note 6)	<b>13,043</b>	<b>26,156</b>
	<b>\$ 272,479</b>	<b>\$ 123,777</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Notes 7 and 12)	\$ 223,565	\$ 145,939
Loan due to a director (Note 12)	-	12,810
	<b>223,565</b>	<b>158,749</b>
<b>Convertible debenture</b> (Note 8)	<b>146,229</b>	<b>27,197</b>
<b>Derivative conversion liability</b> (Note 8)	<b>537,603</b>	<b>86,608</b>
<b>Foreign currency warrants</b> (Note 10)	<b>722,983</b>	<b>37,526</b>
	<b>1,630,380</b>	<b>310,080</b>
<b>Shareholders' Deficiency</b>		
<b>Capital stock</b> (Note 9)	<b>8,406,728</b>	<b>8,171,500</b>
<b>Contributed surplus</b>	<b>1,616,085</b>	<b>1,606,868</b>
<b>Deficit</b>	<b>(11,380,714)</b>	<b>(9,964,671)</b>
	<b>(1,357,901)</b>	<b>(186,303)</b>
	<b>\$ 272,479</b>	<b>\$ 123,777</b>

**Peloton Minerals Corporation**

**Interim Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)**

(Expressed in United States Dollars)

(unaudited)

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2016	2015	2016	2015
<b>Expenses</b>				
Office and administrative costs	\$ 291,917	\$ 234,498	\$ 130,969	\$ 72,540
Professional fees	41,379	28,855	21,882	9,587
Exploration and evaluation expenditures (Note 5)	88,700	9,018	76,195	6,599
Stock-based compensation (Note 10)	9,217	-	9,217	-
Foreign exchange (gain)	9,289	(56,465)	1,104	(29,331)
	<b>440,502</b>	<b>215,906</b>	<b>239,367</b>	<b>59,395</b>
<b>Other expenses (income)</b>				
Loss (gain) on revaluation of foreign currency warrants (Note 10)	461,089	(199,481)	293,410	(58,236)
Reversal of management fees payable	-	(501,612)	-	(382,114)
Loss (gain) on revaluation of derivative conversion liability (Note 8)	382,567	40,354	274,404	40,354
Accretion expense (Note 8)	81,503	827	77,805	827
	<b>925,159</b>	<b>(659,912)</b>	<b>645,619</b>	<b>(399,169)</b>
<b>Net (loss) earnings and comprehensive earnings (loss) for the period</b>	<b>\$ (1,365,661)</b>	<b>\$ 444,006</b>	<b>\$ (884,986)</b>	<b>\$ 339,774</b>

**(Loss) earnings per share (Note 11)**

<b>Basic and diluted</b>	<b>\$ (0.027)</b>	<b>\$ 0.009</b>	<b>\$ (0.016)</b>	<b>\$ 0.007</b>
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**Weighted average number of common shares outstanding (Note 11)**

<b>Basic and diluted</b>	<b>50,831,292</b>	<b>47,128,416</b>	<b>54,608,917</b>	<b>47,814,765</b>
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**Peloton Minerals Corporation**  
**Interim Consolidated Statements of Changes in Equity**  
(Expressed in United States Dollars)  
**As at**  
(unaudited)

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
<b>Balance, December 31, 2014</b>	<b>46,476,385</b>	<b>\$ 8,135,733</b>	<b>\$ 1,606,868</b>	<b>\$(10,383,134)</b>	<b>(640,533)</b>
Net earnings and comprehensive earnings	-	-	-	444,006	444,006
Units issued for cash	1,338,380	54,550	-	-	54,550
Allocated to warrants	-	(26,134)	-	-	(26,134)
Share subscription due	-	3,865	-	-	3,865
<b>Balance, September 30, 2015</b>	<b>47,814,765</b>	<b>\$ 8,168,014</b>	<b>\$ 1,606,868</b>	<b>\$(9,939,128)</b>	<b>(164,246)</b>
Net loss and comprehensive loss	-	-	-	(25,543)	(25,543)
Units issued for cash	400,000	15,182	-	-	15,182
Share subscription due	-	(3,865)	-	-	(3,865)
Allocated to warrants	-	(7,831)	-	-	(7,831)
<b>Balance, December 31, 2015</b>	<b>48,214,765</b>	<b>\$ 8,171,500</b>	<b>\$ 1,606,868</b>	<b>\$(9,964,671)</b>	<b>(186,303)</b>
Net loss and comprehensive loss	-	-	-	(1,365,661)	(1,365,661)
Units issued for cash (Note 9)	8,636,821	355,915	-	-	355,915
Allocated to warrants (Note 9)	-	(126,183)	-	-	(126,183)
Fair value of warrants extended (Note 10)	-	-	-	(50,382)	(50,382)
Shares issued for mining claims (Note 9)	100,000	5,496	-	-	5,496
Stock-based compensation (Note 10)	-	-	9,217	-	9,217
<b>Balance, September 30, 2016</b>	<b>56,951,586</b>	<b>\$ 8,406,728</b>	<b>\$ 1,616,085</b>	<b>\$(11,380,714)</b>	<b>(1,357,901)</b>

**Peloton Minerals Corporation**  
**Interim Consolidated Statements of Cash Flow**  
(Expressed in United States Dollars)  
**For the Nine Months Ended September 30,**  
(unaudited)

	2016	2015
<b>Cash provided by (used in)</b>		
<b>Operations</b>		
Net (loss) earnings	\$ (1,365,661)	\$ 444,006
Items not affecting cash		
Loss (gain) on revaluation of foreign currency warrants	461,089	(199,481)
Reversal of management and director fees payable	-	(501,612)
Shares issued for mining claims	5,496	-
Accretion expense	81,503	827
Loss on revaluation of derivative conversion liability	382,567	40,354
Stock-based compensation	9,217	-
	<b>(425,789)</b>	<b>(215,906)</b>
Net changes in non-cash working capital		
HST receivable	4,588	12,361
Prepaid expenses	(1,593)	-
Accounts payable and accrued liabilities	77,626	81,140
	<b>(345,168)</b>	<b>(122,405)</b>
<b>Investing</b>		
Purchase of equipment	(3,574)	(87,225)
Redemption of reclamation bonds	13,113	-
	<b>9,539</b>	<b>(87,225)</b>
<b>Financing</b>		
Proceeds from share issuances, net	355,915	54,550
Proceeds from issuance of convertible debenture	153,760	100,000
Proceeds received for units to be issued	-	3,865
(Repayment of) / Advances from a director	(12,810)	9,706
	<b>496,865</b>	<b>168,121</b>
<b>Net change in cash</b>	<b>161,236</b>	<b>(41,509)</b>
<b>Cash, beginning of period</b>	<b>363</b>	<b>44,681</b>
<b>Cash, end of period</b>	<b>\$ 161,599</b>	<b>\$ 3,172</b>

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**September 30, 2016**  
(unaudited)

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

Peloton Minerals Corporation ("the Company" or "Peloton") was incorporated under the Ontario Business Corporations Act on December 21, 2000. The Company has three wholly-owned subsidiary corporations, Montana Gold Subsidiary Corporation, a United States corporation, Celerity Mineral Corporation, a Canadian corporation and Celerity Subsidiary Corporation, a United States corporation.

The Company is engaged in the business of locating and exploring mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The head office and principal address of the Company is 380 Wellington Street, 6th Floor, London City Centre, Tower B, London, Ontario, N6A 5B5.

While these unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern.

During the period ended September 30, 2016, the Company incurred a net loss of \$1,356,444 (September 30, 2015 - net earnings of \$444,006) and, as of that date, the Company had accumulated a deficit of \$11,371,497 (December 31, 2015 - \$9,964,671), a working capital deficiency of \$54,928 (December 31, 2015 - \$148,353) and negative cash flows from operations of \$345,168 (December 31, 2015 - \$128,748). These factors create material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities and to cover administrative costs.

The future profitability of the Company is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the properties and upon future profitable production or proceeds from disposition of such properties.

These unaudited condensed interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments would be material.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Statement of Compliance**

These unaudited condensed interim consolidated financial statements present the Company's financial results of operations and financial position under IFRS as at and for the nine and three month periods ended September 30, 2016. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015, prepared in accordance with IFRS. The accounting policies adopted in these unaudited condensed interim consolidated financial statements are consistent with those disclosed in the Company's audited financial statement for the year ended December 31, 2015. Refer to these audited financial statements for significant accounting policies and future changes in accounting policies which remained unchanged as at September 30, 2016.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on November 28, 2016.

### **Basis of Consolidation**

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Celerity Mineral Corporation (Canada), Celerity Subsidiary Corporation (United States) and Montana Gold Subsidiary Corporation (United States). The functional currency and presentation currency of each entity is the United States dollar. The financial statements of the subsidiaries are included in the unaudited condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

## **3. CHANGE IN ACCOUNTING POLICY**

During the year ended December 31, 2015, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and exploration and evaluation expenditures of mineral properties to the specific mineral properties, net of recoveries received.

Under the new policy, acquisition costs and 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. As required by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Company included the restated consolidated statement of financial position as at January 1, 2014 and December 31, 2014 in the December 31, 2015 consolidated financial statements. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the Company's activities.

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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(unaudited)

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**4. EQUIPMENT**

On September 24, 2015, the Company purchased a diamond drilling rig for the amount of \$87,225 that has an estimated useful life of 10 years. During the quarter ended September 30, 2016, the Company purchased additional parts of \$3,574 necessary for the operation of the diamond drilling rig. The diamond drilling rig is amortized on a straight-line basis over 10 years. No amortization has been recorded as of September 30, 2016 as the rig was not yet in use.

**5. MINING CLAIMS - EXPLORATION AND EVALUATION EXPENDITURES**

Cumulative spending to date:

	December 31, 2015	Additions	September 30, 2016
Silver Bell St. Lawrence Claims, MT <sup>(a)</sup>	\$ 434,472	\$ 3,875	\$ 438,347
Golden Trail Claims, NV <sup>(b)</sup>	86,997	49,279	136,276
River Stage Claims, ON <sup>(c)</sup>	-	11,655	11,655
Independence Valley, NV <sup>(d)</sup>	-	23,891	23,891
	<b>\$ 521,469</b>	<b>\$ 88,700</b>	<b>\$ 610,169</b>

  

	December 31, 2014	Additions	December 31 2015
Silver Bell St. Lawrence Claims, MT <sup>(a)</sup>	\$ 428,446	\$ 6,026	\$ 434,472
Golden Trail Claims, NV <sup>(b)</sup>	82,345	4,652	86,997
	<b>\$ 510,791</b>	<b>\$ 10,678</b>	<b>\$ 521,469</b>

(a) Silver Bell St. Lawrence

The Company holds 100% interest in the Silver Bell St. Lawrence ("SBSL") property consisting of 10 (December 31, 2015 - 10) mining claims. These claims are subject to a 2% net smelter royalty to an arms-length party.

The Company also holds 100% interest in 16 (December 31, 2015 - 15) mining claims adjacent to the northern and eastern boundaries of the SBSL property. These mining claims are called the Roar claims.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local county in the cumulative approximate amount of \$155 per claim.

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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(b) Golden Trail

As at September 30, 2016, the Company holds 100% interest in 16 (December 31, 2015 - 16) contiguous unpatented mining claims in the Elko County region of Nevada totaling approximately 320 acres.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local county in the cumulative approximate amount of \$155 per claim.

(c) River Stage

On May 23, 2016, the Company entered into a purchase option agreement to acquire a 100% interest in the River Stage property consisting of 5 unpatented mining claims. In order to earn its interest in the River Stage property, the Company paid \$8,000 CDN by June 15, 2016, issued 100,000 common shares (Note 9) of the Company upon the signing of the purchase option agreement. Further, the Company must pay \$8,000 CDN on the first anniversary, \$12,000 CDN on the second anniversary and \$25,000 CDN on the third anniversary of the purchase option agreement. In addition, a 1.5% net smelter royalty was granted to the arms-length optionor of which the Company may reduce by 0.75% by paying \$250,000 CDN to the optionor.

(d) Independence Valley

During July 2016, the Company acquired by staking a 38 mineral claim package comprising 785 acres and located in Elko County, Nevada, about 77 miles south of the Company's Golden Trail Project. The mineral claim package is named the Independence Valley Project.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local county in the cumulative approximate amount of \$155 per claim.

**6. RECLAMATION BONDS**

As at September 30, 2016, a reclamation bond in the amount of \$13,043 (December 31, 2015 - \$26,156) is being held by the Bureau of Land Management ("BLM") on the Golden Trail property. The Company has completed the site restoration work and management estimates that no further site restoration costs need to be incurred on the Golden Trail property. The Company may be liable for additional amounts if the BLM determines that the site restoration work was deficient and the amount of the bond is not sufficient to cover the cost of the additional work required to fully return the site to its original condition.

During the period ended September 30, 2016, the Company received proceeds of \$13,113 relating to the release of a portion of the bond held by the BLM on the Golden Trail property.

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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(unaudited)

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**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The following is a breakdown of the amounts included in accounts payable:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
Trade payables	<b>\$ 20,917</b>	\$ 66,097
Accrued liabilities:		
Management and director fees	<b>199,063</b>	63,363
Audit and accounting	<b>3,585</b>	16,479

**8. CONVERTIBLE DEBENTURE**

(a) Convertible debenture of \$100,000 USD ("Debenture 1")

On August 11, 2015, the Company received \$100,000 USD (principal) from an arm's length party in exchange for a convertible debenture. The convertible debenture is due on demand upon six months' notice in writing, with such notice not to be given on or before August 11, 2020. The debenture pays interest at the rate of 4%, payable quarterly, beginning October 1, 2015 with the first payment due December 31, 2015. The convertible debenture, and all principal and interest owing, is convertible, in whole or in part, at the holder's option into units of the Company (the "Unit"). Each Unit consists of one common share and one common share purchase warrant. The conversion price of the debenture is \$0.05 CDN per Unit. Each warrant will entitle the holder to acquire one additional common share at a price of \$0.10 CDN per share until August 11, 2020.

As security, the Company has pledged all parts purchased relating to their diamond drill (Note 4).

If the common shares of the Company trade for ten consecutive days trading days on the Canadian Securities Exchange or any other stock exchange or quotation service upon which it happens to trade or be quoted at that time, at a price equal to or greater than \$0.20 CDN per share, this debenture will automatically be converted into units without any action on the part of either the Company or the holder.

(b) Convertible debenture of \$200,000 CDN ("Debenture 2")

On July 5, 2016, the Company closed a \$200,000 CDN financing with an arm's length part in the form of a convertible debenture. The \$200,000 CDN loan amount may be converted by the lender at any time up to November 1, 2016 into units priced at \$0.055 CDN per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.10 CDN per share for up to three years. Prior to the conversion, the Company may repay all or any portion of the loan amount with interest payable at the rate of 1% per month. If the loan amount has not been repaid on or before November 1, 2016, it shall automatically be converted into units. The lender received a transaction fee consisting of 2,850,000 share purchase warrants exercisable at \$0.07 CDN expiring July 6, 2019.

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
(Expressed in United States Dollars)  
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**8. CONVERTIBLE DEBENTURE (Cont'd)**

(c) Valuation of Debenture 1 and Debenture 2

The conversion rate and the warrants to be issued on conversion of the above convertible debentures are not in the Company's functional currency, as a result they are a derivative financial liability. The Company valued the derivative financial liabilities using the Black-Scholes pricing model and after valuing the derivative financial liabilities assigned the remaining value to the convertible debenture.

The fair value of the units of Debenture 1 were estimated at the issuance date using the Black-Scholes pricing model with the following assumptions:

Share closing price on valuation date	\$0.04 CDN
Expected dividend yield	Nil
Exercise price	\$0.05 - \$0.10 CDN
Risk free interest rate	0.72%
Expected life	5.0 - 5.5 years
Expected volatility (based on historical prices)	210 - 223%

The Company determined the amount relating to the units in the convertible debenture to be \$76,886.

The fair value of the units were revalued at December 31, 2015 using the Black-Scholes pricing model with the following assumptions:

Share closing price on valuation date	\$0.035 CDN
Expected dividend yield	Nil
Exercise price	\$0.05 - \$0.10 CDN
Risk free interest rate	0.73%
Expected life	4.62 - 5.12 years
Expected volatility (based on historical prices)	208% - 227%

The units were revalued at \$86,608 resulting in a loss on revaluation of derivative conversion liability of \$9,722.

The fair value of the units of Debenture 1 were revalued at September 30, 2016 based on the Black-Scholes pricing model using the following assumptions:

Share closing price on valuation date	\$0.10 CDN
Expected dividend yield	Nil
Exercise price	\$0.05 - \$0.10 CDN
Risk free interest rate	0.62%
Expected life	3.87 - 4.37 years
Expected volatility (based on historical prices)	118% - 127%

The units were revalued at \$250,968 resulting in a loss on revaluation of derivative conversion liability of \$164,360.

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
(Expressed in United States Dollars)  
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**8. CONVERTIBLE DEBENTURE (Cont'd)**

The fair value of the units of Debenture 2 were estimated at the issuance date using the Black-Scholes pricing model with the following assumptions:

Share closing price on valuation date	\$0.09 CDN
Expected dividend yield	Nil
Exercise price	\$0.055 - \$0.10 CDN
Risk free interest rate	0.49 – 0.50%
Expected life	0.33 - 3.33 years
Expected volatility (based on historical prices)	75 - 110%

The Company determined the amount relating to the units in the convertible debenture to be \$68,427 (net of issuance costs of \$30,871).

The fair value of the units of Debenture 2 were revalued at September 30, 2016 based on the Black-Scholes pricing model using the following assumptions:

Share closing price on valuation date	\$0.10 CDN
Expected dividend yield	Nil
Exercise price	\$0.055 - \$0.10 CDN
Risk free interest rate	0.47 – 0.51%
Expected life	0.09 - 3.09 years
Expected volatility (based on historical prices)	88% - 92%

The units were revalued at \$286,635 resulting in a loss on revaluation of derivative conversion liability of \$218,208.

<b>Convertible Debenture</b>	<b>September 30, December 31,</b>	
	<b>2016</b>	<b>2015</b>
Principal – Debenture 1	\$ 27,197	\$ 100,000
New principal – Debenture 2	153,760	-
Derivative conversion liability	(99,299)	(76,886)
Accretion expense	81,503	4,083
Share issuance costs	(16,932)	-
	\$ 146,229	\$ 27,197
<b>Derivative Conversion Liability</b>	<b>September 30, December 31,</b>	
	<b>2016</b>	<b>2015</b>
Derivative conversion liability	\$ 86,608	\$ 76,886
Derivative conversion liability – Debenture 2	99,299	-
Fair value adjustment	351,696	9,722
	\$ 537,603	\$ 86,608

**Peloton Minerals Corporation**  
**Notes to Condensed Interim Consolidated Financial Statements**  
(Expressed in United States Dollars)  
**September 30, 2016**  
(unaudited)

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**9. CAPITAL STOCK**

Authorized

Unlimited common shares

Issued and outstanding - common shares

	Number of Shares	Value
<b>Balance, December 31, 2014</b>	<b>46,476,385</b>	<b>\$ 8,135,733</b>
Units issued for cash	1,738,380	69,732
Allocated to warrants	-	(33,965)
<b>Balance, December 31, 2015</b>	<b>48,214,765</b>	<b>\$ 8,171,500</b>
Units issued for cash <sup>(i), (ii) and (iii)</sup>	8,636,821	355,915
Allocated to warrants <sup>(i), (ii) and (iii)</sup>	-	(126,183)
Shares issued for mining claims <sup>(iv)</sup>	100,000	5,496
<b>Balance, September 30, 2016</b>	<b>56,951,586</b>	<b>\$ 8,406,728</b>

- (i) On April 22, 2016, the Company issued 1,450,000 units with a price of \$0.05 CDN per unit for proceeds of \$72,500 CDN (\$54,467 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to April 22, 2019.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share closing price on valuation date	\$0.065 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 CDN
Risk free interest rate	0.67%
Expected life	3.0 years
Expected volatility (based on historical prices)	111%

The Company determined the amount relating to the warrants in the unit issuance to be \$21,215.

- (ii) On June 10, 2016, the Company issued 1,200,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$60,000 CDN (\$46,433 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to June 10, 2019.

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**9. CAPITAL STOCK (Cont'd)**

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share closing price on valuation date	\$0.060 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 CDN
Risk free interest rate	0.52%
Expected life	3.0 years
Expected volatility (based on historical prices)	86%

The Company determined the amount relating to the warrants in the unit issuance to be \$14,148.

- (iii) On August 5, 2016, the Company issued 5,986,821 units with an ascribed value of \$0.055 CDN per unit for proceeds of \$329,275 CDN (\$255,015 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of \$0.10 CDN up to August 5, 2019.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share closing price on valuation date	\$0.11 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 CDN
Risk free interest rate	0.52%
Expected life	3.0 years
Expected volatility (based on historical prices)	86%

The Company determined the amount relating to the warrants in the unit issuance to be \$90,820.

- (iv) On June 10, 2016, the Company issued 100,000 common shares with an ascribed value of \$5,496 pursuant to the purchase option agreement entered into on the River Stage property (Note 5).

**10. STOCK OPTIONS AND WARRANTS**

**(a) Stock Options**

The Company has a Stock Option Plan (the "Plan") to provide options for the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

The Company issued stock options to acquire common shares as follows:

	September 30, 2016		December 31, 2015	
	Number of Options	Weighted Average Exercise Price (CDN)	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of period	4,250,000	\$ 0.08	4,500,000	\$ 0.09
Granted	500,000	\$ 0.10	-	-
Expired	-	\$ -	(250,000)	\$ 0.05
Outstanding, end of period	<b>4,750,000</b>	<b>\$ 0.08</b>	4,250,000	\$ 0.08
Exercisable, end of period	<b>4,375,000</b>	<b>\$ 0.08</b>	4,250,000	\$ 0.08

The Company had the following stock options outstanding at September 30, 2016:

Number of Options	Exercise Price	Expiry Date
2,600,000	CDN \$0.100	May 1, 2017
500,000	CDN \$0.100	July 15, 2018
1,150,000	CDN \$0.065	May 29, 2019
500,000	CDN \$0.080	July 2, 2019
<b>4,750,000</b>		

(a) Stock Options (Cont'd)

On July 15, 2016, the Company granted 500,000 stock options to a consultant performing investor relation services. The stock options are exercisable at \$0.10 CDN per share and expire July 15, 2018. The stock options vest one-quarter immediately and one-quarter each three months after July 15, 2016.

The fair value of these stock options of \$14,585 was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

Share closing price at valuation date	\$0.095 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 CDN
Risk free interest rate	0.58%
Expected life	2.0 years
Expected volatility (based on historical prices)	76%

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**10. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(b) Warrants**

The following summarizes the change in warrants denominated in a foreign currency:

	<b>September 30,</b>		<b>December 31,</b>	
	<b>2016</b>		<b>2015</b>	
<b>Balance, beginning of period</b>	<b>\$</b>	<b>37,526</b>	<b>\$</b>	<b>248,787</b>
Fair value of warrants issued - May 20, 2015		-		26,134
Fair value of warrants issued - December 7, 2015		-		7,829
Fair value of warrants issued - April 22, 2016 (Note 9(i))		<b>21,215</b>		-
Fair value of warrants issued - June 10, 2016 (Note 9(ii))		<b>14,148</b>		-
Fair value of warrants issued – July 5, 2016 (Note 8(b))		<b>47,803</b>		-
Fair value of warrants issued – August 5, 2016 (Note 9(iii))		<b>90,820</b>		-
Fair value of warrants extended (Note 10(b)(i))		<b>50,382</b>		-
Fair value adjustment (Note 10(b)(ii))		<b>461,089</b>		(245,224)
<b>Balance, end of period</b>	<b>\$</b>	<b>722,983</b>	<b>\$</b>	<b>37,526</b>

(i) During the period ended September 30, 2016, the Company modified the expiry dates of the following outstanding warrants:

- 2,800,000 warrants originally expiring on January 24, 2016 were made exercisable until September 12, 2016. These warrants have expired;
- 1,400,000 warrants originally expiring on February 8, 2016 are now exercisable until February 8, 2017;
- 2,000,000 warrants originally expiring on February 20, 2016 are now exercisable until February 20, 2018;
- 2,000,000 warrants originally expiring on April 24, 2016 are now exercisable until April 24, 2017;
- 3,250,000 warrants originally expiring on June 19, 2016 are now exercisable until June 19, 2017; and
- 1,000,000 warrants originally expiring on May 14, 2016 are now exercisable until May 14, 2018.

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**10. STOCK OPTIONS AND WARRANTS (Cont'd)**

**(b) Warrants (Cont'd)**

The incremental fair value of these warrants extended was estimated at \$50,382 using the Black Scholes pricing model with the following weighted average assumptions:

Share closing price on valuation date	\$0.065 - \$0.08CDN
Expected dividend yield	Nil
Exercise price	\$0.20 CDN
Risk free interest rate	0.52% - 0.54%
Expected life (original)	0.01 - 0.16 years
Expected life (extended)	0.64 - 2.08 years
Expected volatility (original) (based on historical prices)	0% - 88%
Expected volatility (extended) (based on historical prices)	60% - 94%

As this is a capital transaction, the incremental fair value was recorded to foreign currency warrants with an offsetting charge to deficit.

- (ii) At September 30, 2016, the fair value of the 33,135,966 warrants outstanding was estimated at \$722,983 using the Black-Scholes pricing model with the following weighted average assumptions:

Share closing price on valuation date	\$0.10 CDN
Expected dividend yield	Nil
Exercise price	\$0.07 - \$0.20 CDN
Risk free interest rate	0.51%
Weighted average expected life	1.413 years
Weighted average expected volatility (based on historical prices)	62 - 88%

At September 30, 2016, a loss on revaluation of foreign currency warrants of \$461,089 (September 30, 2015 - gain of \$199,481) was recognized in the interim unaudited consolidated statement of loss and comprehensive loss.

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**10. STOCK OPTIONS AND WARRANTS (Cont'd)**

**b) Warrants (Cont'd)**

The Company had the following warrants outstanding at September 30, 2016:

<b>Number of Warrants</b>	<b>Exercise Price (CDN)</b>	<b>Expiry Date</b>
1,400,000	\$ 0.20	February 8, 2017
2,000,000	\$ 0.20	April 24, 2017
3,250,000	\$ 0.20	June 19, 2017
2,000,000	\$ 0.20	February 20, 2018
1,000,000	\$ 0.20	May 14, 2018
3,650,000	\$ 0.10	December 3, 2016
2,000,000	\$ 0.10	March 3, 2017
2,300,505	\$ 0.10	June 4, 2017
1,310,260	\$ 0.10	June 28, 2017
1,000,000	\$ 0.10	December 30, 2017
1,338,380	\$ 0.10	May 20, 2018
400,000	\$ 0.10	December 7, 2018
1,450,000	\$ 0.10	April 22, 2019
1,200,000	\$ 0.10	June 10, 2019
5,986,821	\$ 0.10	August 5, 2019
2,850,000	\$ 0.07	July 6, 2019
<b>33,135,966</b>		

**11. EARNINGS (LOSS) PER SHARE**

The calculation of basic and diluted earnings (loss) per share for the period ended September 30, 2016 was based on the loss attributable to common shareholders of \$1,365,661 (September 30, 2015 - earnings of \$444,006) and the weighted average number of common shares outstanding of 48,911,174 (September 30, 2015 – 46,779,554).

Diluted loss per share did not include the effect of 4,750,000 stock options and 33,135,966 warrants outstanding as they are anti-dilutive.

## **12. RELATED PARTY TRANSACTIONS**

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Related party balances are listed below:

- (a) Included in accounts payable and accrued liabilities is approximately \$199,063 (December 31, 2015 - \$63,363) of amounts owing to directors of the Company for management and director fees.
- (b) The loan due to a director of the Company in the amount of \$Nil CDN (\$Nil USD) (December 31, 2015 - \$12,810 USD) is non-interest bearing, unsecured and due on demand. The loan was repaid during the quarter ending September 30, 2016.

## **13. CAPITAL RISK MANAGEMENT**

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended September 30, 2016.

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**14. FINANCIAL RISK MANAGEMENT**

The Company is exposed to a variety of financial risks by virtue of its activities. In particular market risk (composed of currency risk), liquidity risk, fair value risk, interest risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

**(a) Market Risk**

(i) Currency risk

The Company operates internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

As at September 30, 2016 the Company is exposed to currency risk through the following financial assets and liabilities denominated in Canadian dollars:

	<b>September 30,</b>		December 31,
	<b>2016</b>		2015
Cash	\$	<b>150,103</b>	\$ 480
Accounts payable and accrued liabilities	\$	<b>210,315</b>	\$ 178,104
Loan due to a director	\$	-	\$ 17,730

The above balances were translated into US dollars at the period-end rate of \$0.7624 (December 31, 2015 - \$0.7225) Canadian dollars to every US dollar.

Based on the above net exposures as at September 30, 2016, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in an increase/decrease in net loss of approximately \$3,000.

**(b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at September 30, 2016, the Company has current liabilities of \$223,565 (December 31, 2015 - \$158,749) due within 12 months and has cash of \$161,599 (December 31, 2015 - \$363) to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

**(c) Fair Value Risk**

The carrying values of reclamation bonds, accounts payable and accrued liabilities and loan due to a director approximate fair values due to the relatively short term maturities of these instruments. The estimated fair values of convertible debt also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

**(d) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk is primarily related to the Company's interest bearing debt on its consolidated statement of financial position. The Company does not have any debt with variable interest rates, thereby minimizing the Company's exposure to cash flow interest rate risk.

**(e) Credit Risk**

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions.

**15. COMMITMENTS**

The Company is committed under lease agreements to the payment of amounts totaling \$2,067 CDN subsequent to September 30, 2016.

The Company is also required to make payments to the BLM to keep mining claims in good standing as noted in Note 5.