

Peloton Minerals Corporation

(Formerly Montana Gold Mining Company Inc.)

Consolidated Financial Statements

(Expressed in United States Dollars)

For the Years Ended December 31, 2016 and 2015



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Peloton Minerals Corporation (Formerly Montana Gold Mining Company Inc.)

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We have audited the accompanying consolidated financial statements of Peloton Minerals Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peloton Minerals Corporation and its subsidiaries at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes material uncertainties that cast significant doubt about Peloton Minerals Corporation's ability to continue as a going concern.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Professional Accountants
Toronto, Ontario
April 28, 2017

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Consolidated Statements of Financial Position
(Expressed in United States Dollars)
As at

	December 31, 2016	December 31, 2015
Assets		
Current		
Cash	\$ 37,737	\$ 363
HST receivable	16,162	8,775
Prepaid expenses	7,913	1,258
	61,812	10,396
Equipment (Note 4)	86,259	87,225
Reclamation bonds (Note 7)	13,043	26,156
	\$ 161,114	\$ 123,777
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 6 and 13)	\$ 321,556	\$ 145,939
Loan due to a director (Note 13)	-	12,810
	321,556	158,749
Convertible debenture (Note 8)	35,097	27,197
Derivative liability (Note 8)	218,978	86,608
Foreign currency warrants (Note 10)	749,221	37,526
	1,324,852	310,080
Shareholders' Deficiency		
Capital stock (Note 9)	8,688,830	8,171,500
Contributed surplus (Note 10)	1,619,732	1,606,868
Deficit	(11,472,300)	(9,964,671)
	(1,163,738)	(186,303)
	\$ 161,114	\$ 123,777

Nature of Operations and Going Concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 17)

Approved by the Board

"Edward Ellwood"
Director (Signed)

"Eric Plexman"
Director (Signed)

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)
(Expressed in United States Dollars)
Years Ended December 31, 2016 and 2015

	2016	2015
Expenses		
Office and administrative costs (Note 13)	\$ 438,841	\$ 313,674
Professional fees	60,550	44,642
Exploration and evaluation expenditures (Note 5)	226,330	10,678
Stock-based compensation (Note 10)	12,864	-
Depreciation	4,540	-
Foreign exchange	12,574	(64,309)
	755,699	304,685
Other expenses (income)		
Loss (gain) on revaluation of foreign currency warrants (Note 10)	237,349	(245,224)
Reversal of management and director fees payable (Note 13)	-	(491,729)
Accretion expense (Note 8)	127,251	4,083
Loss on revaluation of derivative liability (Note 8)	226,220	9,722
	590,820	(723,148)
Net earnings (loss) and comprehensive earnings (loss)	\$ (1,346,519)	\$ 418,463

(Loss) earnings per share (Note 11)

Basic and diluted	\$ (0.026)	\$ 0.009
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Weighted average number of common shares outstanding (Note 11)

Basic and diluted	52,478,427	47,327,715
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Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in United States Dollars)
Years Ended December 31, 2016 and 2015

	Number of Shares	Capital Stock	Contributed Surplus	Deficit	Total
	(Note 9)	(Note 9)	(Note 10)		
Balance, January 1, 2015	46,476,385	\$ 8,135,733	\$ 1,606,868	\$(10,383,134)	\$ (640,533)
Net earnings and comprehensive earnings	-	-	-	418,463	418,463
Units issued for cash	1,738,380	69,732	-	-	69,732
Allocated to warrants	-	(33,965)	-	-	(33,965)
Stock-based compensation	-	-	104,256	-	104,256
Balance, December 31, 2015	48,214,765	\$ 8,171,500	\$ 1,606,868	\$(9,964,671)	\$ (186,303)
Net loss and comprehensive loss	-	-	-	(1,346,519)	(1,346,519)
Units issued for cash	9,523,488	405,484	-	-	405,484
Allocated to warrants	-	(142,943)	-	-	(142,943)
Fair value of warrants extended (Note 10)	-	-	-	(161,110)	(161,110)
Debentures converted into shares	3,636,364	249,293	-	-	249,293
Shares issued for mining claims (Note 9)	100,000	5,496	-	-	5,496
Stock-based compensation	-	-	12,864	-	12,864
Balance, December 31, 2016	61,474,617	\$ 8,688,830	\$ 1,619,732	\$(11,472,300)	\$(1,163,738)

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
Years Ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in)		
Operations		
Net earnings (loss)	\$ (1,346,519)	\$ 418,463
Items not affecting cash:		
Loss on revaluation of derivative liability	226,220	9,722
Loss (gain) on revaluation of foreign currency warrants	237,349	(254,224)
Reversal of management and director fees payable	-	(491,729)
Shares issued for mining claims	5,496	-
Accretion expense	127,251	4,083
Non-cash transaction costs	49,545	-
Depreciation	4,540	-
Stock-based compensation	12,864	-
	(683,254)	(304,685)
Net changes in non-cash working capital:		
HST receivable	(7,387)	17,596
Prepaid expenses	(6,655)	-
Accounts payable and accrued liabilities	175,617	158,341
	(521,679)	(128,748)
Investing		
Purchase of equipment	(3,574)	(87,225)
Proceeds from release of reclamation bond	13,113	-
Purchase of reclamation bond	-	(10,885)
	9,539	(98,110)
Financing		
Proceeds from share issuances, net	405,484	69,730
Proceeds from issuance of convertible debenture	156,840	100,000
(Repayment to) advances from a director	(12,810)	12,810
	549,514	182,540
Net change in cash during the year	37,374	(44,318)
Cash, beginning of year	363	44,681
Cash, end of year	\$ 37,737	\$ 363
Non-cash transactions:		
Shares issued for mining claims	5,496	-
Debentures converted into shares	249,293	-

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

1. NATURE OF OPERATIONS AND GOING CONCERN

Peloton Minerals Corporation (the "Company" or "Peloton"), formerly Montana Gold Mining Company Inc., 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, incorporated under the laws of the State of Montana on August 28, 2012, Celerity Mineral Corporation, a Canadian corporation, incorporated under the Canada Business Corporations Act on April 25, 2012 and Celerity Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012.

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 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 year ended December 31, 2016 the Company had loss of \$1,346,519 (2015 - earnings of \$418,463) and, as of that date, the Company had accumulated a deficit of \$11,472,300 (2015 - \$9,964,671), a working capital deficiency of \$259,744 (2015 - \$148,353) and negative cash flows from operations of \$521,679 (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's ability to continue as a going concern is dependent upon obtaining necessary equity financing from time to time to finance its ongoing and planned exploration activities and to cover administrative costs, the discovery of economically recoverable resources, 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 mineral properties and future profitable production or proceeds from disposition of such properties.

These 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 may be material.

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

The consolidated financial statements of the Company were approved by the Board of Directors on April 28, 2017.

A summary of the Company's significant accounting policies under IFRS are presented below. These policies have been consistently applied.

Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding significant areas of estimation, uncertainty and critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to:

Valuation of stock options and warrants issued

The fair value valuation of stock options and warrants require that management estimates the inputs used in the Black-Scholes pricing model, such as estimated volatility and life of the stock options based on information at each reporting date, and forfeiture rate for options.

Valuation of the convertible debenture

Management estimated the fair value of the debt component of the convertible debentures by determining the estimated timing of future debt and interest payments pursuant to the terms of the debt agreement and a discount rate equal to the estimated rate of return for a similar debt instrument but having no conversion features. The amount allocated to the debt and equity components would vary with changes in the estimated cash flows and the discount rate.

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Measurement (Cont'd)

Valuation of the derivative liability and foreign currency warrants

The fair value valuation of derivative liability and foreign currency warrants require that the management estimates the inputs used in the Black-Scholes pricing model such as estimated volatility and life of the financial instruments based on information at each reporting period.

Determination of the functional currency of the Company

Management has made determinations with respect to its functional currency in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates," and as such has determined that the functional currency of the Company and its subsidiaries is the United States dollar.

Basis of Consolidation

The 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 of each entity is the United States dollar. The financial statements of the subsidiaries are included in the 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.

Financial Instruments

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

All financial liabilities are recognized initially at fair value plus, in the case of loans and debentures, directly attributable transaction costs. Financial liabilities are classified as FVTPL financial liabilities or other financial liabilities, which are subsequently measured at amortized cost using the effective interest rate method.

Classification of these financial instruments is as follows

<u>Financial Instrument</u>	<u>Classification</u>
Cash	FVTPL
Reclamation bonds	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Derivative liability	FVTPL
Foreign currency warrants	FVTPL
Convertible debenture	Other financial liabilities
Loan due to a director	Other financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's financial instruments measured at fair value on the statement of financial position consist of cash, foreign currency warrants and derivative liability. Cash is measured at level 1 of the fair value hierarchy while foreign currency warrants and derivative liability are measured at level 2 of the fair value hierarchy. There have been no transfers between levels.

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Mining Claims - Exploration and Evaluation Expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition cost of mineral properties, property option payments and evaluation activities. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

Impairment

At the end of each reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into cash generating units ("CGU's") for impairment purposes. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss) for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

Convertible Debenture

The convertible debenture is convertible into units in Canadian Dollars and the Company's functional currency is US Dollars. As a result the instrument contains an embedded derivative liability.

The proceeds received on issuance of the Company's convertible debenture are allocated to the host debt and derivative liability components. The fair value of the components is determined based on a relative fair value approach.

The host debt component was discounted using interest rates that would have been applicable to a non-convertible debenture of the Company at the time of issue. The derivative liability feature was measured using the Black-Scholes option pricing model. The derivative liability is fair valued at each statement of financial position date using the Black-Scholes option pricing model.

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Convertible Debenture (Cont'd)

The host debt component accretes up to the principal balance at maturity with the accretion expense included in the consolidated statements of comprehensive income and loss. The host debt component is not re-measured subsequent to initial recognition. The derivative liability component will be reclassified to capital stock on conversion.

Foreign Currency Translation

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the consolidated statement of financial position date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Income Taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date, that are expected to be in effect at the time of utilization of the deferred tax.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share Capital

Common shares are classified as equity. Amounts received for units issued are allocated between common shares and warrants by valuing the warrants at fair value and allocating the residual to common shares. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Peloton Minerals Corporation
(Formerly Montana Gold Mining Company Inc.)
Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-based Compensation Transactions

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of stock options issued for employee services is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. At each reporting date, the Company revises its estimates of the number of options that are expected to vest, based on the non-market vesting conditions. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued for non-employee services and some or all of the goods or services received by the entity as consideration cannot be reliably measured, they are measured at the fair value of the share-based payment. Otherwise, the stock-based compensation is measured at the fair value of goods or services received.

Income/Loss Per Share

The Company presents basic and diluted income/loss per share data for its common shares. Basic income/loss per share is calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. Diluted income per share does not adjust the loss attributed to the common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Restoration Liabilities

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the net present value of the restoration liability. Discount rates using a pre tax rate that reflects the time value of money are used to calculate the net present value. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures and changes in the net present value.

Related Party Disclosures

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reasonable estimate can be made of the amount of the obligation. Provisions for legal claims, onerous leases and other onerous commitments are recognized at the best estimates of the expenditures required to settle the Company's liability.

Peloton Minerals Corporation
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Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions (Cont'd)

Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Warrants Denominated in a Foreign Currency

Warrants denominated in a currency different from the functional currency of the Company, called foreign currency warrants in these consolidated financial statements, meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes option pricing model, with changes in the fair value recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

Warrants that are issued as compensation for services are presented as contributed surplus and are not subsequently revalued.

Equipment

Equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Equipment are depreciated using the straight-line method over the estimated useful life of 10 years and are depreciated from the time they are available for use. The residual value, useful life and depreciation method are reviewed at least annually.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

The accounting pronouncements detailed in this note have been issued but are not yet effective. The Company is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

- a) *IFRS 9, Financial Instruments* ("IFRS 9") was issued in November 2009 as the first step in its project to replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted.
- b) *IFRS 15, Revenue from contracts with customers* ("IFRS 15") was issued in May 2014 to replace current revenue recognition guidance contained in IAS 18, IAS 11 and related Interpretations. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.
- c) *IFRS 16, Leases* ("IFRS 16") was issued in January 2016 to replace *IAS 17, Leases* and eliminates the classification of leases as either operating or finance leases by the lessee. Classification of leases by the lessor under IFRS 16 continues as either an operating or a finance lease, as was the treatment under IAS 17. The treatment of leases by the lessee will require capitalization of all leases resulting in accounting treatment similar to finance leases under IAS 17. Exemptions for leases of very low value or short term leases will be applicable. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Peloton Minerals Corporation
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Notes to Consolidated Financial Statements
(Expressed in United States Dollars)
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4. EQUIPMENT

Cost	December 31, 2014	Additions	December 31, 2015	Additions	December 31, 2016
Diamond Drilling Equipment	\$-	\$87,255	\$87,255	\$3,574	\$90,799
Accumulated Depreciation	December 31, 2014	Depreciation	December 31, 2015	Depreciation	December 31, 2016
Diamond Drilling Equipment	\$-	-	-	\$4,540	\$4,540
Carrying amount December 31, 2015		\$-	\$-	\$-	\$87,225
Carrying amount December 31, 2016		\$-	\$-	\$-	\$86,259

5. MINING CLAIMS - EXPLORATION AND EVALUATION EXPENDITURES

Cumulative spending to date:

	December 31, 2015	Additions	December 31, 2016
Silver Bell St. Lawrence Claims, MT ^(a)	\$ 434,472	\$ 3,875	\$ 438,347
Golden Trail Claims, NV ^(b)	86,997	194,265	281,262
River Stage Claims, ON ^(c)	-	12,355	12,355
Independence Valley, NV ^(d)	-	15,835	15,835
	\$ 521,469	\$ 226,330	\$ 747,799
	December 31, 2014	Additions	December 31, 2015
Silver Bell St. Lawrence Claims, MT ^(a)	\$ 428,446	\$ 6,026	\$ 434,472
Golden Trail Claims, NV ^(b)	82,345	4,652	86,997
	\$ 510,791	\$ 10,678	\$ 521,469

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5. MINING CLAIMS - EXPLORATION AND EVALUATION EXPENDITURES (Cont'd)

(a) Silver Bell St. Lawrence

On September 1, 2011 the Company entered into an agreement to acquire a 100% working interest in the Silver Bell St. Lawrence ("SBSL") property consisting of 10 (2013 - 10) mining claims by paying \$85,000 on signing and \$85,000 by March 1, 2012, for total consideration of \$170,000, by issuing 200,000 common shares of the Company and granting a 2% Net Smelter Royalty to the arms-length vendor. The Company paid \$85,000 on September 9, 2011 and issued 200,000 common shares on September 15, 2011. The Company paid the last \$85,000 on February 24, 2012.

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

On June 11, 2012, the Company completed an NI43-101 Report on the SBSL Property.

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 counties in the cumulative approximate amount of \$155 (2015 - \$155) per claim.

(b) Golden Trail

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

On May 16, 2012, the Company completed an NI43-101 Report on the Golden Trail Property.

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 counties in the cumulative approximate amount of \$155 (2015 - \$155) per claim.

(c) River Stage

On May 23, 2016, the Company entered into a purchase option agreement to acquire 100% working 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 \$6,159 (\$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 \$5,958 (\$8,000 CDN) on the first anniversary, \$8,938 (\$12,000 CDN) on the second anniversary and \$18,620 (\$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 \$186,200 (\$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 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.

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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2016	2015
Trade payables	\$ 59,696	\$ 66,097
Accrued liabilities:		
Management and director fees (Note 13)	235,245	63,363
Audit and accounting	26,615	16,479
	\$ 321,556	\$ 145,939

7. RECLAMATION BONDS

Prior to the submission of the new work plan on the Golden Trail property the Company had completed the site restoration work and management estimated that no further site restoration costs need to be incurred on the Golden Trail property.

As at December 31, 2016, a reclamation bond in the amount of \$13,043 (2015 - \$26,156) is being held by the Bureau of Land Management ("BLM") on the Golden Trail property. During the year ended December 31, 2016, the Company received cash proceeds of \$13,113 relating to the release of the reclamation bonds on the Golden Trail property. The Company has not recorded a restoration liability as at December 31, 2016 as the Company has not yet disturbed the land at the Golden Trail property to trigger the recognition of this liability.

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 \$0.037 (\$0.05 CDN) per Unit. Each warrant will entitle the holder to acquire one additional common share at a price of \$0.0745 (\$0.10 CDN) per share until August 11, 2020.

As security, the Company has pledged the diamond drill rig (Note 4).

If the common shares of the Company trade for ten consecutive 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 \$0.149 (\$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.

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8. CONVERTIBLE DEBENTURE (Cont'd)

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

On June 23, 2016, the Company closed a \$156,840 (\$200,000 CDN) financing with an arm's length party in the form of a convertible debenture. The \$156,840 loan amount was convertible by the lender at any time up to November 1, 2016 into units priced at \$0.041 (\$0.055 CDN) per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.745 (\$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 was not repaid on or before November 1, 2016, it was to automatically be converted into units. The lender received a transaction fee consisting of 2,850,000 share purchase warrants exercisable at \$0.052 (\$0.07 CDN) expiring July 5, 2019. On December 21, 2016, the Company issued 3,636,364 units, consisting of 3,636,364 common shares and 3,636,364 common share purchase warrants in exchange for the host conversion of the debenture.

(c) Valuation of Debenture 1 and Debenture 2

The conversion rate of the units and the warrants to be issued on conversion of the above convertible debentures are not in the Company's functional currency and as a result are presented as a derivative financial liability. The Company valued the derivative financial liabilities using the Black-Scholes option 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 inputs and assumptions:

Share price	\$0.040 CDN
Expected dividend yield	Nil
Exercise price	\$0.050 - \$0.100 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 of Debenture 1 were revalued at December 31, 2015 using the Black-Scholes pricing model with the following assumptions:

Share price	\$0.035 CDN
Expected dividend yield	Nil
Exercise price	\$0.050 - \$0.100 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 liability of \$9,722.

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8. CONVERTIBLE DEBENTURE (Cont'd)

(c) Valuation of Debenture 1 and Debenture 2

The fair value of the units were revalued at December 31, 2016 using the Black-Scholes option pricing model with the following inputs and assumptions:

Share price	\$0.095 CDN
Expected dividend yield	Nil
Exercise price	\$0.050 - \$0.100 CDN
Risk free interest rate	1.02%
Expected life	3.62 - 4.12 years
Expected volatility (based on historical prices)	100% - 113%

The units were revalued at \$218,978 resulting in a loss on revaluation of derivative liability of \$132,370

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

Share price	\$0.070 CDN
Expected dividend yield	Nil
Exercise price	\$0.055 - \$0.100 CDN
Risk free interest rate	0.84%
Expected life	3.36 years
Expected volatility (based on historical prices)	114%

The Company determined the amount relating to the units in the convertible debenture to be \$84,111.

The fair value of the units of Debenture 2 were revalued at December 21, 2016 based on the Black-Scholes pricing model using the following inputs and assumptions:

Share price	\$0.100 CDN
Expected dividend yield	Nil
Exercise price	\$0.055 - \$0.100 CDN
Risk free interest rate	0.72%
Expected life	3.00 years
Expected volatility (based on historical prices)	84%

The units were revalued at \$177,961 resulting in a loss on revaluation of derivative liability of \$93,850.

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8. CONVERTIBLE DEBENTURE (Cont'd)

Convertible Debenture	December 31,	December 31,
	2016	2015
Principal – Debenture 1	\$ 100,000	\$ 100,000
Principal – Debenture 2	156,840	-
Derivative liability – Debenture 1	(76,886)	(76,886)
Derivative liability – Debenture 2	(84,111)	-
Accretion expense	88,494	4,083
Conversion into common shares	(149,240)	-
	\$ 35,097	\$ 27,197

The effective interest rate of the convertible debenture is 26.33%.

Derivative Liability	December 31,	December 31,
	2016	2015
Derivative liability – Debenture 1	\$ 76,886	\$ 76,886
Derivative liability – Debenture 2	84,111	-
Fair value adjustment – Debenture 1	235,942	9,722
Conversion into common shares	(100,053)	-
Conversion into warrants	(77,908)	-
	\$ 218,978	\$ 86,608

9. CAPITAL STOCK

Authorized

Unlimited common shares

Issued and outstanding - common shares

	Number of Shares	Value
Balance, January 1, 2015	46,476,385	\$ 8,135,733
Units issued for cash ^(a)	1,738,380	69,732
Allocated to warrants ^(a)	-	(33,965)
Balance, December 31, 2015	48,214,765	\$ 8,171,500
Units issued for cash ^(b)	9,523,488	405,017
Shares issued for mining claim ^(c)	100,000	5,496
Conversion of convertible debentures ^(d)	3,636,364	249,760
Allocated to warrants ^(b)	-	(142,943)
Balance, December 31, 2016	61,474,617	\$ 8,688,830

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9. CAPITAL STOCK (Cont'd)

- (a) (i) On May 20, 2015, the Company issued 1,338,380 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$66,919 CDN (\$54,551 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 May 20, 2018.

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

Share price	\$0.040 CDN
Expected dividend yield	Nil
Exercise price	\$0.100 CDN
Risk free interest rate	0.68%
Expected life	3.0 years
Expected volatility (based on historical prices)	127%

The Company determined the amount relating to the warrants in the unit issuance to be \$26,134.

- (ii) On December 7, 2015, the Company issued 400,000 units with an ascribed value of \$0.05 CDN per unit for proceeds of \$20,000 CDN (\$15,181 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 December 7, 2018.

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

Share price	\$0.045 CDN
Expected dividend yield	Nil
Exercise price	\$0.100 CDN
Risk free interest rate	0.59%
Expected life	3.0 years
Expected volatility (based on historical prices)	122%

The Company determined the amount relating to the warrants in the unit issuance to be \$7,829.

- (b) (i) On April 22, 2016, the Company issued 1,450,000 units with an ascribed value 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 inputs and assumptions:

Share price	\$0.065 CDN
Expected dividend yield	Nil
Exercise price	\$0.100 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.

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9. CAPITAL STOCK (Cont'd)

(b) (Cont'd)

- (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.

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

Share price	\$0.060 CDN
Expected dividend yield	Nil
Exercise price	\$0.100 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 \$319,275 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 inputs and assumptions:

Share price	\$0.110 CDN
Expected dividend yield	Nil
Exercise price	\$0.100 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.

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9. CAPITAL STOCK (Cont'd)

(b) (Cont'd)

- (iv) On December 29 2016, the Company issued 886,667 units with an ascribed value of \$0.075 CDN per unit for proceeds of \$66,500 CDN (\$49,102 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 \$0.125 CDN up to December 29, 2019.

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

Share price	\$0.095 CDN
Expected dividend yield	Nil
Exercise price	\$0.125 CDN
Risk free interest rate	0.85%
Expected life	3.0 years
Expected volatility (based on historical prices)	91%

The Company determined the amount relating to the warrants in the unit issuance to be \$16,760.

- (c) 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).
- (d) On December 21, 2016, the convertible debenture of \$200,000 CDN (Note 8) was automatically converted into 3,636,364 units 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.

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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 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.

	2016		2015	
	Number of Options	Weighted Average Exercise Price (CDN)	Number of Options	Weighted Average Exercise Price (CDN)
Outstanding, beginning of year	4,250,000	\$ 0.09	4,500,000	\$ 0.09
Granted	500,000	\$ 0.10	-	\$ -
Expired	-	\$ -	(250,000)	\$ 0.05
Outstanding, end of year	4,750,000	\$ 0.09	4,250,000	\$ 0.08
Exercisable	4,500,000	\$ 0.09	4,250,000	\$ 0.08

The Company had the following stock options outstanding at December 31, 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
4,750,000		

The above options were not included in the computation of diluted net loss per share as they are anti-dilutive. The weighted average remaining contractual life of these options is 1.51 years (2015 – 2.51 years).

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

- (i) 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.

In the absence of a reliable measurement of the services received from the consultant, the transaction has been measured at the fair value of the stock options issued.

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 inputs and assumptions:

Stock price	\$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%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(b) Warrants

The following summarizes the change in foreign currency warrants:

	2016	2015
Balance, beginning of year	\$ 37,526	\$ 248,787
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(b)(i))	21,215	-
Fair value of warrants issued - June 10, 2016 (Note 9(b)(ii))	14,148	-
Fair value of warrants issued - July 5, 2016 (Note 8(b))	92,385	-
Fair value of warrants issued - August 5, 2016 (Note 9(b)(iii))	90,820	-
Fair value of warrants issued - December 29, 2016 (Note 9(b)(iv))	16,760	-
Fair value of warrants transferred on exercise of convertible debentures (Note 8(b))	77,908	-
Fair value of warrants extended - (Note 10(b)(i))	46,259	-
Fair value of warrants extended - (Note 10(b)(i))	114,851	-
Fair value adjustment (Note 10(b)(ii))	237,349	(245,224)
Balance, end of year	\$ 749,221	\$ 37,526

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

- (i) During the year ended December 31, 2016, the Company modified the expiry dates of the following outstanding warrants:
- 2,800,000 warrants originally expiring on January 24, 2016 were exercisable until September 12, 2016. These expired unexercised;
 - 1,400,000 warrants originally expiring on February 8, 2016 were exercisable until February 8, 2017. These expired unexercised;
 - 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 were exercisable until April 24, 2017. These expired unexercised;
 - 3,250,000 warrants originally expiring on June 19, 2016 are now exercisable until June 19, 2017;
 - 1,000,000 warrants originally expiring on May 14, 2016 are now exercisable until May 14, 2018; and
 - 3,650,000 warrants originally expiring on December 3, 2016 are now exercisable until December 3, 2018.

The incremental fair value of these warrants extended was estimated at \$161,110 using the Black Scholes pricing model with the following inputs and weighted average assumptions:

Share price	\$0.065 - \$0.10 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk-free interest rate	0.52% - 0.72%
Expected life (original)	0.01 - 0.16 years
Expected life (extended)	1 – 2.06 years
Expected volatility (extended) (based on historical prices)	65% - 84%

The incremental fair value was recorded to foreign currency warrants with an offsetting charge to deficit.

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10. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

- (ii) At December 31, 2015, the fair value of the 24,449,145 warrants outstanding was estimated at \$37,526 using the Black-Scholes pricing model with the following inputs and weighted average assumptions:

Share price	\$0.035 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk-free interest rate	0.48%
Expected life	0.837 years
Expected volatility (based on historical prices)	61.7%

At December 31, 2016, the fair value of the 37,658,997 warrants outstanding was estimated at \$749,221 using the Black-Scholes pricing model with the following weighted average assumptions:

Share price	\$0.095 CDN
Expected dividend yield	Nil
Exercise price	\$0.10 - \$0.20 CDN
Risk-free interest rate	0.43% - 0.73%
Expected life	1.474 years
Expected volatility (based on historical prices)	63% - 87%

At December 31, 2016, a loss on revaluation of foreign currency warrants of \$237,349 (2015 - \$245,224) was recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

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

Number of Warrants	Exercise Price (CDN)	Expiry Date
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, 2018
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	June 23, 2019
3,636,364	\$ 0.10	December 21, 2019
886,667	\$0.125	December 29, 2019
37,658,997		

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11. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2016 was based on the loss attributable to common shareholders of \$1,346,519 (2015 - earnings of \$418,463) and the weighted average number of common shares outstanding of 52,478,427 (2015 - 47,327,715).

Diluted loss per share did not include the effect of 4,750,000 stock options and 37,658,997 warrants outstanding as they are anti-dilutive.

12. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in these consolidated financial statements:

	2016	2015
Loss before income taxes	\$ (1,346,519)	\$ 418,463
Statutory rate	26.50%	26.50%
Expected income tax recovery	\$ (356,828)	\$ 110,893
Amounts not deductible for tax	156,827	(58,213)
Stock-based compensation	3,409	-
Share issue costs	(633)	-
Impact on foreign exchange	(15,833)	92,343
Adjustment to non-capital losses and exploration and evaluation expenditure pool balances	7,058	61,977
Change in deferred tax assets not recognized	206,000	(207,000)
Income tax expense	\$ -	\$ -

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	2016	2015
Deferred tax assets (liabilities)		
Non-capital loss carry forwards	\$ 572,000	\$ 429,000
Mining claims - exploration and evaluation expenditures	180,000	116,000
Share issue costs	-	1,000
	752,000	546,000
Less: Deferred tax assets not recognized	(752,000)	(546,000)
Net deferred income tax asset	\$ -	\$ -

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12. INCOME TAXES (Cont'd)

(c) Tax Losses

The Company has non-capital losses of approximately \$2,101,000 available in Canada to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2028	\$	178,400
2029		96,300
2030		245,600
2031		415,400
2032		372,900
2033		74,800
2034		259,700
2036		514,900
		\$ 2,158,000

The potential tax benefit relating to these tax losses has not been reflected in these consolidated financial statements.

13. RELATED PARTY DISCLOSURES

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 fair value.

Remuneration of Directors and key management of the Company was as follows:

	2016	2015
Management and director fees ^(a)	\$ 266,860	\$ 269,554

(a) Included in office and administrative costs in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

Other related party balances are listed below:

(a) Included in accounts payable and accrued liabilities is \$235,245 (2015 - \$63,363) of amounts owing to directors and management of the Company for management and director fees.

(b) During the year ended December 31, 2015, a director of the Company provided a loan to the Company in the amount of \$17,730 CDN (\$12,810 USD). The loan is non-interest bearing, unsecured and due on demand. The loan was repaid during the year ended December 31, 2016.

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13. RELATED PARTY DISCLOSURES (Cont'd)

- (c) During the year ended December 31, 2015, the Company reversed \$491,729 of management and director fees owing to directors which were included in accounts payable and accrued liabilities. These management and director fees have been permanently forgiven by the directors.

14. 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 issued capital stock, contributed surplus and deficit and foreign currency warrants 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 year ended December 31, 2016.

15. 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.

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15. FINANCIAL RISK MANAGEMENT (Cont'd)

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 December 31, 2016 the Company is exposed to currency risk through the following financial assets and liabilities denominated in Canadian dollars:

	2016	2015
Cash	\$ 48,937	\$ 480
HST receivable	\$ 21,700	\$ 12,145
Accounts payable and accrued liabilities	\$ 370,796	\$ 178,104
Loan due to a director	\$ -	\$ 17,730

The above balances were translated into US dollars at the year-end rate of \$0.7448 (2015 - \$0.7225) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 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 \$10,000 (2015 - \$6,000).

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 December 31, 2016, the Company has current liabilities of \$321,552 (2015 - \$158,749) due within 12 months and has cash of \$37,737 (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.

Fair Value Risk

The carrying values of reclamation bonds, accounts payable and accrued liabilities 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. The estimated fair value of warrants are subject to fluctuations based on the inputs and assumptions used to value them.

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15. FINANCIAL RISK MANAGEMENT (Cont'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

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.

16. COMMITMENTS

The Company is committed under lease agreements to the payment of amounts totaling \$6,770 until October 2017.

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

17. SUBSEQUENT EVENTS

- (a) The Company modified the expiry times of the following warrants:
- (i) 2,000,000 warrants exercisable at a price of \$0.10 CDN until March 3, 2017 are now exercisable until March 3, 2019;
 - (ii) 2,300,505 warrants exercisable at a price of \$0.10 CDN until June 4, 2017 are now exercisable until June 4, 2019;
 - (iii) 1,310,260 warrants exercisable at a price of \$0.10 CDN until June 28, 2017 are now exercisable until June 28, 2019;
- (b) The Company granted 200,000 incentive stock options to a consultant of the Company. These options are exercisable over 5 years at an exercise price of \$0.10 CDN.