
Condensed Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Three Months Ended December 31, 2018
(Stated in Canadian Dollars)**

Unaudited

INDEX

Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Equity	3
Condensed Interim Consolidated Statements of Cash Flow	4
Notes to the Condensed Interim Consolidated Financial Statements	5

NOTICE TO READER

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	December 31, 2018	September 30, 2018 (audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,046	\$ 52,597
Prepaid expenses and other assets	44,084	38,176
	<u>\$ 47,130</u>	<u>\$ 90,773</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 412,797	\$ 347,965
Shareholders' Equity		
Capital Stock (note 7)	38,324,374	38,324,374
Contributed Surplus	7,921,178	7,921,178
Accumulated Deficit	(46,611,219)	(46,502,744)
	<u>(365,667)</u>	<u>(257,192)</u>
	<u>\$ 47,130</u>	<u>\$ 90,773</u>

Basis of Presentation and Going Concern (note 2)

Subsequent Events (note 12)

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

Approved on behalf of the Board

Signed "Martin Cooper", Director

Signed "Richard Cooper", Director

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the Three Months Ended December 31, 2018

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	2018	2017
Expenses		
Salaries and benefits	\$ 15,328	\$ 8,894
Publicity and investor relations	12,943	1,143
Listing and filing fees	15,651	7,328
Administrative	8,952	8,067
Professional fees	126,012	17,089
Exploration and evaluation expenditures (recoveries)	-	(44,878)
Write off of resource properties	209	-
Amortization	-	675
Loss on disposition of property, plant and equipment	-	8,383
Less:		
Non-refundable payments under Definitive Agreement (note 9)	(70,620)	
Gain on settlement of debt	-	(232,269)
	<u>(108,475)</u>	<u>225,568</u>
Net Income (Loss) and Comprehensive Income (Loss)	<u>\$ (108,475)</u>	<u>\$ 225,568</u>
Income (Loss) per Share - basic	<u>\$ (0.003)</u>	<u>\$ 0.011</u>
Income (Loss) per Share - diluted	<u>\$ (0.003)</u>	<u>\$ 0.009</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted	<u>36,143,196</u>	<u>21,332,410</u>

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the Three Months Ended December 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	<u>Capital Stock</u>		<u>Contributed Surplus</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - October 1, 2017	20,999,353	\$ 37,315,374	\$ 7,921,178	\$ (46,613,136)	\$ (1,376,584)
Shares issued pursuant to settlement of debt (note 7ii)	10,213,745	663,894	-	-	663,894
Net income for the period	-	-	-	225,568	225,568
Balance - December 31, 2017	<u>31,213,098</u>	<u>\$ 37,979,268</u>	<u>\$ 7,921,178</u>	<u>\$ (46,387,568)</u>	<u>\$ (487,122)</u>
	<u>Capital Stock</u>		<u>Contributed Surplus</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - October 1, 2018	36,143,196	\$ 38,324,374	\$ 7,921,178	\$ (46,502,744)	\$ (257,192)
Net loss for the period	-	-	-	(108,475)	(108,475)
Balance - December 31, 2018	<u>36,143,196</u>	<u>\$ 38,324,374</u>	<u>\$ 7,921,178</u>	<u>\$ (46,611,219)</u>	<u>\$ (365,667)</u>

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow

For the Three Months Ended December 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	2018	2017
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	\$ (120,171)	\$ (81,107)
Cash Flows from Investing Activities		
Proceeds from disposition of property, plant and equipment	-	1,570
Proceeds from Letter of Intent	70,620	-
	<u>70,620</u>	<u>1,570</u>
Change in cash	(49,551)	(79,537)
Cash and cash equivalents - beginning of period	<u>52,597</u>	<u>173,892</u>
Cash and cash equivalents - end of period	<u>\$ 3,046</u>	<u>\$ 94,355</u>
Significant Non-Cash Transactions Not Disclosed Above		
Common shares issued on settlement of debt	<u>\$ -</u>	<u>\$ 663,894</u>
Gain on settlement of debt	<u>\$ -</u>	<u>\$ 232,269</u>

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

1. Nature of Operations

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

The registered address, principal address and records office of the Company is located at 66 Wellington Street West, Suite 4100, Toronto, Ontario.

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

2. Basis of Presentation and Going Concern

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

The Company's condensed interim consolidated financial statements reflect the results of operations for the three months ended December 31, 2018 and 2017, and the assets, liabilities and shareholders' equity as at December 31, 2018 and September 30, 2018.

a) Statement of Compliance

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

The policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of December 31, 2018. The date the Board of Directors approved the statements is February 27, 2019.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

2. Basis of Presentation and Going Concern (continued)

b) Going Concern

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

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

c) Basis of Measurement

The Company's condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value.

d) Functional and Presentation Currency

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

3. Significant Accounting Policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended September 30, 2018, as described in Note 3 of those financial statements, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which are applicable for annual periods beginning on or after October 1, 2018.

a) Changes in accounting standards effective October 1, 2018:

Financial Instruments

IFRS 9 financial instruments ("IFRS 9") replaced IAS 39, Financial Instruments: recognition and Measurement. IFRS 9 includes guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedging requirements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

3. Summary of Significant Accounting Policies (continued)

a) Changes in accounting standards effective October 1, 2018 (continued)

Financial instruments (continued)

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: fair value through profit and loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”), and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL. IFRS 9 permit entities to elect into an irrevocable option for equity instruments to report changes in fair value in other comprehensive income.

Classification and measurement of financial assets is dependent on the entity’s business model for managing the financial assets and related contractual cash flows. IFRS 9 retains most of the requirements of IAS 39 related to classification and measurement of financial liabilities.

The following table summarizes the impact of the adoption of IFRS 9 on the classification of the Company’s financial assets and liabilities:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost

ii. Impairment

IFRS 9 introduces a three stage expected credit loss (“ECL”) model for determining impairment of financial assets. The expected credit loss model does not require the occurrence of a triggering event before an entity recognizes credit losses. IFRS 9 requires an entity to recognize expected credit losses upon initial recognition of a financial asset and to update the quantum of expected credit losses at the end of each reporting period to reflect changes to credit risk of the financial asset. The adoption of the ECL model did not have a material impact on the Company’s condensed interim consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2017	\$ 152,659	\$ 52,569	\$ 9,612	\$ 27,951	\$ 95,409	\$ 338,200
Additions	-	-	-	-	-	-
Disposals	(152,659)	(52,569)	(9,612)	(27,951)	(95,409)	(338,200)
Balance - September 30, 2018	-	-	-	-	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated Amortization						
Balance - October 1, 2017	\$ 149,295	\$ 44,929	\$ 9,038	\$ 21,854	\$ 95,409	\$ 320,525
Amortization for the period	1,010	2,691	202	1,464	-	5,367
Disposals	(150,305)	(47,620)	(9,240)	(23,318)	(95,409)	(325,892)
Balance - September 30, 2018	-	-	-	-	-	-
Amortization for the period	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Book Value						
As at September 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
As at December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

5. Resource Properties

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

	October 1, 2018	Net Additions (Recoveries)	Dispositions	December 31, 2018
Eco Ridge Project (i)	\$ 5,311	\$ -	\$ -	\$ 5,311
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	1,138	209	-	1,347
	\$ 6,449	\$ 209	\$ -	\$ 6,658
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	\$ (201,516)	\$ -	\$ -	\$ (201,516)
	October 1, 2017	Net Additions (Recoveries)	Dispositions	December 31, 2017
Eco Ridge Project (i)	\$ 50,189	\$ (44,878)	\$ -	\$ 5,311
Ardeen Gold Project (ii)	-	-	-	-
Mountain Pass Project (v)	-	-	-	-
	\$ 50,189	\$ (44,878)	\$ -	\$ 5,311
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	(78,720)
	\$ (201,516)	\$ -	\$ -	\$ (201,516)

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

5. Resource Properties (continued)

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

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

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

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

During the year ended September 30, 2016, the Company entered into a purchase agreement, along with Chalice Gold Mines ("Chalice"), whereby their respective operating subsidiaries sold their respective interests in the Ardeen Gold Project to Kesselrun Resources Ltd. In consideration for the sale, Kesselrun has agreed to issue Chalice and the Company 4,000,000 common shares of Kesselrun and a package of Net Smelter Return (NSR) royalties. In addition, the Company (and Chalice) was granted certain NSR royalties over certain mining claims. In combination with preexisting NSRs, the property will be subject to an overall 2.5% NSR royalty over certain mining claims and a 2% NSR royalty on the remaining mining claims. The NSRs are subject to certain buyback clauses, which going forward will be for the benefit of Kesselrun. On August 9, 2016, the transaction closed and as 49% owner of the Ardeen Gold Project, the Company received 1,960,000 shares of Kesselrun and a pro rata share of the royalty package. Following the issuance of the Kesselrun shares, the Company held approximately 5.5% of the issued and outstanding shares of Kesselrun which has subsequently been sold (see note 6(b)).

Under the terms of the purchase and sale agreement pursuant to which the Company acquired its interest in the Ardeen Gold Project, the Company is required to issue an aggregate of 24,000 common shares to the vendors contingent on the property going into commercial production.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 2 mining claims (September 30, 2018 - 2 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 11 mining claim units (September 30, 2018 - 11 mining claim units).

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

5. Resource Properties (continued)

iii) Timmins Project (Timmins, Ontario) (continued)

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

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 4 mining claims (September 30, 2018 - 4 mining claims) comprised of 52 mining claim units (September 30, 2018 - 52 mining claim units) covering approximately 830 hectares. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for \$1,000,000.

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

Wallbridge has fulfilled its commitments under the Option Agreement and, accordingly, a new Joint Venture with Pele was established January 1, 2010, with Wallbridge owning 60% and Pele owning a 40% interest in the Joint Venture. Wallbridge has incurred exploration expenditures to increase its ownership interest in the Joint Venture to 64% as of December 31, 2018 (September 30, 2018 - 64%), and accordingly, the Company owns a 36% interest (September 30, 2018 - 36%).

During the period ended December 31, 2018, the Company entered into a termination and release agreement with Wallbridge, pursuant to which the Company transferred its 36% interest in and to the underlying mining claims and interests to Wallbridge in exchange for a mutual termination of the Option Agreement and Joint Venture and mutual full and final releases in respect of same.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

5. Resource Properties (continued)

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

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

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

As Mountain Pass failed to meet its 2,000,000 United States Dollars expenditure requirement by September 26, 2017, subsequent to the period ended December 31, 2018, the Company entered into a mining claim transfer and release agreement with the previous owner of the Mountain Pass property pursuant to which the previous owner has agreed to accept a quitclaim and reconveyance of the Mountain Pass property, a cash payment of US\$10,000 and the issuance of 1,000,000 common shares of the Company at a deemed price of \$0.05 per share which shall be subject to applicable regulatory and statutory hold periods. The share issuance remains subject to any requisite regulatory approvals and the release in favour of Mountain Pass and the Company from the previous owner is conditional upon the said share issuance to be completed by August 31, 2019. The Company and Mountain Pass are in the process of implementing the forgoing.

(vi) Festival Project (Wawa, Ontario)

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

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

5. Resource Properties (continued)

(vi) Festival Project (Wawa, Ontario) (continued)

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to approximately 51% of the joint venture and Pele's interest is approximately 45%. The License expired on January 1, 2018 without being renewed. Goldcorp and the Company are in the process of terminating the Festival Project joint venture pending final reconciliation of the joint venture accounts. In this regard, to the extent there is any funding shortfall on the Company's behalf, the Company shall exercise its right to elect to satisfy its obligations, if any, though further dilution of its joint venture interest as it has done in the past.

6. Other Loans Payable

- a) During the year ended September 30, 2016, the Company entered into a \$100,000 loan agreement with an arm's length lender. The loan carries an interest rate of 6% per annum. In addition, once the loan is repaid from the first proceeds from sale of the Kesselrun shares, the Company is required to pay 50% of any additional proceeds from the sale of the Kesselrun shares less initial principal, interest, commission fees, and bank charges. During the year ended September 30, 2016, \$50,000 of the loan proceeds were advanced to the Company with the remaining \$50,000 received during the period ended December 31, 2016. As consideration for the loan, the Company issued 400,000 of its common shares ("Bonus Shares") to the lender at an issue price of \$0.50 per share upon receipt of the final \$50,000. The Bonus Shares are subject to a statutory hold period of four months from the date of issuance. The Company is to repay the loan from the first proceeds realized from the sale of the Company's shares of Kesselrun Resources Ltd. unless otherwise authorized by the lender. During the year ended September 30, 2017, the Company sold all of its shares in Kesselrun Resources Ltd. The lender authorized the Company to use certain of the proceeds from the sale of shares of Kesselrun for uses other than the repayment of the loan and for interest to cease accruing as at June 15, 2017. The principal and interest is past due. Interest payable of \$4,124 and \$40,872 of proceeds payable has been accrued up to June 15, 2017 and is included in accounts payable and accrued liabilities. During the year ended September 30, 2017, the Company repaid \$58,000 to the arm's length lender. During the year ended September 30, 2018, the Company settled the outstanding principal of \$42,000 and accounts payable and accrued liabilities of \$45,000 by issuing 966,667 common shares (see note 7(ii)).
- b) During the year ended September 30, 2016, the Company was advanced 10,000 United States Dollars (\$12,770 CAD as at September 30, 2017) by an arm's length lender to maintain the Company's Mountain Pass Project. The advance is non-interest bearing and is payable on demand that requires more than one year notice. During the year ended September 30, 2017, the Company received an additional advance of 10,000 United States Dollars (\$12,368 CAD) with the same terms and conditions as the previous advance. During the current year ended September 30, 2018, the Company issued 385,045 common shares in full settlement of this loan (see note 7(ii)).

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

6. Other Loans Payable (continued)

- c) During the year ended September 30, 2017, the Company borrowed \$35,000 from a company controlled by a director of the Company. The loan carries an interest rate of 12% calculated daily with principal and interest due on or before July 25, 2017, which was subsequently extended to August 15, 2017. Interest payable of \$2,094 had been accrued to September 30, 2017, and was included in accounts payable and accrued liabilities as at September 30, 2017. In addition to the loan, a placement fee of \$5,000 was payable by the Company upon maturity of the loan. Finance charges payable of \$5,000 were included in accounts payable and accrued liabilities as at September 30, 2017. During the year ended September 30, 2018, the Company settled the loan payable of \$35,000 and accounts payable and accrued liabilities of \$7,094 by issuing 249,036 common shares (see note 7(ii)).

7. Capital Stock

Authorized

Unlimited common shares

Issued

	<u>Number</u>	<u>Amount</u>
Balance - October 1, 2017 (i)	20,999,353	\$ 37,315,374
Issued pursuant to debt settlements (ii)	15,143,843	1,009,000
Balance - September 30, 2018 and December 31, 2018(i)	<u>36,143,196</u>	<u>\$ 38,324,374</u>

- (i) The Company is conditionally committed to issue an additional 24,000 common shares related to the property described in Note 5(ii).
- (ii) During the year ended September 30, 2018, pursuant to several debt settlement agreements to settle various accounts payable and other loans payable (see note 6), the Company issued 15,143,843 common shares from treasury with a fair value, based on the market prices of the shares as at the date of issuance, of \$1,009,000 in full and final satisfaction of \$1,229,679 of indebtedness, including a total of \$94,221 of indebtedness owed by the Company to related party creditors that was forgiven.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

8. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

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

The following summarizes the stock option activities:

	Three months ended December 31, 2018		Three months ended December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	611,300	\$ 0.64	1,715,000	\$ 0.60
Expired	(170,000)	(1.00)	-	-
Outstanding and exercisable at period end	<u>441,300</u>	<u>\$ 0.50</u>	<u>1,715,000</u>	<u>\$ 0.60</u>

The Company had the following stock options outstanding at December 31, 2018:

<u>Number of Options</u>	<u>Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
320,000	320,000	\$ 0.50	December 31, 2019
<u>121,300</u>	<u>121,300</u>	<u>\$ 0.50</u>	<u>December 31, 2020</u>
<u>441,300</u>	<u>441,300</u>		

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

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

(ii) Warrants

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

The following summarizes the warrant activities:

	Three months ended December 31, 2018		Three months ended December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	1,129,900	\$ 0.50	2,276,823	\$ 0.60
Expired	(525,000)	(0.50)	(175,703)	(0.70)
Outstanding and exercisable at period end	604,900	\$ 0.50	2,101,120	\$ 0.59

The Company had the following warrants outstanding at December 31, 2018:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
504,900	HHH	Common shares	\$ 0.50	February 4, 2019
100,000	HHH	Common shares	\$ 0.50	February 5, 2019
<u>604,900</u>				

(iii) Shareholders' Rights Plan

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

9. Definitive Agreement with Bhang Corporation

During the period ended December 31, 2018, the Company entered into a definitive agreement (the "Definitive Agreement") with Bhang Corporation ("Bhang") to acquire a 100% interest in Bhang via a business combination transaction (the "Transaction"). The Company will acquire the 100% interest in Bhang by way of a share exchange between the Company and all of the shareholders of Bhang, which will constitute a reverse takeover of the Company (the "Bhang Acquisition"). Pursuant to the Bhang Acquisition, the issued and outstanding shares of Bhang will be exchanged for approximately 90,000,000 post-consolidated shares of the Company for a deemed anticipated price of \$0.50 per share, with a portion of the shares being allocated as multiple voting shares.

Prior to the completion of the Transaction, the Company will effect a consolidation which is anticipated to result in a consolidation of 10 pre-consolidated shares common shares of the Company for 1 post-consolidated share, but in any event shall not exceed 15 pre-consolidated common shares of the Company for 1 post-consolidated common share.

As provided for in the Definitive Agreement, Bhang shall continue funding the Company \$10,000 per month to meet the Company's working capital needs, as well as agreeing to be responsible for all of the Company's reasonable costs and expenses associated with the Transaction pending its completion. As at December 31, 2018, the Company had received aggregate payments of \$167,900.

10. Related Party Transactions

During the three months ended December 31, 2018, the Company entered into the following related party transactions:

- a) Consulting fees and salary of \$7,500 were earned by Martin Cooper, a director and officer of the Company. As at December 31, 2018, accounts payable and accrued liabilities included \$25,000 payable to this director and officer.
- b) Legal fees of \$68,336 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at December 31, 2018, accounts payable and accrued liabilities included \$202,260 payable to this law firm.
- c) Accounting fees of \$20,500 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at December 31, 2018, accounts payable and accrued liabilities included \$102,845 accrued to this accounting firm.
- d) Compensation earned by directors and other members of key management personnel for the three months ended December 31, 2018 were as follows:

Salaries and benefits (CEO and CFO)	<u>\$ 15,000</u>
-------------------------------------	------------------

- e) Other related party transactions are disclosed in 6(c).

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

11. Financial Instruments and Other Risks

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

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at December 31, 2018, the Company's cash and cash equivalents are categorized as Level 1 measurement.

Fair Values

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

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

Credit Risk

The Company is not exposed to any significant credit risk as at December 31, 2018. The Company's cash and cash equivalents are either on deposit with two highly rated banking groups in Canada or invested in bankers acceptance notes or guaranteed investment certificates issued by two highly rated Canadian banking groups.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company has current assets of \$47,130 and current liabilities of \$412,797. All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of \$365,667 as at December 31, 2018.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Three Months Ended December 31, 2018
Unaudited - See Notice to Reader

11. Financial Instruments and Other Risks (continued)

Market Risk

(i) Interest rate risk

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

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. As at December 31, 2018, the Company had accounts payable of \$147 denominated in US currency. At December 31, 2018, if the Canadian Dollar had weakened (strengthened) 10 percent against the United States Dollar with all other variables held constant, the net loss for the year would have been \$15 higher (lower).

(iii) Price risk

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

(v) Sensitivity Analysis

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

As at December 31, 2018, the Company's cash and cash equivalents are not subject to significant interest rate fluctuations within the next three months.

12. Subsequent Events

Subsequent to the period ended December 31, 2018:

- a) 604,900 series HHH warrants expired unexercised leaving no further outstanding warrants.
- b) The Company completed an amalgamation of its Ontario subsidiaries, ERDC, Pele Diamond, Pele Gold and Sage to form one wholly-owned subsidiary effective January 1, 2019. The name of the amalgamated subsidiary is Sage Power Corporation.

An additional subsequent event is disclosed in note 5(v).