
Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Years Ended September 30, 2015 and 2014
(Stated in Canadian Dollars)**

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information for this annual report were prepared by the management of Pele Mountain Resources Inc., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with International Financial Reporting Standards. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

Collins Barrow Toronto LLP, Chartered Professional Accountants were appointed as auditors by the shareholders of the Company.

"Alan Shefsky"
President and CEO

"Paul Andersen"
CFO and Vice President Finance

Toronto, Ontario
January 25, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pele Mountain Resources Inc.

We have audited the accompanying consolidated financial statements of Pele Mountain Resources Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2015 and September 30, 2014 and the consolidated statements of comprehensive loss, changes in equity, and cash flow for the years ended September 30, 2015 and September 30, 2014 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 audit 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 consolidated financial statements. The procedures selected depend on the auditors' 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 controls. 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 consolidated 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 Pele Mountain Resources Inc. and its subsidiaries as at September 30, 2015 and September 30, 2014 and its financial performance and its cash flows for the years ended September 30, 2015 and September 30, 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates the existence of material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
Chartered Professional Accountants
January 25, 2016

Pele Mountain Resources Inc.

Consolidated Statements of Financial Position

As at September 30

Stated in Canadian Dollars

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 100,595	\$ 197,433
Prepaid expenses and other assets	29,125	63,929
Portfolio investments (note 6)	4,705	12,094
	134,425	273,456
Portfolio Investment - Long Term (note 6)	-	211,949
Property, Plant and Equipment (note 4)	21,574	29,458
Resource Properties (note 5)	19,380,833	20,109,759
	<u>\$ 19,536,832</u>	<u>\$ 20,624,622</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,410,484	\$ 1,339,864
Resources Properties (note 5)	-	201,516
Deferred Income Taxes (note 11)	892,173	1,277,881
	<u>2,302,657</u>	<u>2,819,261</u>
Shareholders' Equity		
Capital Stock (note 8)	36,641,533	36,084,934
Contributed Surplus	7,422,467	7,109,717
Accumulated Deficit	(26,829,825)	(25,389,290)
	<u>17,234,175</u>	<u>17,805,361</u>
	<u>\$ 19,536,832</u>	<u>\$ 20,624,622</u>

Basis of Presentation and Going Concern (note 2)

Commitments (note 12)

Subsequent Events (note 16)

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

Approved on behalf of the Board

"Alan Shefsky", Director

"Martin Cooper", Director

Pele Mountain Resources Inc.

Consolidated Statements of Comprehensive Loss
For the Years Ended September 30, 2015 and 2014
Stated in Canadian Dollars

	2015	2014
Expenses		
Salaries and benefits	\$ 590,755	\$ 481,552
Publicity and investor relations	25,545	83,192
Listing and filing fees	63,387	79,335
Administrative	196,037	223,067
Exploration expenditures	-	160,478
Professional fees	128,488	171,688
Directors' fees	36,850	34,550
Share-based compensation (note 10)	143,454	262,100
Write off of resource properties	463,579	-
Amortization	7,884	10,483
Less:		
Interest Income	(324)	(5,764)
Dividend Income	(4,705)	-
Gain on settlement of debt (note 7)	(11,012)	-
Gain on portfolio investments (note 6)	(2,931)	-
Impairment of portfolio investments (note 6)	211,949	263,051
	<u>(1,848,956)</u>	<u>(1,763,732)</u>
Loss Before Income Taxes	(1,848,956)	(1,763,732)
Deferred Income Tax Recovery (note 11)	408,421	365,931
Net Loss and Comprehensive Loss	\$ (1,440,535)	\$ (1,397,801)
Loss per Share - basic and diluted	\$ (0.008)	\$ (0.008)
Weighted Average Number of Common Shares Outstanding - basic and diluted	182,628,403	168,706,097

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

Pele Mountain Resources Inc.

Consolidated Statements of Changes in Equity
For the Years Ended September 30, 2015 and 2014
Stated in Canadian Dollars

	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2013	162,304,198	\$ 35,544,300	\$ 6,792,018	\$ (23,991,489)	\$ 18,344,829
Shares issued pursuant to private placements (note 8ii)	11,219,400	548,991	-	-	548,991
Warrants issued pursuant to private placement (note 8ii)	-	-	54,487	-	54,487
Share issuance costs - cash (note 8ii)	-	(7,245)	-	-	(7,245)
Share issuance costs - compensation warrants (note 8ii)	-	(1,112)	1,112	-	-
Share-based compensation expense (note 10)	-	-	262,100	-	262,100
Net loss for the year	-	-	-	(1,397,801)	(1,397,801)
Balance - September 30, 2014	173,523,598	\$ 36,084,934	\$ 7,109,717	\$ (25,389,290)	\$ 17,805,361
	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2014	173,523,598	\$ 36,084,934	\$ 7,109,717	\$ (25,389,290)	\$ 17,805,361
Shares issued pursuant to private placements (note 8iii)	11,469,229	381,431	-	-	381,431
Shares issued pursuant to debt settlement (note 8iii)	3,680,922	184,046	-	-	184,046
Warrants issued pursuant to private placement (note 8iii)	-	-	169,318	-	169,318
Shares issued on exercise of stock options (note 8iii)	200,000	10,780	(780)	-	10,000
Share issuance costs - cash (note 8iii)	-	(18,900)	-	-	(18,900)
Share issuance costs - compensation warrants (note 8iii)	-	(758)	758	-	-
Share-based compensation expense (note 10)	-	-	143,454	-	143,454
Net loss for the year	-	-	-	(1,440,535)	(1,440,535)
Balance - September 30, 2015	188,873,749	\$ 36,641,533	\$ 7,422,467	\$ (26,829,825)	\$ 17,234,175

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

Pele Mountain Resources Inc.

Consolidated Statements of Cash Flow
For the Years Ended September 30, 2015 and 2014
Stated in Canadian Dollars

	2015	2014
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	\$ (554,474)	\$ (1,070,553)
Interest income received	324	5,764
	<u>(554,150)</u>	<u>(1,064,789)</u>
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	-	(2,054)
Resource properties expenditures	(122,275)	(446,304)
Proceeds from sale of investments	15,025	-
	<u>(107,250)</u>	<u>(448,358)</u>
Cash Flows from Financing Activities		
Issuance of capital stock and warrants	583,462	688,762
Issuance costs	(18,900)	(7,245)
	<u>564,562</u>	<u>681,517</u>
Change in cash	<u>(96,838)</u>	<u>(831,630)</u>
Cash and cash equivalents - beginning of year	<u>197,433</u>	<u>1,029,063</u>
Cash and cash equivalents - end of year	<u>\$ 100,595</u>	<u>\$ 197,433</u>

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

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” and on the OTCQX International in the United States under the symbol “GOLDF”.

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

The Company is in the process of exploring and developing its mineral resource properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The realization of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to develop these properties and future profitable production or proceeds of disposition from these properties.

The Company is principally engaged in exploration and development of mineral properties located principally in Canada.

2. Basis of Presentation and Going Concern

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

The Company's consolidated financial statements reflect the results of operations for the years ended September 30, 2015 and 2014, and the assets, liabilities and shareholders' equity as at September 30, 2015 and September 30, 2014.

a) Statement of Compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company follows accounting policies under IFRS as disclosed in Note 2.

The policies applied in the Company's consolidated financial statements are based on IFRS effective as of September 30, 2015. The date the Board of Directors approved the statements is January 25, 2016.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

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 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 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 consolidated financial statements.

c) Basis of Measurement

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

d) Functional and Presentation Currency

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign Currency Transactions

Items included in the consolidated financial statements of the Company and each of its subsidiaries (the "Group") are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's consolidated financial statements are presented in Canadian dollars. Costs are primarily incurred in Canadian dollars, and as such, it is also the Company and its subsidiaries' functional currency.

The Company translates monetary assets and liabilities at the rate of exchange in effect at the statement of financial position date and non monetary assets and liabilities at historical exchange rates. Income and expenses are translated at average rates in the month they occur. Gains and losses on translation are recorded in the statement of comprehensive loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid short-term money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates.

c) Resource Properties

These assets relate to mineral rights acquired and exploration and evaluation expenditures incurred in respect of resource projects that are in the exploration and pre-development stage.

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploration and resource drilling, land maintenance, sampling and assessing technical feasibility and commercial viability. These expenditures are capitalized until the technical feasibility and commercial viability of the extraction of mineral reserves in a project is demonstrated. Amounts received from other parties to earn an interest in the Company's resource properties are applied as a reduction of the resource properties. Any amounts received from other parties in excess of the carrying value of a property are classified as a liability to the extent that they do not represent income to the Company. During the exploration period, exploration and evaluation assets are not amortized.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment, to ensure that commercial quantities of reserves exist or that exploration activities related to the property are continuing or planned for the future. If an exploration property does not prove viable, all unrecoverable costs associated with the project are expensed.

Once a project is determined to be technically feasible and commercially viable and a decision has been made to proceed with development, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a mine development asset in property, plant and equipment. All subsequent expenditures to ready the property for production are capitalized within mine development assets, other than those costs related to the construction of property, plant and equipment. Once production has commenced, all costs included in mine development assets are reclassified to mining properties.

Exploration and evaluation expenditures incurred prior to the Company obtaining the right to explore are expensed in the period in which they are incurred. Property title was confirmed through verification with the appropriate government agencies.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

d) Property, Plant and Equipment

Property, plant and equipment ("PPE") are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets on the following basis and rates per annum:

Exploration equipment	30%, declining balance basis
Computer equipment	30%, declining balance basis
Computer software	30%, declining balance basis
Furniture and equipment	20%, declining balance basis
Leasehold improvements	straight line over term of lease

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income or loss for the period.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

e) Impairment of Long Lived Assets

At the end of each reporting period, the Company reviews the carrying amounts of its PPE to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

e) Impairment of Long Lived Assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

f) Flow-through Financing

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investors. Proceeds received on the issuance of such shares have been credited to capital stock.

The issue of flow through shares is in substance an issue of ordinary shares and the sale of tax deductions. The sale of tax deductions is measured using the relative fair value method. At the time the flow through shares are issued, the sale of tax deductions is deferred and is presented as other liabilities in the statement of financial position, because the Company has not yet fulfilled its obligation to pass on the tax deductions to the investor. When the Company fulfills its obligation:

- (i) the sale of tax deductions is recognized in the income statement as a reduction of the deferred tax expense; and
- (ii) a deferred tax liability is recognized, in accordance with IAS 12, Income Taxes, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

The obligation is fulfilled when the eligible expenditures are incurred.

g) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the statement of financial position and their corresponding tax value, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Deferred tax liabilities are recognized for all temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

h) Share-based Payments

Equity-settled share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, expected forfeitures and the life of the options.

The fair value of the equity-settled share based payments is expensed over the period in which the performance and/or service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Vesting assumptions are reviewed at each reporting date to ensure they reflect current expectations.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

i) Decommissioning Liabilities

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

Accrued site closure costs are recorded at the time an environmental disturbance occurs, and are measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured on an annual basis or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

Upon initial recognition of site closure costs, there is a corresponding increase to the carrying amounts of related assets and the cost is amortized as an expense on a unit-of-production basis over the life of the related assets. The value of the provision is progressively increased over the life of the operation as the effect of discounting unwinds, such increase is recognized as interest expense.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

i) Decommissioning Liabilities (continued)

As at September 30, 2015 and September 30, 2014, the Company has not incurred and is not committed to any material decommissioning obligations in respect of its mineral exploration properties.

j) Other Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

k) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is recognized as a finance lease obligation within long-term debt.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are included in the capitalized value of the asset.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

l) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. During the periods ended September 30, 2015 and 2014, all the outstanding stock options, warrants and brokers' compensation warrants were anti-dilutive.

m) Related Party Transactions

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. Parties are also considered to be related if they are subject to common control or common significant influence. 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.

n) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the consolidated Statement of Comprehensive Loss.

Financial Assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Investments in AFS securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

n) Financial Instruments (continued)

Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. When impairment has incurred, the cumulative loss is recognized in the statement of comprehensive loss. For financial assets carried at cost or amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the recoverable amount, determined as the higher of the estimated fair value and the discounted future cash flows generated from use. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of comprehensive loss in the year. Impairment losses may be reversed in subsequent years.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	FVTPL	Fair value through profit or loss
Receivables from joint venture partners	Loans and receivables	Amortized cost
Portfolio investments	Held for trading	Fair value through profit or loss
Portfolio investment - long term	Available for sale	Cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

o) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated Statement of Comprehensive Income (Loss) on the purchase, sale, issue or cancellation of the Company's own equity instruments. In situations where the Company issues an equity instrument that includes a common share and warrant component, the Company estimates the fair value of the warrant component at the issuance date using the Black Scholes pricing model. The estimated fair value of the warrants is recognized as contributed surplus in the consolidated statement of financial position.

p) Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively. The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Recoverability of Resource Properties

The Company assesses all exploration and evaluation assets at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments are done a property by property basis and require the use of estimates and assumptions such as long term commodity prices, discount rates, foreign exchange rates, future capital requirements, exploration potential and operating performance.

Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

p) Critical Accounting Judgments and Estimation Uncertainties (continued)

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 9.

Deferred Taxes

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which it is probable the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Flow-Through Share Premium

The Company estimates the premium paid for flow-through shares using the relative fair value method. The premium is recorded as a liability which is extinguished when the tax effect of the temporary differences, resulting from the renunciation, is recorded.

q) New Accounting Policies

The Company adopted the following new standards or amendments in preparing these consolidated financial statements:

IAS 36, Impairment of Assets ("IAS 36") was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The adoption of IAS 36 did not have an impact on the Company's consolidated results of operations, financial position and disclosures.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

3. Significant Accounting Policies (continued)

q) New Accounting Policies (continued)

IFRIC 21, Levies (“IFRIC 21”) was issued by the IASB in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The main features of IFRIC 21 are: (i) the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by legislation, and (ii) the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of IFRIC 21 did not have an impact on the Company's consolidated results of operations, financial position and disclosures.

IAS 32, Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The adoption of IAS 32 did not have an impact on the Company's consolidated results of operations, financial position and disclosures.

r) Future Accounting Policies

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments: recognition and measurement (“IAS 39”). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts and Customers (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2013	\$ 152,659	\$ 48,385	\$ 9,612	\$ 27,951	\$ 95,409	\$ 334,016
Additions	-	2,054	-	-	-	2,054
Disposals	-	-	-	-	-	-
Balance - September 30, 2014	152,659	50,439	9,612	27,951	95,409	336,070
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - September 30, 2015	\$ 152,659	\$ 50,439	\$ 9,612	\$ 27,951	\$ 95,409	\$ 336,070
Accumulated Amortization						
Balance - October 1, 2013	\$ 142,850	\$ 33,887	\$ 7,940	\$ 16,043	\$ 95,409	\$ 296,129
Amortization for the period	2,943	4,657	501	2,382	-	10,483
Balance - September 30, 2014	145,793	38,544	8,441	18,425	95,409	306,612
Amortization for the period	2,060	3,568	351	1,905	-	7,884
Balance - September 30, 2015	\$ 147,853	\$ 42,112	\$ 8,792	\$ 20,330	\$ 95,409	\$ 314,496
Net Book Value						
As at September 30, 2014	\$ 6,866	\$ 11,895	\$ 1,171	\$ 9,526	\$ -	\$ 29,458
As at September 30, 2015	\$ 4,806	\$ 8,327	\$ 820	\$ 7,621	\$ -	\$ 21,574

5. Resource Properties

	October 1, 2014	Net Additions (Recoveries)	Recoveries (Write-Offs)	Dispositions	September 30, 2015
Eco Ridge Mine Project (i)	\$ 16,263,796	\$ (71,408) ⁽²⁾	\$ -	\$ -	\$ 16,192,388
Ardeen Gold Project (ii)	3,188,439	6	-	-	3,188,445
Mountain Pass Project (v)	657,524	7,571	(665,095)	-	-
	<u>\$ 20,109,759</u>	<u>\$ (63,831)</u>	<u>\$ (665,095)</u>	<u>\$ -</u>	<u>\$ 19,380,833</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ 122,796	\$ -	\$ -
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	78,720	-	-
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ 201,516</u>	<u>\$ -</u>	<u>\$ -</u>
	October 1, 2013	Net Additions (Recoveries)	Recoveries (Write-Offs)	Dispositions	September 30, 2014
Eco Ridge Mine Project (i)	\$ 15,776,149	\$ 487,647	\$ -	\$ -	\$ 16,263,796
Ardeen Gold Project (ii)	3,188,433	6	-	-	3,188,439
Mountain Pass Project (v)	645,651	11,873	-	-	657,524
	<u>\$ 19,610,233</u>	<u>\$ 499,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,109,759</u>
Timmins Project (iii) ⁽¹⁾	\$ (122,796)	\$ -	\$ -	\$ -	\$ (122,796)
Sudbury Project (iv) ⁽¹⁾	(78,720)	-	-	-	(78,720)
	<u>\$ (201,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (201,516)</u>

⁽¹⁾ The Company had received consideration from its joint venture partners or optionees in excess of its costs incurred to date. It is expected that further expenditures in excess of this consideration will be incurred by the Company during the development of the property, and therefore these amounts have been deducted from the carrying value of these properties.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

5. Resource Properties (continued)

⁽²⁾ The Company incurred \$226,593 in capitalized expenditures during the year. This was offset by a recovery of \$298,001 through settlements with creditors. See part (i) for more detail.

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

The Eco Ridge Mine Project is currently comprised of 394 mining claim units (September 30, 2014 - 394 mining claim units) and two mining leases (September 30, 2014 - two) covering approximately 7,284 hectares (September 30, 2014 - 7,284 hectares) in northern Ontario.

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

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

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

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

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

- \$75,000 on the twentieth day after the completion of a positive feasibility study in respect of the Platina Claim Group; and
- \$75,000 on the twentieth day after commencement of commercial production in respect of the Platina Claim Group.
- Precambrian continues to retain a 1.75% NSR royalty, of which the Company may buy back 1% for \$1,000,000.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

5. Resource Properties (continued)

(i) Eco Ridge Mine Project (continued)

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

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

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

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

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

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

During the year ended September 30, 2014, the Company entered into an NSR Royalty Agreement pursuant to which the Company was assigned a mining lease for the mining rights on certain lands below small lakes located within the boundaries of the Eco Ridge Mine Project. In exchange for the assignment of the lease, the Company has granted a 1.5% NSR return to the previous lessee, Rio Algom Exploration Inc.. The Company has applied to the Ministry of Northern Development and Mines (MNDM) to renew the newly acquired Mining Lease for an additional 21-year term following the expiration of its current term on September 30, 2014. The renewal is still pending.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

5. Resource Properties (continued)

(i) Eco Ridge Mine Project (continued)

During the year ended September 30, 2015, the Company entered into a Memorandum of Understanding ("MOU") with Sheng Kang Ning (Shanghai) Mining Investment Co. Ltd., ("SKN") to jointly pursue the opportunity of developing rare earth processing facilities at the Eco Ridge property. The MOU set out the terms under which Pele and SKN (the "Parties") would work together, subject to the approval from relevant Chinese and Canadian government authorities, on an exclusive basis within Canada, to negotiate a definitive agreement (the "Definitive Agreement") to establish a joint venture for the sustainable development and operation of a state-of-the-art monazite processing facility and downstream value added rare earth processing facilities, to be located on the Company's Eco Ridge Property. (Neither party shall be under any restriction with respect to carrying on such business outside Canada.)

Under the MOU, the Parties would negotiate a Definitive Agreement that incorporates the following proposed terms, among others:

- a stated purpose to maximize financial benefits to both Parties through the sustainable development of continuous, reliable rare earth processing operations;
- The JV is to be owned 50.1% by SKN and 49.9% by Pele;
- SKN will use its processing technologies for the JV to process monazite concentrate (subject to approval of Chinese authorities) and Pele will lease a portion of its lands to the JV for construction of the Project, both on a commercial basis;
- SKN (or qualified third parties nominated by SKN) shall be retained by the JV to design and construct the processing facilities.
- The Definitive Agreement will set out the duties of SKN as operator of the processing facilities;

The MOU remained non-binding other than the provisions relating to confidentiality, exclusivity, jurisdiction and certain other standard clauses, which are intended to be binding. The MOU expired automatically on September 30, 2015, according to its terms.

During the year ended September 30, 2015, the Company settled disputes with two different creditors related to services rendered by the creditors in a prior period. To settle the disputes, the creditors have agreed to offset payment of the amounts owed by the Company and in return the Company will not pursue a claim against the creditors. This has been recorded as a reduction of \$298,001 to the Eco Ridge Project.

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

The Company has a 49% undivided legal and beneficial interest in 290 mining claim units (September 30, 2014 - 290 mining claim units) and 4 patented mining claims (September 30, 2014 - 4 patented mining claims) located within Moss Township in the district of Thunder Bay, Ontario.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

5. Resource Properties (continued)

(ii) Ardeen Project (continued)

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

During the year ended September 30, 2009, Pele Gold entered into a definitive option agreement (the "Definitive Agreement") for the Ardeen Gold Project with Coventry Resources Limited ("Coventry") with the following relevant terms:

- Coventry paid Pele Gold \$25,000 initial payment and \$75,000 cash on signing the Definitive Agreement;
- Coventry funded enough expenditures to earn a 51% interest in the project by spending \$1,500,000 at Ardeen within 18 months of entering into the Definitive Agreement;
- Once Coventry had funded enough expenditures to earn a 51% interest, it could have elected to increase its interest to 75% by spending an additional \$1,500,000 at Ardeen by the 42nd month after signing the Definitive Agreement. In February 2014, Coventry reported that it sold its stake in the project to Chalice Gold Mines Limited. As of September 30, 2015, Chalice had not spent the additional \$1,500,000 within the specified 42 month period, and its option to increase its ownership to 75% has expired. Future decisions about spending at Ardeen may have an impact on the relative ownership of Chalice and Pele in the Joint Venture.

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 4 mining claims (September 30, 2014 - 11 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 22 mining claim units (September 30, 2014 - 65 mining claim units).

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

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

The Company has estimated the recoverable amount of this project as at September 30, 2015 to be \$Nil. Accordingly, the consideration received to date was written off as an impairment recovery during the year ended September 30, 2015.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

5. Resource Properties (continued)

(iv) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the Sudbury Mining Camp of northern Ontario. It includes 17 mining claims (September 30, 2014 - 22 mining claims) comprised of 215 mining claim units (September 30, 2014 - 270 mining claim units) covering approximately 3,440 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 September 30, 2015, and accordingly, the Company owns a 36% interest.

The Company has estimated the recoverable amount of this project as at September 30, 2015 to be \$Nil. Accordingly, the consideration received to date was written off as an impairment recovery during the year ended September 30, 2015.

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

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

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

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

5. Resource Properties (continued)

(v) Mountain Pass Project (continued)

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

During the year ended September 30, 2015, the Company determined that the fair value of this project was significantly impaired. Accordingly, all costs incurred to date were written off as an impairment loss during the year ended September 30, 2015.

(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 52km. 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.

Goldcorp is funding and operating the Festival Project Joint Venture with Pele electing not to contribute its pro rata share. Accordingly, Goldcorp's interest has increased to approximately 51% of the joint venture and Pele's interest is approximately 49%. New work on the property will impact the relative percentage ownership of each party in the joint venture.

6. Portfolio Investments

a) Zara Resources Inc.

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

The 5% dividends declared on the Preference Shares rank in priority to dividends payable on any other class of shares issued by Zara, and any accumulation of dividends will bear interest at 5% per annum. The 5% dividends are payable in common shares of Zara based on the Exchange Ratio. Partial payment of the 2014 and 2015 dividends were received in January 2015. The Company acquired 940,900 common shares of Zara Resources as a dividend payment in kind. The Preference Shares are classified as available for sale and, as such, are valued at cost in the absence of a quoted market price in an active market and the fact that their fair value cannot be reliably measured. The Preferred Shares were previously classified as fair value through profit and loss and this change in classification did not affect the carrying value. As a result of the change in classification, the Company has moved the Preferred Shares from a current asset to a long-term asset.

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

Zara is a junior resource company based in Toronto, Ontario, whose common shares are listed for trading on the Canadian National Stock Exchange (CNSX). As the common shares of Zara are thinly traded and there is no public market for the Preference Shares which are not listed, posted or quoted for trading on any exchange or quotation system, these securities are illiquid. As at September 30, 2015, the Company does not intend to dispose of the Preferred Shares. The Company's holdings are summarized below:

Zara Preferred Shares

	Number of Shares	Cost	Fair Value
Balance - October 1, 2013	4,750,000	\$ 475,000	\$ 475,000
Impairment	-	-	(263,051)
Balance - September 30, 2014	4,750,000	475,000	211,949
Impairment	-	-	(211,949)
Balance - September 30, 2015	4,750,000	\$ 475,000	\$ -

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2014	-	\$ -	\$ -
Dividend payment in kind	940,900	4,705	4,705
Balance - September 30, 2015	940,900	\$ 4,705	\$ 4,705

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

6. Portfolio Investments (continued)

b) Leo Resources Inc.

During the year ended September 30, 2013, the Company acquired 1,125,000 common shares of Leo Resources Inc. ("Leo") as a result of a corporate spin off involving Zara and Leo, its former wholly-owned subsidiary. Each Zara common shareholder of record received one common share of Leo for every two common shares held in Zara. The Company has reduced its cost of the common shares of Zara by \$12,094 and allocated this amount to the cost of the common shares of Leo. Leo is a junior resource company based in Toronto, Ontario, and is listed on the Canadian National Stock Exchange (CNSX).

During the year ended September 30, 2014, Leo underwent a share consolidation of its common shares on the basis of one new common share for five old common shares. The Company's holdings decreased from 1,125,000 to 225,000 with no effect on the cost base. During the year ended September 30, 2015, the Company sold all 225,000 of the common shares at a realized gain of \$2,931.

	Number of Shares	Cost	Fair Value
Balance - October 1, 2013	1,125,000	\$ 12,094	\$ 12,094
One for five share consolidation	(900,000)	-	-
Balance - September 30, 2014	225,000	12,094	12,094
Sale	(225,000)	(12,094)	(12,094)
Balance - September 30, 2015	-	\$ -	\$ -

7. Debt Settlement

During the year ended September 30, 2015, the Company issued 3,680,922 shares at a deemed price of \$0.05 per share as settlement of debts owed to various creditors in the aggregate amount of \$195,058. As the debts were settled for an amount less than their carrying values, a gain of \$11,012 related to settlement of debt has been recognized in the statement of comprehensive loss for the year ended September 30, 2015. See also note 8.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

8. Capital Stock

Authorized

Unlimited common shares

Issued

	Number	Amount
Balance - October 1, 2013 (i)	162,304,198	\$ 35,544,300
Issued for private placements (ii)	11,219,400	548,991
Less: Share issuance costs - cash (ii)	-	(7,245)
Less: Share issuance costs - compensation warrants (ii)	-	(1,112)
Balance - September 30, 2014 (i)	173,523,598	\$ 36,084,934
Issued for private placements (iii)	11,469,229	381,431
Issued pursuant to debt settlement (iii)	3,680,922	184,046
Issued on exercise of stock options (iii)	200,000	10,780
Less: Share issuance costs - cash (iii)	-	(18,900)
Less: Share issuance costs - compensation warrants (iii)	-	(758)
Balance - September 30, 2015 (i)	188,873,749	\$ 36,641,533

(i) The Company is conditionally committed to issue an additional 240,000 common shares as described in Note 5(ii).

(ii) Share issuances during the year ended ended September 30, 2014 consisted of the following:

- a) completed a private placement and issued 1,000,000 flow-through units at a purchase price of \$0.07 per flow-through unit for gross proceeds \$70,000 of which \$1,500 was allocated to warrants and \$18,942 was allocated to other liabilities. Each flow-through unit is comprised of one flow-through common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.15 per share until October 2, 2014.
- b) completed a private placement and issued 2,000,000 units at a purchase price of \$0.05 per unit for gross proceeds of \$100,000 of which \$13,000 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, where each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.10 per share until April 2, 2015. One director of the Company participated in the Offering, acquiring 1,000,000 units.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

8. Capital Stock (continued)

- c) completed a private placement and issued 225,000 flow-through units at a purchase price of \$0.07 per flow-through unit for gross proceeds \$15,750 of which \$225 was allocated to warrants and \$4,990 was allocated to other liabilities. Each flow-through unit is comprised of one flow-through common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.15 per share until December 27, 2014. The sole purchaser of the flow-through units to the Offering is a director of the Company.
- d) completed a private placement and issued 2,334,838 flow-through units at a purchase price of \$0.07 per flow-through unit for aggregate gross proceeds of \$163,439 of which \$7,005 was allocated to warrants and \$61,352 was allocated to other liabilities. Each flow-through unit is comprised of one flow-through common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.12 until May 1, 2015. Four directors of the Company participated in the Offering.
- e) completed a private placement and issued 4,559,562 units at a purchase price of \$0.06 per unit for aggregate gross proceeds of \$273,574 of which \$27,257 was allocated to warrants. Each unit consists of one common share and one non-transferable common share purchase warrant, where each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.12 until November 1, 2015. Two directors of the Company participated in the Offering.

In connection with the private placements discussed in d) and e) above, the Company paid cash fees of \$7,245 to eligible persons (the "Finders") and issued 117,250 Compensation Warrants with a fair value of \$1,112 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at \$0.07 per share until May 1, 2015.

- f) completed a private placement and issued 400,000 units at a purchase price of \$0.06 per unit for aggregate gross proceeds of \$24,000 of which \$2,000 was allocated to warrants. Each unit consists of one common share and one non-transferable common share purchase warrant, where each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.12 until November 9, 2015.
- g) completed a private placement and issued 700,000 units at a purchase price of \$0.06 per unit for aggregate gross proceeds of \$42,000 of which \$3,500 was allocated to warrants. Each unit consists of one common share and one non-transferable common share purchase warrant, where each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.12 until December 24, 2015.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

8. Capital Stock (continued)

The fair value allocated to the warrants and compensation warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	\$0.05
Expected dividend yield	Nil
Risk-free interest rate	0.96%
Expected life	1.40 years
Expected volatility	69.59%

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined using the historical volatility of the Company's shares for a period equal to the estimated life of the warrant. 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 compensation warrants. The compensation warrants were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

(iii) Share issuances during the year ended September 30, 2015 consisted of the following:

- a) issued 1,757,029 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$87,852 of which \$20,381 was allocated to warrants and \$22,713 was allocated to other liabilities. Each unit is comprised of one flow-through common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional non-flow-through common share of the Company at a price of \$0.07 per share until December 24, 2017. Four directors of the Company participated in the Offering, acquiring 757,029 units.
- b) entered into shares-for-debt agreements with certain creditors, pursuant to which the Company issued 3,680,922 common shares, at a deemed price of \$0.05 per common share, to satisfy aggregate debts of \$196,490.
- c) issued 120,000 shares as a result of a stock option exercise for gross proceeds of \$6,000.
- d) issued 8,012,000 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$400,610 of which \$122,587 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.07 per share until April 13, 2018. Six directors of the Company participated in the Offering, acquiring 1,670,200 units.
- e) issued 1,700,000 units pursuant to a non-brokered private placement at a purchase price of \$0.05 per unit for gross proceeds \$85,000 of which \$26,350 was allocated to warrants. Each unit is comprised of one common share and one share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.07 per share until May 25, 2018.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

8. Capital Stock (continued)

f) issued 80,000 shares as a result of a stock option exercise for gross proceeds of \$4,000.

In connection with the private placement discussed in d) above, the Company paid a cash fee of \$1,400 to eligible persons (the "Finders") and issued 28,000 Compensation Warrants with a fair value of \$758 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at \$0.05 per share until April 13, 2016.

The fair value allocated to the warrants and compensation warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Share price	\$0.04
Expected dividend yield	Nil
Risk-free interest rate	0.65%
Expected life	2.99 years
Expected volatility	90.51%

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined using the historical volatility of the Company's shares for a period equal to the estimated life of the warrant. 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 compensation warrants. The compensation warrants were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

9. Stock Options, Warrants and Shareholders Rights Plan

(i) Stock Options

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

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

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

The following summarizes the stock option activities:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	15,525,000	\$ 0.15	13,675,000	\$ 0.18
Granted	6,517,500	0.05	5,850,000	0.10
Exercised	(200,000)	(0.05)	-	-
Expired	(6,456,250)	(0.18)	(3,650,000)	(0.18)
Cancelled	-	-	(350,000)	(0.17)
Outstanding at year end	15,386,250	\$ 0.10	15,525,000	\$ 0.15
Exercisable at year end	15,386,250	\$ 0.10	14,725,000	\$ 0.14

The Company had the following stock options outstanding at September 30, 2015:

Number of Options	Exercisable	Exercise Price	Expiry Date
255,000	255,000	\$ 0.050	December 31, 2015
900,000	900,000	\$ 0.120	December 31, 2015
675,000	675,000	\$ 0.170	December 31, 2015
500,000	500,000	\$ 0.100	October 4, 2016
500,000	500,000	\$ 0.100	November 27, 2016
800,000	800,000	\$ 0.120	December 31, 2016
800,000	800,000	\$ 0.170	December 31, 2016
800,000	800,000	\$ 0.220	December 31, 2016
4,250,000	4,250,000	\$ 0.100	December 31, 2018
5,906,250	5,906,250	\$ 0.050	December 31, 2019
15,386,250	15,386,250		

(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.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

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

The following summarizes the warrant activities:

	2015		2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Beginning balance	11,031,731	\$ 0.11	5,431,473	\$ 0.14
Issued	11,497,229	0.07	9,556,731	0.12
Exercised	-	-	-	-
Expired	(5,372,169)	(0.11)	(3,956,473)	(0.15)
Outstanding and exercisable at year end	17,156,791	\$ 0.09	11,031,731	\$ 0.11

The Company had the following warrants outstanding at September 30, 2015:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
4,559,562	ZZ	Common shares	\$ 0.12	November 1, 2015
400,000	ZZ	Common shares	\$ 0.12	November 9, 2015
700,000	AAA	Common shares	\$ 0.12	December 24, 2015
1,757,029	BBB	Common shares	\$ 0.07	December 24, 2017
8,012,200	CCC	Common shares	\$ 0.07	April 13, 2018
28,000		Common shares	\$ 0.05	April 13, 2016
1,700,000	DDD	Common shares	\$ 0.07	May 25, 2018
<u>17,156,791</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 and 2013 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 Years Ended September 30, 2015 and 2014

10. Share-Based Compensation

The fair value of the stock options granted to employees, directors and officers was estimated at the grant date and the stock options granted to consultants were estimated at the earliest of the following: a) service completion date, b) the date at which a commitment for performance by the consultant to earn the options are reached, or c) the grant date if the options are fully vested and non-forfeitable at that date, based on the Black-Scholes pricing model, using the following weighted average assumptions:

	<u>2015</u>	<u>2014</u>
Share price	\$0.04	\$0.07
Expected dividend yield	Nil	Nil
Risk-free interest rate	0.51%	0.90%
Expected life	4.55 years	4.34 years
Expected volatility	86.01%	90.90%
Exercise price	\$0.05	\$0.10

The weighted average grant date fair values of options issued in the year ended September 30, 2015 was \$0.02 (2014 - \$0.04). The total amount credited to contributed surplus was \$143,454 (2014 - \$262,100) relating to stock options vested during the years ended September 30, 2015 and 2014 and these amounts were included in stock-based compensation expense for the years ended September 30, 2015 and 2014.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected volatility was determined based on the Company's historical stock price. 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. Stock options issued to non-employees were valued using the fair value of the equity instrument granted in the absence of a reliable estimate of the fair value of the services received.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

11. Income Taxes

(i) Income Tax Expense

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

	2015	2014
Loss before income taxes	\$ (1,848,956)	\$ (1,763,732)
Statutory rate	26.50 %	26.50 %
Expected income tax recovery	\$ (489,973)	\$ (467,389)
Stock-based compensation	38,015	69,457
Non-deductible expenses	-	1,398
Tax expense (benefit) relating to the origination and reversal of temporary differences	43,587	30,603
Capital loss	(777)	-
Other	727	-
Income tax recovery	<u>\$ (408,421)</u>	<u>\$ (365,931)</u>

(ii) Deferred Taxes

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

	2015	2014
Deferred Tax Assets		
Amounts related to tax loss and credit carry forwards	\$ 857,353	\$ 804,616
Property, plant and equipment	92,337	90,248
Share issuance costs	15,327	30,726
Net deferred tax assets	965,017	925,590
Deferred Tax Liability		
Resource properties	(1,857,190)	(2,203,471)
Net deferred income tax liabilities	<u>\$ (892,173)</u>	<u>\$ (1,277,881)</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax liabilities result primarily from amounts not deductible for accounting purposes until future periods. Deferred income tax assets result primarily from operating tax loss carry forwards and have been offset against deferred income tax liabilities.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

11. Income Taxes (continued)

(iii) Loss Carry Forwards

The Company has non-capital losses of approximately \$3,102,814 available for carry forward. These losses expire as follows:

2026	\$ 1,077,259
2027	1,554
2028	183
2029	168,265
2030	283,159
2031	391,437
2032	376,598
2033	297,551
2034	291,467
2035	<u>215,341</u>
	<u>\$ 3,102,814</u>

12. Commitments

- (i) The Company is committed under lease contracts for the rental of its premises and a vehicle. Annual minimum lease payments are required as follows:

2016	\$ 16,130
2017	4,236
2018	4,236
2019	4,236
2020	<u>2,388</u>
	<u>\$ 31,226</u>

- (ii) The Company is committed to issue an additional 240,000 common shares as part of the consideration for the acquisition of the Ardeen Gold Project property described in note 5(ii) contingent on the property going into commercial production.

Additional commitments related to the Company's resource properties are separately disclosed in note 5.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

13. Related Party Transactions

During the year ended September 30, 2015, the Company entered into the following related party transactions:

- a) Consulting fees of \$80,500 (2014 - \$78,000) were earned by Martin Cooper, a director and officer of the Company, \$80,500 (2014 - \$78,000) of which were deferred as resource property costs. As at September 30, 2015, accounts payable and accrued liabilities included \$60,500 (2014 - \$Nil) payable to this director and officer.
- b) Legal fees of \$52,450 (2014 - \$71,900) were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at September 30, 2015, accounts payable and accrued liabilities included \$126,616 (2014 - \$110,145) payable to this law firm.
- c) Accounting fees of \$47,000 (2014 - \$47,000) were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at September 30, 2015, accounts payable and accrued liabilities included \$109,530 (2014 - \$91,238) accrued to this accounting firm.
- d) Consulting fees of \$Nil (2014 - \$12,575) earned by Roger Payne, an officer of the Company. As at September 30, 2015, accounts payable and accrued liabilities included \$Nil (2014 - \$Nil) payable to this officer.
- e) Consulting fees of \$80,000 (2014 - \$55,000) were incurred with a company in which John Wilkinson, a director of the Company, is an officer, all of which have been deferred as resource property costs. As at September 30, 2015, accounts payable and accrued liabilities included \$53,360 (2014 - \$10,600) payable to this director.
- f) Compensation earned by directors and other members of key management personnel for the year ended September 30, 2015 were as follows:

	2015	2014
Salaries and benefits (CEO and CFO)	\$ 303,000	\$ 298,000
Retention bonus (CEO)	150,000	-
Directors' fees	36,850	34,550
Share-based compensation (Officers and Directors)	132,793	246,082
	<u>\$ 622,643</u>	<u>\$ 578,632</u>

As at September 30, 2015, accounts payable and accrued liabilities included \$24,250 (2014 - \$16,400) of directors' fees, \$150,000 (2014 - \$Nil) of retention bonus payable and \$256,500 (2014 - \$33,500) of wages payable.

- g) Other related party transactions are disclosed in note 8(ii) and (iii).

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

14. 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 September 30, 2015, the Company's cash and cash equivalents are categorized as Level 1 measurement. The portfolio investments in the common shares of Zara Resources Inc. 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 September 30, 2015. 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 September 30, 2015, the Company has current assets of \$134,425 and current liabilities of \$1,410,484. All of the Company's current financial liabilities and receivables have contractual maturities of less than 120 days and are subject to normal trade terms. The Company has a working capital deficiency of \$1,276,059 as at September 30, 2015.

Market Risk

(i) Interest rate risk

The Company has significant cash and cash equivalents balances and it has no interest-bearing debt. The Company's current policy is to invest its 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.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

14. Financial Instruments and Other Risks (continued)

Market Risk (continued)

(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 September 30, 2015, the Company had accounts payable of \$33,837 (2014 - \$34,232) denominated in US currency.

(iii) Price risk

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

(iv) Equity Price Risk

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

Sensitivity Analysis

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

As at September 30, 2015, none of the Company's cash and cash equivalents is at fixed interest rates beyond the next three months and is not subject to interest rate fluctuations within the next three months.

15. Capital Disclosures

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

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;
- (ii) to raise sufficient capital to finance its exploration and development activities on its Eco Ridge Mine Project; and
- (iii) to raise sufficient capital to meet its general and administrative expenditures, and to explore and develop its other resource properties.

Pele Mountain Resources Inc.

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2015 and 2014

15. Capital Disclosures (continued)

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the exploration stage, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

The Company does not have any externally imposed capital requirements other than the requirement to incur certain amounts of Canadian exploration expenses ("CEE") pursuant to flow-through private placements. As at September 30, 2015, the Company is required to spend \$Nil (2014 - \$Nil) in order to fulfil its obligations related to past private placements. There were no changes to the Company's approach to capital management during the years ended September 30, 2015 and 2014.

16. Subsequent Events

Subsequent to the year ended September 30, 2015, the Company:

- a) granted a total of 3,225,000 incentive stock options to members of Management and the Board of Directors of the Company, which are exercisable at \$0.05 per share and expire on December 31, 2019.
- b) granted an option to purchase an aggregate of 243,750 shares of the Company to two consultants of the Company which are exercisable at \$0.05 per share, 150,000 of which expire on December 31, 2016 and 93,750 of which expire on December 31, 2019.
- c) had 1,830,000 stock options with the weighted average exercise price of \$0.13 expire unexercised.
- d) had 5,659,562 share purchase warrants with the weighted average exercise price of \$0.12 expire unexercised.
- e) issued 150,000 shares as a result of a stock option exercise for gross proceeds of \$7,500.
- f) completed a private placement and issued 2,134,180 flow-through units (the "FT Units") at a purchase price of \$0.05 per FT Unit for aggregate gross proceeds of \$106,709. Each FT Unit consists of one common share and one common share purchase warrant (a "FT Warrant"), with each FT Warrant exercisable to acquire one common share of the Company at \$0.07 until May 20, 2017.
- g) completed a private placement and issued 5,250,000 units (the "Units") at a price of \$0.05 each for aggregate gross proceeds of \$262,500. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"), with each Warrant exercisable to acquire one common share of the Company at \$0.05 until November 20, 2018.