
Condensed Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

**For the Three and Six Months Ended March 31, 2015
(Stated in Canadian Dollars)**

Unaudited

INDEX

Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Equity	3
Condensed Interim Consolidated Statements of Cash Flow	4
Notes to the Condensed Interim Consolidated Financial Statements	5 - 23

NOTICE TO READER

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	March 31, 2015	September 30, 2014 (audited)
Assets		
Current Assets		
Cash and cash equivalents	\$ 16,457	\$ 197,433
Prepaid expenses and other assets	44,417	63,773
Receivables from joint venture partners	156	156
Portfolio investments (note 6)	4,705	12,094
	<u>65,735</u>	<u>273,456</u>
Portfolio Investment - Long Term (note 6)	211,949	211,949
Property, Plant and Equipment (note 4)	25,516	29,458
Resource Properties (note 5)	20,231,605	20,109,759
	<u>\$ 20,534,805</u>	<u>\$ 20,624,622</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,278,781	\$ 1,339,864
Resources Properties (note 5)	201,516	201,516
Deferred Income Taxes	1,198,757	1,277,881
	<u>2,679,054</u>	<u>2,819,261</u>
Shareholders' Equity		
Capital Stock (note 10)	36,320,206	36,084,934
Contributed Surplus	7,239,911	7,109,717
Accumulated Deficit	(25,704,366)	(25,389,290)
	<u>17,855,751</u>	<u>17,805,361</u>
	<u>\$ 20,534,805</u>	<u>\$ 20,624,622</u>

Basis of Presentation and Going Concern (note 2)

Subsequent Events (note 15)

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

Approved on behalf of the Board

"Alan Shefsky", Director

"Martin Cooper", Director

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the Three and Six Months Ended March 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	Three Months Ended		Six Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Expenses				
Salaries and benefits	\$ 261,139	\$ 116,719	\$ 363,082	\$ 259,255
Publicity and investor relations	8,791	21,356	15,066	63,600
Listing and filing fees	32,972	45,170	43,557	66,663
Administrative	44,854	61,484	90,617	130,876
Professional fees	45,852	44,931	84,915	93,987
Directors' fees	13,750	11,950	22,400	18,150
Share-based compensation (note 12)	106,733	203,355	110,281	238,007
Amortization	1,971	2,544	3,942	5,087
Less:				
Interest Income	-	(1,651)	(298)	(4,060)
Dividend Income	(4,705)	-	(4,705)	-
Gain on settlement of debt (note 8)	-	-	(11,012)	-
Settlement of claims (note 9)	(124,439)	-	(298,001)	-
Gain on portfolio investments (note 6)	(2,931)	-	(2,931)	-
	(383,987)	(505,858)	(416,913)	(871,565)
Loss Before Income Taxes	(383,987)	(505,858)	(416,913)	(871,565)
Deferred Income Tax Recovery	96,818	84,216	101,837	163,213
Net Loss and Comprehensive Loss	<u>\$ (287,169)</u>	<u>\$ (421,642)</u>	<u>\$ (315,076)</u>	<u>\$ (708,352)</u>
Loss per Share - basic and diluted	<u>\$ (0.002)</u>	<u>\$ (0.003)</u>	<u>\$ (0.002)</u>	<u>\$ (0.005)</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted	<u>178,988,940</u>	<u>156,376,246</u>	<u>177,416,139</u>	<u>156,251,522</u>

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the Three and Six Months Ended March 31

Unaudited - See Notice to Reader

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	3,225,000	147,093	-	-	147,093
Warrants issued pursuant to private placement	-	-	14,725	-	14,725
Share-based compensation expense	-	-	238,007	-	238,007
Net loss for the period	-	-	-	(708,352)	(708,352)
Balance - March 31, 2014	165,529,198	\$ 35,691,393	\$ 7,044,750	\$ (24,699,841)	\$ 18,036,302
	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 10ii)	1,757,029	44,758	-	-	44,758
Shares issued pursuant to debt settlement (note 10ii)	3,680,922	184,046	-	-	184,046
Warrants issued pursuant to private placement (note 10ii)	-	-	20,381	-	20,381
Shares issued on exercise of stock options	120,000	6,468	(468)	-	6,000
Share-based compensation expense (note 12)	-	-	110,281	-	110,281
Net loss for the period	-	-	-	(315,076)	(315,076)
Balance - March 31, 2015	179,081,549	\$ 36,320,206	\$ 7,239,911	\$ (25,704,366)	\$ 17,855,751

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

Pele Mountain Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow

For the Three and Six Months Ended March 31

Unaudited - See Notice to Reader

Stated in Canadian Dollars

	Three Months Ended		Six Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Cash Flows from Operating Activities				
Cash paid to suppliers and employees	\$ (135,609)	\$ (167,328)	\$ (265,869)	\$ (526,374)
Interest received	-	1,651	298	4,060
	(135,609)	(165,677)	(265,571)	(522,314)
Cash Flows from Investing Activities				
Resource properties expenditures	(23,425)	(97,019)	(24,282)	(255,695)
Proceeds from sale of investments	15,025	-	15,025	-
	(8,400)	(97,019)	(9,257)	(255,695)
Cash Flows from Financing Activities				
Issuance of capital stock and warrants	6,000	-	93,852	185,750
Change in cash	(138,009)	(262,696)	(180,976)	(592,259)
Cash and cash equivalents - beginning of period	154,466	699,500	197,433	1,029,063
Cash and cash equivalents - end of period	<u>\$ 16,457</u>	<u>\$ 436,804</u>	<u>\$ 16,457</u>	<u>\$ 436,804</u>

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

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

1. Nature of Operations

Pele Mountain Resources Inc. (the “Company”) is a publicly listed company incorporated in Canada and continued under the Ontario Corporations Act. The Company’s common shares trade on the TSX Venture Exchange under the symbol “GEM” 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 development 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 condensed interim consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed interim consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries, First Canadian Uranium Inc. (“First Canadian Uranium”), 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 condensed interim consolidated financial statements reflect the results of operations for the three and six months ended March 31, 2015 and 2014, and the assets, liabilities and shareholders' equity as at March 31, 2015 and September 30, 2014.

a) Statement of Compliance

The significant accounting policies (note 3) have been applied consistently to all periods presented.

The policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of March 31, 2015. The date the Board of Directors approved the statements is May 21, 2015.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

2. Basis of Presentation and Going Concern (continued)

b) Going Concern

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

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

c) Basis of Measurement

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

d) Functional and Presentation Currency

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

3. Significant Accounting Policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended September 30, 2014, as described in Note 3 of those financial statements, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which are applicable for annual periods beginning on or after January 1, 2014.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

3. Significant Accounting Policies (continued)

The Company adopted the following new standards in preparing these condensed interim 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 amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014.

IFRIC 21, Levies ("IFRIC 21") was amended by the IASB in June 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 Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

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 amendments to IAS 32 are effective for annual periods beginning on or after January 1, 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 - March 31, 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	1,030	1,784	175	953	-	3,942
Balance - March 31, 2015	\$ 146,823	\$ 40,328	\$ 8,616	\$ 19,378	\$ 95,409	\$ 310,554
Net Book Value						
As at September 30, 2014	\$ 6,866	\$ 11,895	\$ 1,171	\$ 9,526	\$ -	\$ 29,458
As at March 31, 2015	\$ 5,836	\$ 10,111	\$ 996	\$ 8,573	\$ -	\$ 25,516

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

5. Resource Properties

	October 1, 2014	Net Additions (Recoveries)	Write-Offs	Dispositions	March 31, 2015
Eco Ridge Mine Project (i)	\$ 16,263,796	\$ 121,380	\$ -	\$ -	\$ 16,385,176
Ardeen Gold Project (ii)	3,188,439	-	-	-	3,188,439
Mountain Pass Project (v)	657,524	466	-	-	657,990
	<u>\$ 20,109,759</u>	<u>\$ 121,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,231,605</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>
	October 1, 2013	Net Additions (Recoveries)	Write-Offs	Dispositions	March 31, 2014
Eco Ridge Mine Project (i)	\$ 15,776,149	\$ 354,985	\$ -	\$ -	\$ 16,131,134
Ardeen Gold Project (ii)	3,188,433	-	-	-	3,188,433
Mountain Pass Project (v)	645,651	1,346	-	-	646,997
	<u>\$ 19,610,233</u>	<u>\$ 356,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,966,564</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.

(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 18,000 acres (September 30, 2014 - 18,000 acres) 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 5,000 acres.

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 2,400 acres and tying on to the southern boundary of one of the Company's original Elliot Lake claim blocks.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

5. Resource Properties (continued)

(i) Eco Ridge Mine Project (continued)

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.

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.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

5. Resource Properties (continued)

(i) Eco Ridge Mine Project (continued)

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 3,831 acres 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.

During the period ended March 31, 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 sets out the terms under which Pele and SKN (the "Parties") will 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 will 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-percent by SKN and 49.9-percent 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;

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

5. Resource Properties (continued)

(i) Eco Ridge Mine Project (continued)

The MOU remains non-binding other than the provisions relating to confidentiality, exclusivity, jurisdiction and certain other standard clauses, which are intended to be binding. Unless the Parties agree to extend the MOU, it will automatically expire in its entirety, if the Parties do not satisfy and waive their respective due diligence and other conditions and negotiate and execute the Definitive Agreement on or before September 30, 2015.

(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.

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 earned 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 earned 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. As of March 31, 2015, Coventry had not spent the additional \$1,500,000 within the specified 42 month period, and its interest in the project is currently at 51%. Future decisions about spending at Ardeen may have an impact on the relative ownership of Coventry and Pele in the Joint Venture.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

5. Resource Properties (continued)

(iii) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 10 mining claims (September 30, 2014 - 12 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 61 mining claim units (September 30, 2014 - 68 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.

(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 22 mining claims (September 30, 2014 - 26 mining claims) comprised of 270 mining claim units (September 30, 2014 - 332 mining claim units) covering approximately 11,000 acres. 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 63% as of March 31, 2015, and accordingly, the Company owns a 37% interest.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

5. Resource Properties (continued)

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

During the year ended September 30, 2012, the Company acquired mining claims comprising 186 contiguous acres 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.

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.

(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-percent. 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.

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

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").

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.

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 March 31, 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 and March 31, 2015	4,750,000	\$ 475,000	\$ 211,949

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

6. Portfolio Investments (continued)

a) Zara Resources Inc. (continued)

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - September 30, 2014	-	\$ -	\$ -
Dividend payment in kind	940,900	4,705	4,705
Balance - March 31, 2015	940,900	\$ 4,705	\$ 4,705

b) Leo Resources Inc.

During the year ended 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 six months ended March 31, 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 - March 31, 2015	-	\$ -	\$ -

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

7. Other Liabilities

Other liabilities represents the Company's obligation to renounce tax deductions at the time it issues flow-through shares and is measured using the fair value method, whereby the liability is calculated based upon an allocation of the proceeds received, the Company's share price and the tax rate in effect. This obligation is discharged through the statement of comprehensive loss when the Company incurs the qualifying expenditures.

8. Debt Settlement

During the period ended March 31, 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 period ended March 31, 2015. See also note 10.

9. Settlement of Claims

During the period ended March 31, 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 waive payment of the amounts owed by the Company and in return the Company will not pursue a claim against the creditors.

10. Capital Stock

Authorized

Unlimited common shares

Issued

	Number	Amount
Balance - October 1, 2013 (i)	162,304,198	\$ 35,544,300
Issued for private placements	11,219,400	548,991
Less: Share issuance costs - cash	-	(7,245)
Less: Share issuance costs - compensation warrants	-	(1,112)
Balance - September 30, 2014 (i)	173,523,598	\$ 36,084,934
Issued for private placements (ii)	1,757,029	44,758
Issued pursuant to debt settlement (ii)	3,680,922	184,046
Issued on exercise of stock options (ii)	120,000	6,468
Balance - March 31, 2015 (i)	179,081,549	\$ 36,320,206

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

10. Capital Stock (continued)

- (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 six months ended March 31, 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.

11. 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 Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

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

The following summarizes the stock option activities:

	Six months ended March 31, 2015		Six months ended March 31, 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	5,380,000	0.05	5,600,000	0.10
Exercised	(120,000)	(0.05)	-	-
Expired	(3,050,000)	(0.18)	(3,650,000)	(0.18)
Cancelled	-	-	(350,000)	(0.17)
Outstanding at period end	17,735,000	\$ 0.12	15,275,000	\$ 0.15
Exercisable at period end	17,735,000	\$ 0.12	13,475,000	\$ 0.14

The Company had the following stock options outstanding at March 31, 2015:

Number of Options	Exercisable	Exercise Price	Expiry Date
3,000,000	3,000,000	\$ 0.250	September 30, 2015
335,000	335,000	\$ 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
4,500,000	4,500,000	\$ 0.100	December 31, 2018
4,925,000	4,925,000	\$ 0.050	December 31, 2019
17,735,000	17,735,000		

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

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

(ii) Warrants

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

The following summarizes the warrant activities:

	Six months ended March 31, 2015		Six months ended March 31, 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	1,757,029	0.07	2,612,500	0.11
Exercised	-	-	-	-
Expired	(2,087,500)	(0.11)	-	-
Outstanding and exercisable at period end	10,701,260	\$ 0.11	8,043,973	\$ 0.13

The Company had the following warrants outstanding at March 31, 2015:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
2,000,000	VV	Common shares	\$ 0.10	April 2, 2015
1,167,419	YY	Common shares	\$ 0.12	May 1, 2015
117,250		Common shares	\$ 0.07	May 1, 2015
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
<u>10,701,260</u>				

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

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

(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.

12. 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:

Share price	\$0.04
Expected dividend yield	Nil
Risk-free interest rate	0.49%
Expected life	4.55 years
Expected volatility	85.27%
Exercise price	\$0.05

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 Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended March 31, 2015

Unaudited - See Notice to Reader

13. Related Party Transactions

During the six months ended March 31, 2015, the Company entered into the following related party transactions:

- a) Consulting fees of \$41,000 were earned by Martin Cooper, a director and officer of the Company, \$41,000 of which were deferred as resource property costs. As at March 31, 2015, accounts payable and accrued liabilities included \$46,500 payable to this director and officer.
- b) Legal fees of \$37,500 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at March 31, 2015, accounts payable and accrued liabilities included \$125,442 payable to this law firm.
- c) Accounting fees of \$23,000 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at March 31, 2015, accounts payable and accrued liabilities included \$98,145 accrued to this accounting firm.
- d) Consulting fees of \$Nil earned by Roger Payne, an officer of the Company. As at March 31, 2015, accounts payable and accrued liabilities included \$Nil payable to this officer.
- e) Consulting fees of \$40,000 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 March 31, 2015, accounts payable and accrued liabilities included \$42,760 payable to this director.
- f) Compensation earned by directors and other members of key management personnel for the six months ended March 31, 2015 were as follows:

Salaries and benefits	\$	151,500
Retention bonus		150,000
Directors' fees		22,400
Share-based compensation		<u>100,532</u>
	\$	<u><u>424,432</u></u>

As at March 31, 2015, accounts payable and accrued liabilities included \$25,800 of directors' fees, \$150,000 of retention bonus payable and \$147,500 of wages payable.

- g) Other related party transactions are disclosed in note 10(ii).

Pele Mountain Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

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 March 31, 2015, the Company's cash and cash equivalents are categorized as Level 1 measurement. The portfolio investments in the common shares of Leo 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 March 31, 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 March 31, 2015, the Company has current assets of \$65,735 and current liabilities of \$1,278,781. 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 \$1,213,046 as at March 31, 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 Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended March 31, 2015
Unaudited - See Notice to Reader

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 March 31, 2015, the Company had accounts payable of \$31,686 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 March 31, 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. Subsequent Events

Subsequent to the six months ended March 31, 2015, the Company:

- a) had 3,284,669 share purchase warrants with the weighted average exercise price of \$0.11 expire unexercised.
- b) completed a private placement and issued 8,012,200 units (the "Units") at a price of \$0.05 each for aggregate gross proceeds of \$400,610. Each Unit consists of one (1) common share and one (1) common share purchase warrant (a "Warrant"), with each Warrant exercisable to acquire one common share of Pele at \$0.07 until April 13, 2018. Six directors of the Company participated in the Offering, acquiring 1,670,200 units.