Condensed Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

For the Three and Six Months Ended March 31, 2016
(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, 2016	September 30, 2015 (audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 268,843	$ 100,595
Prepaid expenses and other assets	59,466	29,125
Portfolio investments (note 6)	2,375	4,705
	330,684	134,425
Property, Plant and Equipment (note 4)	18,719	21,574
Resource Properties (note 5)	19,516,560	19,380,833
	$ 19,865,963	$ 19,536,832
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,434,264	$ 1,410,484
Other liabilities (note 7)	28,812	-
	1,463,076	1,410,484
Deferred Income Taxes	720,766	892,173
	2,183,842	2,302,657
Shareholders' Equity		
Capital Stock (note 10)	37,292,182	36,641,533
Contributed Surplus	7,860,547	7,422,467
Accumulated Deficit	(27,470,608)	(26,829,825)
	17,682,121	17,234,175
	$ 19,865,963	$ 19,536,832

Basis of Presentation and Going Concern (note 2)
Commitments
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, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Expenses				
Salaries and benefits	$ 268,087	$ 261,139	$ 380,826	$ 363,082
Publicity and investor relations	22,286	8,791	35,794	15,066
Listing and filing fees	49,033	32,972	69,465	43,557
Administrative	49,139	44,854	94,228	90,617
Professional fees	57,568	45,852	85,411	84,915
Directors' fees	8,850	13,750	16,800	22,400
Share-based compensation (note 12)	128,041	106,733	179,617	110,281
Write off of resource properties	1,364	-	1,862	-
Amortization	1,428	1,971	2,855	3,942
Less:				
Interest Income	-	-	-	(298)
Dividend Income	(11,875)	(4,705)	(11,875)	(4,705)
Gain on settlement of debt (note 8)	-	-	-	(11,012)
Settlement of claims (note 9)	-	(124,439)	-	(298,001)
Loss (gain) on portfolio investments (note 6)	3,059	(2,931)	3,059	(2,931)
Impairment of portfolio investments (note 6)	9,500	-	9,500	-
	(586,480)	(383,987)	(867,542)	(416,913)
Loss Before Income Taxes	(586,480)	(383,987)	(867,542)	(416,913)
Deferred Income Tax Recovery	143,015	96,818	226,759	101,837
Net Loss and Comprehensive Loss	$ (443,465)	$ (287,169)	$ (640,783)	$ (315,076)
Loss per Share - basic and diluted	$ (0.002)	$ (0.002)	$ (0.004)	$ (0.002)
Weighted Average Number of Common Shares Outstanding - basic and diluted	203,931,809	178,988,940	198,074,399	177,416,139

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, 2014	173,523,598	$ 36,084,934	$ 7,109,717	$ (25,389,290)	$ 17,805,361
Shares issued pursuant to private placements	1,757,029	44,758	-	-	44,758
Shares issued pursuant to debt settlement	3,680,922	184,046	-	-	184,046
Warrants issued pursuant to private placement	-	-	20,381	-	20,381
Shares issued on exercise of stock options	120,000	6,468	(468)	-	6,000
Share-based compensation expense	-	-	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

	Capital Stock		Contributed	Accumulated	
	Shares	Amount	Surplus	Deficit	Total
Balance - October 1, 2015	188,873,749	$ 36,641,533	$ 7,422,467	$ (26,829,825)	$ 17,234,175
Shares issued pursuant to private placements (note 10ii)	17,588,180	537,767	-	-	537,767
Shares issued pursuant to debt settlement (note 10ii)	2,785,001	139,250	-	-	139,250
Warrants issued pursuant to private placement (note 10ii)	-	-	257,478	-	257,478
Shares issued on exercise of stock options (note 10ii)	150,000	8,833	(1,333)	-	7,500
Share issuance costs - cash (note 10ii)	-	(32,883)	-	-	(32,883)
Share issuance costs - compensation warrants (note 10ii)	-	(2,318)	2,318	-	-
Share-based compensation expense (note 12)	-	-	179,617	-	179,617
Net loss for the period	-	-	-	(640,783)	(640,783)
Balance - March 31, 2016	209,396,930	$ 37,292,182	$ 7,860,547	$ (27,470,608)	$ 17,682,121

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, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Cash Flows from Operating Activities				
Cash paid to suppliers and employees	$ (261,724)	$ (135,609)	$ (547,523)	$ (265,869)
Interest income received	-	-	-	298
	(261,724)	(135,609)	(547,523)	(265,571)
Cash Flows from Investing Activities				
Resource properties expenditures	(2,904)	(23,425)	(139,901)	(24,282)
Proceeds from sale of investments	1,646	15,025	1,646	15,025
	(1,258)	(8,400)	(138,255)	(9,257)
Cash Flows from Financing Activities				
Issuance of capital stock and warrants	510,200	6,000	886,909	93,852
Issuance costs	(17,225)	-	(32,883)	-
	492,975	6,000	854,026	93,852
Change in cash	229,993	(138,009)	168,248	(180,976)
Cash and cash equivalents - beginning of period	38,850	154,466	100,595	197,433
Cash and cash equivalents - end of period	$ 268,843	$ 16,457	$ 268,843	$ 16,457

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

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 condensed interim 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 condensed interim consolidated financial statements reflect the results of operations for the three and six months ended March 31, 2016 and 2015, and the assets, liabilities and shareholders' equity as at March 31, 2016 and September 30, 2015.

a) Statement of Compliance

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

The policies applied in the Company's condensed interim consolidated financial statements are based on IFRS effective as of March 31, 2016. The date the Board of Directors approved the statements is May 25, 2016.

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. 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 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, 2015, 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, 2015.

4. Property, Plant and Equipment

	Exploration Equipment	Computer Equipment	Computer Software	Furniture & Equipment	Leasehold Improvements	Total
Cost						
Balance - October 1, 2014	$ 152,659	$ 48,385	$ 9,612	$ 27,951	$ 95,409	$ 334,016
Additions	-	2,054	-	-	-	2,054
Disposals	-	-	-	-	-	-
Balance - September 30, 2015	152,659	50,439	9,612	27,951	95,409	336,070
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance - March 31, 2016	$ 152,659	$ 50,439	$ 9,612	$ 27,951	$ 95,409	$ 336,070
Accumulated Amortization						
Balance - October 1, 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
Amortization for the period	721	1,249	123	762	-	2,855
Balance - March 31, 2016	$ 148,574	$ 43,361	$ 8,915	$ 21,092	$ 95,409	$ 317,351
Net Book Value						
As at September 30, 2015	$ 4,806	$ 8,327	$ 820	$ 7,621	$ -	$ 21,574
As at March 31, 2016	$ 4,085	$ 7,078	$ 697	$ 6,859	$ -	$ 18,719

5. Resource Properties

	October 1, 2015	Net Additions (Recoveries)	Recoveries (Write-Offs)	Dispositions	March 31, 2016
Eco Ridge Mine Project (i)	$ 16,192,388	$ 135,727	$ -	$ -	$ 16,328,115
Ardeen Gold Project (ii)	3,188,445	-	-	-	3,188,445
Mountain Pass Project (v)	-	1,862	(1,862)	-	-
	$ 19,380,833	$ 137,589	$ (1,862)	$ -	$ 19,516,560
Timmins Project (iii)[1]	$ -	$ -	$ -	$ -	$ -
Sudbury Project (iv)[1]	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -

	October 1, 2014	Net Additions (Recoveries)	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
	$ 20,109,759	$ 121,846	$ -	$ -	$ 20,231,605
Timmins Project (iii)[1]	$ (122,796)	$ -	$ -	$ -	$ (122,796)
Sudbury Project (iv)[1]	(78,720)	-	-	-	(78,720)
	$ (201,516)	$ -	$ -	$ -	$ (201,516)

[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.

5. Resource Properties (continued)

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

The Eco Ridge Mine Project is currently comprised of 394 mining claim units (September 30, 2015 - 394 mining claim units) and two mining leases (September 30, 2015 - two) covering approximately 8,600 hectares (September 30, 2015 - 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.

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 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.

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.

(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, 2015 - 290 mining claim units) and 4 patented mining claims (September 30, 2015 - 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.

5. **Resource Properties** (continued)

(ii) Ardeen Project (continued)

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 March 31, 2016, 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, 2015 - 4 mining claims) located 35 kilometres south of Timmins in northern Ontario. These mining claims are comprised of 22 mining claim units (September 30, 2015 - 22 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.

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 15 mining claims (September 30, 2015 - 17 mining claims) comprised of 188 mining claim units (September 30, 2015 - 215 mining claim units) covering approximately 3,008 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 March 31, 2016, 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.

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. The costs incurred during the period ended March 31, 2016 were written off as the project remained impaired as at March 31, 2016.

(vi) Festival Project (Wawa, Ontario)

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

In 2013, the Company and Goldcorp Inc. reactivated the joint venture on the Festival Project. Goldcorp entered into a License Agreement on behalf of the joint venture for a Licensed Area covering a total area of 52 square kilometres. The Licensed Area straddles the interpreted western extension of the Goudreau Localsh Deformation Zone ("GLDZ"), host to Richmont'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").

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 March 31, 2016, 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, 2014	4,750,000	$ 475,000	$ 211,949
Impairment	-	-	(211,949)
Balance - September 30, 2015 and March 31, 2016	$ 4,750,000	$ 475,000	$ -

6. Portfolio Investments (continued)

Zara Common Shares

	Number of Shares	Cost	Fair Value
Balance - October 1, 2014	-	$ -	$ -
Dividend payment in kind	940,900	4,705	4,705
Balance - September 30, 2015	940,900	4,705	4,705
One for ten share consolidation	(846,810)	-	-
Dividend payment in kind	475,000	11,875	11,875
Sale	(94,090)	(4,705)	(4,705)
Impairment	-	-	(9,500)
Balance - March 31, 2016	475,000	$ 11,875	$ 2,375

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

9. Settlement of Claim

During the period ended March 31, 2015, the Company settled a dispute with a creditor related to services rendered by the creditor in a prior period. To settle the dispute, the creditor has agreed to waive payment of the amounts owed by the Company and in return the Company will not pursue a claim against the creditor.

10. Capital Stock

Authorized

Unlimited common shares

Issued

	Number	Amount
Balance - October 1, 2014 (i)	173,523,598	$ 36,084,934
Issued for private placements	11,469,229	381,431
Issued pursuant to debt settlement	3,680,922	184,046
Issued on exercise of stock options	200,000	10,780
Less: Share issuance costs - cash	-	(18,900)
Less: Share issuance costs - compensation warrants	-	(758)
Balance - September 30, 2015 (i)	188,873,749	$ 36,641,533
Issued for private placements (ii)	17,588,180	537,767
Issued pursuant to debt settlement (ii)	2,785,001	139,250
Issued on exercise of stock options (ii)	150,000	8,833
Less: Share issuance costs - cash (ii)	-	(32,883)
Less: Share issuance costs - compensation warrants (ii)	-	(2,318)
Balance - March 31, 2016 (i)	209,396,930	$ 37,292,182

(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, 2016 consisted of the following:

a) issued 2,134,180 flow-through units pursuant to a non-brokered private placement at a purchase price of $0.05 per unit for gross proceeds $106,709 of which $24,756 was allocated to warrants and $29,924 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 May 20, 2017. Three directors of the Company participated in the Offering, acquiring 954,000 units.

b) issued 5,250,000 units pursuant to a non-brokered private placement at a purchase price of $0.05 per unit for gross proceeds $262,500 of which $84,000 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 $0.05 per share until November 20, 2018. Three directors of the Company participated in the Offering, acquiring 4,200,000 units.

10. Capital Stock (continued)

In connection with the private placements discussed in a) and b) above, the Company paid cash fees of $2,800 to eligible persons (the "Finders") and issued 56,000 Compensation Warrants with a fair value of $466 to the Finders. Each Compensation Warrant entitles the holder to acquire one common share of the Company at $0.05 per share until November 20, 2016.

c) issued 150,000 shares as a result of a stock option exercise for gross proceeds of $7,500.

d) issued 4,155,000 flow-through units at a purchase price of $0.05 per unit for aggregate gross proceeds of $207,750, of which $51,938 was allocated to warrants and $54,240 was allocated to other liabilities. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at $0.07 until August 4, 2017. Two directors of the Company participated in the Offering, acquiring 1,055,000 units.

e) issued 5,049,000 units at a price of $0.05 each for aggregate gross proceeds of $252,450, of which $80,784 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at $0.05 until February 4, 2019. Two directors of the Company participated in the Offering, acquiring 4,049,000 units.

f) issued 1,000,000 units at a price of $0.05 each for aggregate gross proceeds of $50,000, of which $16,000 was allocated to warrants. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share of the Company at $0.05 until February 5, 2019.

In connection with the private placements discussed in d), e) and f) above, the Company paid cash fees of $5,600 to eligible persons (the “Finders”) and issued 112,000 Compensation Warrants to the Finders. Each Compensation Warrant entitles the holder upon exercise to acquire one common share of the Company at $0.05 per share until February 4, 2017.

g) entered into shares-for-debt agreements with certain creditors, pursuant to which the Company issued 2,785,001 common shares, at a deemed price of $0.05 per common share, to satisfy aggregate debts of $139,250. Of these amounts, 1,925,931 common shares were issued to a law firm in which a director and officer of the Company is a partner to settle debt of $96,297.

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.

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

The following summarizes the stock option activities:

	Six months ended March 31, 2016			Six months ended March 31, 2015		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Beginning balance	15,386,250	$	0.10	15,525,000	$	0.15
Granted	7,523,750		0.05	5,380,000		0.05
Exercised	(150,000)		(0.05)	(120,000)		(0.05)
Expired	(1,830,000)		(0.13)	(3,050,000)		(0.18)
Outstanding at period end	20,930,000	$	0.08	17,735,000	$	0.12
Exercisable at period end	20,930,000	$	0.08	17,735,000	$	0.12

The Company had the following stock options outstanding at March 31, 2016:

Number of Options	Exercisable	Exercise Price		Expiry Date
500,000	500,000	$	0.100	October 4, 2016
500,000	500,000	$	0.100	November 27, 2016
380,000	380,000	$	0.050	December 31, 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
9,225,000	9,225,000	$	0.050	December 31, 2019
3,675,000	3,675,000	$	0.050	December 31, 2020
20,930,000	20,930,000			

(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.

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

The following summarizes the warrant activities:

	Six months ended March 31, 2016		Six months ended March 31, 2015	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Beginning balance	17,156,791	$ 0.09	11,031,731	$ 0.11
Issued	17,756,180	0.06	1,757,029	0.07
Exercised	-	-	-	-
Expired	(5,659,562)	0.12	(873,500)	(0.14)
Outstanding and exercisable at period end	29,253,409	$ 0.06	11,915,260	$ 0.11

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

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
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
5,250,000	EEE	Common shares	$ 0.05	November 20, 2018
2,134,180	FFF	Common shares	$ 0.07	May 20, 2017
56,000		Common shares	$ 0.05	November 20, 2016
4,155,000	GGG	Common shares	$ 0.07	August 4, 2017
5,049,000	HHH	Common shares	$ 0.05	February 4, 2019
1,000,000	HHH	Common shares	$ 0.05	February 5, 2019
112,000		Common shares	$ 0.05	February 4, 2017
29,253,409				

(iii) Shareholders' Rights Plan

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

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	0.46%
Expected life	4.22 years
Expected volatility	84.43%
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.

13. Related Party Transactions

During the six months ended March 31, 2016, the Company entered into the following related party transactions:

a) Consulting fees and salary of \$42,000 was earned by Martin Cooper, a director and officer of the Company, \$42,000 of which were deferred as resource property costs. As at March 31, 2016, accounts payable and accrued liabilities included \$62,500 payable to this director and officer.

b) Legal fees of \$63,895 were incurred with a law firm in which Steven Rukavina, a director and officer of the Company is a partner. As at March 31, 2016, accounts payable and accrued liabilities included \$102,922 payable to this law firm.

c) Accounting fees of \$18,000 were incurred with an accounting firm in which Paul Andersen, an officer of the Company is a partner. As at March 31, 2016, accounts payable and accrued liabilities included \$126,155 accrued to this accounting firm.

13. Related Party Transactions (continued)

d) Consulting fees of $49,500 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, 2016, accounts payable and accrued liabilities included $42,020 payable to this director.

e) Compensation earned by directors and other members of key management personnel for the six months ended March 31, 2016 were as follows:

Salaries and benefits (CEO and CFO)	$	153,000
Retention bonus (CEO)		137,500
Directors' fees		16,800
Share-based compensation (Officers and Directors)		158,917
	$	466,217

As at March 31, 2016, accounts payable and accrued liabilities included $13,150 of directors' fees and $490,675 of wages payable.

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

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, 2016, 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.

14. Financial Instruments and Other Risks (continued)

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, 2016. 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, 2016, the Company has current assets of $330,684 and current liabilities of $1,463,076. 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 $1,132,392 as at March 31, 2016.

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.

(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, 2016, the Company had accounts payable of $31,767 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.

14. Financial Instruments and Other Risks (continued)

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, 2016, 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, 2016, the Company:

a) had 28,000 share purchase warrants with the weighted average exercise price of $0.05 expire unexercised.