MUSKRAT MINERALS INCORPORATED

(formerly VR INTERACTIVE CORPORATION)

Audited Consolidated Financial Statements

For the 15 month period ended June 30, 2012

Muskrat Minerals Incorporated
(formerly VR Interactive Corporation)
Financial Information

June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Muskrat Minerals Incorporated (formerly VR Interactive Corporation)

We have audited the accompanying consolidated financial statements of Muskrat Minerals Incorporated and its subsidiaries, which comprise the consolidated balance sheets as at June 30, 2012, March 31, 2011, and April 1, 2010, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the fifteen months ended June 30, 2012 and the twelve months ended March 31, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Muskrat Minerals Incorporated and its subsidiaries, as at June 30, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the fifteen months ended June 30, 2012 and the twelve months ended March 31, 2011 in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

October 25, 2012
Toronto, Ontario

Muskrat Minerals Incorporated
(formerly VR Interactive Corporation)
Consolidated Balance Sheets
(Amounts presented in Canadian Dollars)

	June 30, 2012 2012	March 31, 2010 2011	April 1, 2010 2010
	$	$	$
Assets		(Note 3)	(Note 3)
Current assets:			
Cash	**1,796,393**	486	524
Other receivable	**23,488**	5,336	-
	1,819,881	5,821	524
Investment in associate (Note 5)	**2,813,328**	-	-
Equipment (Note 4)	**3,684**	5,239	6,961
	4,636,893	11,060	7,485
Liabilities and Shareholders' Equity (Deficiency)			
Current liabilities:			
Trade and other payables	**50,547**	48,927	46,951
Loans from directors and shareholders (Note 6)	**-**	1,395,453	1,169,891
Current portion long-term debt (Note 7)	**-**	-	81,168
	50,547	1,444,379	1,298,010
Long-term debt:			
ACOA (Note 7)	**-**	-	378,566
Shareholders' equity (deficiency):			
Share capital (Note 8)	**8,948,978**	2,638,509	2,638,509
Contributed surplus (Note 9)	**178,300**	108,300	108,300
Deficit	**(4,540,932)**	(4,180,128)	(4,415,900)
	4,586,346	(1,433,319)	(1,669,091)
	4,636,893	11,060	7,485

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

David J. Hennigar

Francis H. MacKenzie

October 25, 2012

Muskrat Minerals Incorporated

(formerly VR Interactive Corporation)

Consolidated Statements of Operations and Comprehensive Loss

For the 15 months ended June 30, 2012 and the 12 months ended March 31, 2011

(Amounts presented in Canadian Dollars)

	15 months	12 months
	June 30, 2012	March 31, 2011
	$	$
		(Note 3)
Operating expenses:		
General and administrative (Notes 6 and 9)	**(289,010)**	(37,185)
Research	**-**	(295)
Depreciation	**(1,555)**	(1,723)
Loss before the under noted and income tax:	**(290,565)**	(39,203)
Share of the loss of an associate (Note 5)	**(62,815)**	-
Interest expense	**(7,424)**	(160,180)
Loss before income tax:	**(360,804)**	(199,383)
Deferred tax recovery (Notes 7 and 10)	**-**	435,155
Net income (loss) and comprehensive income (loss)	**(360,804)**	235,772
Net income (loss) per share	**($0.058)**	$0.070
Weighted average number of shares outstanding - basic and dilutive	**6,227,493**	3,372,917

See accompanying notes to consolidated financial statements

Muskrat Minerals Incorporated

(formerly VR Interactive Corporation)

Consolidated Statements of Changes in Equity

For the 15 months ended June 30, 2012 and the 12 months ended March 31, 2011
(Amounts presented in Canadian Dollars)

	Number of Shares Issued	Share Capital	Contributed Surplus	Deficit	Total
		$	$	$	$
Balance April 1, 2010 (Note 3)	26,983,333	2,638,509	108,300	(4,415,900)	(1,669,091)
Net income for the period				235,772	235,772
Balance March 31, 2011 (Note 3)	26,983,333	2,638,509	108,300	(4,180,128)	(1,433,319)
Reduction 1 for 8 consolidation (Note 8)	(23,610,416)				
Shares issued for debt (Note 6)	2,578,098	1,320,450			1,320,450
Private placement (Note 8)	4,400,000	2,024,000			2,024,000
Issued on asset acquisition (Note 5)	6,900,000	3,174,000			3,174,000
Costs related to private placement (Note 8)		(207,981)			(207,981)
Net loss for the period				(360,804)	(360,804)
Stock-based compensation (Note 9)			70,000		70,000
Balance June 30, 2012	17,251,015	8,948,978	178,300	(4,540,932)	4,586,346

See accompanying notes to consolidated financial statements

Muskrat Minerals Incorporated
(formerly VR Interactive Corporation)
Consolidated Statements of Cash Flows
For the 15 months ended June 30, 2012 and the 12 months ended March 31, 2011
(Amounts presented in Canadian Dollars)

	15 months	12 months
	June 30, 2012	March 31, 2011
	$	$
Cash flows from operating activities:		
Net income (loss)	**(360,804)**	235,772
Items not involving cash:		
Deferred tax recovery (Note 7)	**-**	(435,155)
Depreciation	**1,555**	1,723
Interest accretion on long-term debt (Note 7)	**-**	39,852
Stock-based compensation (Note 9)	**70,000**	-
Share of the loss of an associate (Note 5)	**62,815**	-
Changes in non-cash operating working capital		
Other receivables	**(18,152)**	(5,336)
Trade and other payables	**1,620**	1,976
	(242,966)	(161,168)
Cash flows from financing activities:		
Repayment of long-term debt (Note 7)	**-**	(64,432)
Advances of loans from directors and shareholders	**44,229**	225,562
Repayment of loans from directors and shareholders	**(119,232)**	-
Net proceeds from private placement (Note 8)	**1,816,019**	-
	1,741,016	161,130
Cash flows from investing activity:		
Cash assumed on asset acquisition (Note 5)	**297,857**	-
	297,857	-
Increase (decrease) in cash during the period	**1,795,907**	(38)
Cash, beginning of period	**486**	524
Cash, end of period	**1,796,393**	486

See accompanying notes to consolidated financial statements

Amounts paid for interest are included in cash flows from operating activities in the Consolidated Statements of Cash Flows.

1. NATURE OF OPERATIONS

Muskrat Minerals Incorporated ("the Corporation") was incorporated on October 4, 2000 under the laws of the Province of Alberta pursuant to the provisions of the *Business Corporations Act*. The Corporation, as a result of the recent acquisition and reorganization, has now transitioned into the mining and exploration sector through a wholly owned subsidiary, 3053229 Nova Scotia Limited ("NSL"). The Corporation's Head Office is located at 1470 – 141 Adelaide Street West, Toronto, ON M5H 3L5.

Shareholders of the Corporation, at an Annual and Special Meeting of Shareholders held on February 10, 2012, approved the delisting from the TSX Venture Exchange NEX and listing on the Canadian National Stock Exchange ("CNSX") under the symbol YYR on March 29, 2012.

On March 28, 2012, the name of the Corporation was changed from VR Interactive Corporation to Muskrat Minerals Incorporated.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Statement of Compliance

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

The Corporation has changed its fiscal year-end from March 31 to June 30 to coincide with the year-end of Grand River Iron Sands Incorporated, a company in which the Corporation has a major investment as discussed in Note 5. As a result, these financial statements reflect the results of the Corporation for the 15 month period ended June 30, 2012 with comparative figures for the 12 month period ended March 31, 2011. The next fiscal year will be from July 1, 2012 to June 30, 2013. Accordingly, the results of each period are not entirely comparable.

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). As these financial statements represent the Corporation's initial presentation of its annual results and financial position under IFRS, they were prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. These accounting policies are based on the IFRS standards and IFRIC interpretations that are applicable at June 30, 2012.

Previously the Corporation prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). An explanation of how the transition from GAAP to IFRS has affected the Corporation's consolidated financial position and results of operations is set out in Note 3 to the financial statements.

(b) Basis of Consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, VR Interactive International Inc. ("VRI") and NSL. All inter-company transactions and balances have been eliminated on consolidation.

(c) Investment in Associate

An associate is an entity over which the Corporation has significant influence, but not control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting and is initially recognized at cost. The carrying value is increased or decreased to recognize the Corporation's share of the profit or loss of the investee subsequent to the date of acquisition. The Corporation's share of the profit or loss is recognized in the consolidated statements of operations and comprehensive loss. Distributions received from an investee reduce the carrying amount of the investment.

(d) Equipment

Equipment is recorded at cost less accumulated depreciation and any impairment. Depreciation is provided using the declining balance method at the following annual rates:

Assets	Rates
Computer hardware	30%
Office furniture and equipment	20%

(e) Impairment of Assets

Equipment and other non-current assets with definite useful lives, are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Non-current assets that are not amortized including investment in associate, are subject to an annual impairment assessment. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds it recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

Impairment losses may be reversed, except for goodwill, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized.

(f) Share Issuance Costs

Costs incurred for the issuance of common shares are deducted from share capital.

(g) Foreign Currency

Foreign currency transactions are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end rates of exchange. Translation gains and losses are recorded in the statement of operations.

(h) Income Taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted rates and laws that are expected to be in effect in the periods that the temporary differences are expected to reverse. The effect of changes in rates is included in the statement of comprehensive income in the period which included the substantive enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Share-based Payments

Share-based payment awards that are direct awards of stock to employees or directors, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuing equity instruments, are accounted for using the Black-Scholes option pricing model. The cost is recognized on a straight-line graded method basis adjusted for expected forfeitures as an employee or director expense with a corresponding increase to equity in contributed surplus. Consideration paid by employees or directors on the exercise of stock options is recorded as share capital.

Share-based payments with parties other than employees, assumes a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In certain circumstances, the Company rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received. The Company share then measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

(j) Financial Assets and Liabilities

All financial assets and liabilities are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are included in the consolidated balance sheets and are measured at fair value except for held to maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. Held-for–trading financial instruments are recorded at cost and are subsequently measured at fair value with all revaluation gains and losses included in the consolidated statements of operations and comprehensive loss in the period in which they arise. Available-for-sale financial instruments are also recorded at cost and are subsequently measured at fair value with all revaluation gains and losses included in other comprehensive income. The Corporation's financial assets and liabilities were classified as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Trade and other payables	Other financial liabilities	Amortized cost
Loans from directors and shareholders	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

(k) Use of Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The areas that management makes critical estimates, assumptions and judgments are valuation of assets acquired, recoverability of deferred tax assets, measurement of stock-based compensation and impairment of assets.

(l) Provisions

A provision is recognized in the consolidated balance sheets when the Corporation has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Earnings Per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive ordinary shares into common shares.

(n) Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2012. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the table below. The following have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

(i) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted.

(ii) IFRS 10 Consolidated Financial Statements was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iii) IFRS 11 Joint Arrangements was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iv) IFRS 12 Disclosure of Interests in Other Entities was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(v) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(vi) IFRS 7 Financial Instruments: Disclosures was amended by the IASB in December 2011 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013.

(vii) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted.

3. FIRST-TIME ADOPTION OF IFRS

The Corporation's first consolidated financial statements prepared in accordance with IFRS are for the fiscal year commencing April 1, 2010. The accounting policies set out in this note have been applied in preparing the financial statements for the 15 months ended June 30, 2012, the comparative information presented for the 12 months ended March 31, 2011, and in the preparation of an opening IFRS balance sheet at April 1, 2010.

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Corporation's first-time adoption did not have an impact on the total equity, comprehensive income and cash flows and there are therefore no reconciling adjustments from Canadian GAAP to IFRS in preparing its IFRS balance sheets as at April 1, 2010 and March 31, 2011.

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the date of the opening IFRS balance sheet with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Corporation has applied the following exemptions to its opening IFRS balance sheet dated April 1, 2010:

(i) Exemption for business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations,* prospectively from the transition date or from a specific date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date. The Corporation has elected to apply IFRS 3 prospectively to business combinations occurring after its transition date. Business combinations occurring prior to the transition date have not been restated.

(ii) Exemption for cumulative translation differences
IFRS 1 permits cumulative translation gains and losses to be reset at zero at the transition date. This provides relief from determining cumulative currency translation differences in accordance with IAS 21, *The effects of changes in foreign exchange rates*, from the date a subsidiary or equity method investee was formed or acquired. The Corporation does not have cumulative translation differences related to subsidiary or equity method investees and this election is therefore not required.

(iii) Extinguishing financial liabilities with equity instruments
IFRS 1 provides the option to apply the transitional provisions of IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments. This provides relief from full retrospective application that would require restatement of all debt to equity swap transactions prior to the transition date. The Corporation has elected not to retrospectively apply IFRIC 19 to all the debt to equity swap transactions that occurred prior to its transition date.

(iv) Compound financial instruments
The Corporation has elected to apply IAS 32, Financial Instruments – Presentation retrospectively only to compound financial instruments where the liability portion is still outstanding as of the transition date.

(v) Share-based payment
IFRS 2, Share-based Payment, permits the application of this standard only to equity instruments granted after November 7, 2002 that had not vested by February 1, 2010. Accordingly, the Company has applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested on the date of transition.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Corporation has applied the following guidelines to its opening statement of financial position dated April 1, 2010:

(vi) Assets and liabilities of subsidiaries
In accordance with IFRS 1, if a parent company adopts IFRS subsequent to its subsidiary adopting IFRS, the assets and the liabilities of the subsidiary or associate are to be included in the consolidated financial statements at the same carrying amounts as in the financial statements of the subsidiary or associate. The Corporation's wholly-owned operating subsidiary, VR Interactive International Inc, has adopted IFRS at the same time as its parent company, April 1, 2010.

(vii) Estimates
In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Corporation's IFRS estimates as of April 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

4. EQUIPMENT

March 31, 2011

Description	Cost			Accumulated Depreciation			Net Book Value Mar. 31, 2011
	Balance Apr. 1, 2010	Additions	Balance Mar. 31, 2011	Balance Apr. 1, 2010	Depreciation	Balance Mar. 31, 2011	
Computer hardware	$ 73,776	-	$ 73,776	$ 68,547	$ 1,400	$ 69,947	$ 3,829
Office furniture and equipment	10,419	-	10,419	8,687	322	9,009	1,410
	$ 84,195	-	$ 84,195	$ 77,234	$ 1,722	$ 78,956	$ 5,239

June 30, 2012

Description	Cost			Accumulated Depreciation			Net Book Value Jun. 30, 2012
	Balance Mar. 31, 2011	Additions	Balance Jun. 30, 2012	Balance Mar. 31, 2011	Depreciation	Balance Jun. 30, 2012	
Computer hardware	$ 73,776	-	$ 73,776	$ 69,947	$ 1,236	$ 71,183	$ 2,593
Office furniture and equipment	10,419	-	$ 10,419	9,009	319	$ 9,328	1,091
	$ 84,195	-	$ 84,195	$ 78,956	$ 1,555	$ 80,511	$ 3,684

5. INVESTMENT IN ASSOCIATE AND ASSET ACQUISITION

Asset acquisition and initial measurement –

On March 28, 2012, the Corporation acquired all of the issued and outstanding common shares of NSL, a private Canadian company, by issuing 6,900,000 shares of the Corporation's common stock. The acquisition of NSL has been accounted for as an asset acquisition as NSL did not meet the definition of a business, which is defined under the requirement of IFRS 3 – Business Combination.

The fair values of the assets acquired by the Corporation at the acquisition date were determined with reference to the fair value of the Corporation's common shares issued as consideration, as the fair values of the assets acquired were not deemed to be estimated reliably. The fair value was based on the subscription price of $0.46 per share of the Corporation's most recent private placement (Note 8).

Assets acquired:		
Cash	$ 297,857	
Investment in Grand River Ironsands Incorporated	2,876,143	
	$ 3,174,000	(Note 8)

Through its investment in NSL, the Company now holds a 29.9% equity interest in Grand River Ironsands Incorporated ("GRI") which is an exploration stage private company in the process of exploring its mineral claims in Newfoundland and Labrador. GRI has a June 30 year end.

Subsequent measurement -

The investment in associate consists of the following:

	15 months June 30, 2012	12 months March 31, 2011
Balance at the beginning of the period	$ -	$ -
Investment in GRI	2,876,143	-
Share of the loss for the period since acqusition	(62,815)	-
Balance at the end of the period	$ 2,813,328	$ -

The following summarizes financial information about the assets, liabilities, revenues and net loss as reported by GRI for the period ending June 30, 2012. The amounts disclosed include adjustments made to the carrying amount of assets and liabilities of the associate on acquisition if applicable.

Total assets	$ 13,601,289
Total liabilities	$ 2,569,684
Revenues	$ 308,264
Net loss	$ (210,084)
Company's share of associate's net loss	$ (62,815)

6. LOANS FROM DIRECTORS, AND SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

To facilitate the settlement with ACOA discussed in Note 7, a shareholder advanced $75,000 in fiscal year 2011 with interest at 9%, repayable upon the closing of any re-organization of the Corporation's operations. The shareholder also provided interim funding without interest to finance operating expenses.

Other loans from directors and shareholders were due on demand bearing interest at 8.75% up until March 31, 2011 and had no specific terms of repayment. In fiscal year 2012, directors and shareholders loans of $1,320,450 were converted to 2,578,098 shares of common stock (Note 8) and the reminder was repaid in cash.

The conversion of the directors and shareholders loans to equity was approved at the annual meeting of shareholders held on February 10, 2012. The conversions were completed on March 28, 2012 and other loans and advances were repaid on March 30, 2012.

	March 31, 2012	March 31, 2011	April 1, 2010
Directors - 8.75%, no fixed terms of repayment	$ -	$ 16,944	$ 15,539
Shareholders - 8.75%, no fixed terms of repayment	-	1,303,509	1,154,352
Shareholder - 9%, repayable as noted above	-	75,000	-
Total	$ -	$ 1,395,453	$ 1,169,891

The compensation expense associated with key management and directors for services is as follows:

		15 months		12 months
		30-Jun-12		31-Mar-11
Management fees	$	32,500	$	-
Salaries		3,632		-
Directors' fees		7,350		-
Share based compensation		70,000		-
	$	113,482	$	-

7. LONG-TERM DEBT

The Corporation borrowed interest-free repayable loans totalling $600,656 from the Atlantic Canada Opportunities Agency ("ACOA"), a government agency, prior to 2008. The loan was initially measured at fair value and the benefit of the below-market rate of interest was treated as a gain prior to 2008. The carrying value of the loan was amortized using the effective interest rate method and as of April 1, 2010 was measured at $459,734. In March 2011, the Corporation entered into a settlement agreement with ACOA whereby the Corporation made full and final payment of the loans in the form of a cash payment of $75,000 and the utilization of tax losses of $1,577,129 carried forward. The benefit of such tax losses had not been recognized as a deferred tax asset prior to the settlement. Therefore, a deferred tax recovery was realized and recognized in fiscal year 2011.

The deferred tax recovery realized was calculated as follows:

	31-Mar-11
Principal outstanding	$ 600,656
Less: balance of interest accretion	(101,069)
Repayment prior to settlement	(1,308)
Interest and fees charged	11,876
Carrying value of long-term debt	510,155
Cash payment in 2011	(75,000)
Deferred tax recovery	$435,155

In the prior year, the Company in error, presented the settlement of the long-term debt as "revenue" on the consolidated statements of operations. The correction of the presentation to "deferred tax recovery" is reflected in the current consolidated statements of operations and comprehensive loss.

8. SHARE CAPITAL

		Number of Shares		Amount
Authorized:				
Unlimited number of common shares, without par value				
Issued and outstandings:				
March 31, 2011 and April 1, 2010		26,983,333	$	2,638,509
Reduction 1 for 8 Consolidation	(i)	(23,610,416)		-
Shares issued for debt (Note 6)		2,578,098		1,320,450
Private placement	(ii)	4,400,000		2,024,000
Issue related costs	(ii)	-		(207,981)
Issued on asset acquisition (Note 5)		6,900,000		3,174,000
Issued and outstandings June 30, 2012		17,251,015	$	8,948,978

(i) The common shares of the Corporation were consolidated on an 8:1 basis effective March 28, 2012. All share and per share data and stock-based compensation plans have been retroactively adjusted to give effect to the consolidation in these consolidated financial statements.

(ii) On March 28, 2012 the Corporation completed a private placement by issuing 4,400,000 common shares for gross proceeds of $2,024,000 and incurred issuance costs of $207,981.

9. STOCK-BASED COMPENSATION PLAN

The Board of Directors has established a stock option plan under which options to purchase common shares are granted to directors, officers, and key employees of the Corporation. Options to acquire common shares are granted at option prices which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant.

The Corporation has reserved 674,583 common shares pursuant to the stock option plan. There are 331,500 options to acquire common shares outstanding under the plan as at June 30, 2012. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

In July 2007, 237,500 options were granted to directors, officers, and employees under the stock purchase plan at an exercise price of $0.80. These options vested immediately. In November and December 2011 50,000 of these options expired immediately upon the resignation of two directors of the Corporation. The number of options and exercise price have been adjusted to reflect the 1 for 8 share consolidation effective March 28, 2012.

On May 28, 2012, 144,000 options were granted to directors, officers, and employees under the stock purchase plan at an exercise price of $0.65. These options vested immediately and expire in 10 years. The fair value of the option issued in 2012 was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 1.56% ; dividend yields of nil; volatility factor of 100%; and a weighted average expected life of the option of 5 years. The expected volatility of the Company is based on historical volatility of comparable entities for the same weighted average expected life of the option.

The stock option expense for 2012 included in the statement of operations is $70,000 (2011 - $ nil).

Options issued and outstanding as at June 30, 2012 (adjusted for share consolidation):

	Weighted average exercise price $	Issued
Balance March 31, 2011 and April 1, 2010	0.80	237,500
Expired	(0.80)	(50,000)
Granted	0.65	144,000
Balance June 30, 2012	0.73	331,500

The following table summarizes information about the options outstanding and exercisable at June 30, 2012:

Options Outstanding and Exercisable			
Number of options outstanding	Expiry date	Exercie price	Number of options exercisable
187,500	July 27, 2012	$ 0.80	187,500
144,000	May 28, 2022	$ 0.65	144,000
331,500			331,500

10. INCOME TAXES

The Corporation's income taxes have been calculated as follows:

	30-Jun-12	31-Mar-11
Loss before income tax	$ (360,804)	$ (199,383)
Income tax recovery at Canadian Federal and provincial statutory rates (31.90%; 2011 - 33.63%)	$ (115,096)	$ (67,043)
Non-deductible expenses	42,368	47,156
Deductible share issuance costs	(66,346)	-
Expiry of non-capital losses	-	284,019
Rate change	3,924	(59,016)
Change in unrecognized deferred tax assets	135,150	(640,271)
Income tax recovery	$ -	$ (435,155)

Deferred tax assets consist of:

	30-Jun-12	31-Mar-11	1-Apr-10
Equipment	$ 91,731	$ 90,176	$ 147,161
Scientific research and developments pools	-	-	346,281
Share issuance costs	197,582	-	-
Tax losses carried forwards	798,381	561,548	2,223,673
	$ 1,087,694	$ 651,724	$ 2,717,115
Fututre substantially enacted tax rate	31%	31%	31%
Tax benefit	$ 337,185	$ 202,034	$ 842,306
Less: deferred tax assets not recognized	(337,185)	(202,034)	(842,306)
Balance	$ -	$ -	$ -

At June 30, 2012, the Corporation and its subsidiaries had approximately $798,381 of non-capital losses carried forward to reduce future years' taxable income. The deferred tax benefit of these losses has not been recognized. The non-capital losses expire as follows:

2028	157,719
2029	164,174
2030	82,570
2031	116,126
2032	236,833
	$ 798,381

11. COMMITMENTS

The Corporation has no long term lease commitments and has no capitalized lease commitments.

12. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans from shareholders, ACOA long-term debt, share capital, contributed surplus and deficit. Its objective when managing capital is to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

	30-Jun-12	31-Mar-11	1-Apr-10
Loans from shareholders	$ -	$ 1,395,453	$ 1,169,891
Share Capital	8,948,978	2,638,509	2,638,509
Contributed surplus	178,300	108,300	108,300
Deficit	(4,540,932)	(4,180,128)	(4,415,900)
	$ 4,586,346	$ (37,866)	(499,201)

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions. The Corporation, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Corporation is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Corporation's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2011.

13. FINANCIAL INSTRUMENTS

The Corporation is required to disclose information about the nature and the extent of risks arising from financial instruments and how the entity manages those risks. Disclosure is also required about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data.

As at June 30, 2012, the Corporation carried cash at fair value and is considered level 1. Given the short term nature of the remaining financial assets and financial liabilities, their carrying values approximate their fair values.

Risk Disclosures
The main risks the Corporation's financial instruments could be exposed to are credit risk and liquidity risk.

Credit Risk
The Corporation's credit risk is primarily attributable to its cash. The Corporation places its cash with high quality financial institution and in reliable trust account in Canada, and as result, believes its exposure to credit risk is minimal.

Liquidity Risk
The Corporation's approach to managing liquidity is to ensure, as far a possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. To the extent that the Corporation does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Corporation manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations. In recent years, additional loans from directors/shareholders, and new equity financing have provided the necessary liquidity required. Trade and other payables are due within 12 months.

14. SUBSEQUENT EVENT

In July and August 2012, the Corporation acquired additional shares in GRI for $1,190,009 and $136,500, respectively. After the purchases, the Corporation's equity interest in GRI increased from 29.9% to 41.1%.