# MUSKRAT MINERALS INCORPORATED

Condensed Consolidated Financial Statements

For the 3 month period ended September 30, 2012

**In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the quarter ended September 30, 2012.**

Muskrat Minerals Incorporated
Financial Information

September 30, 2012

| | |
|---|---|
| Condensed Consolidated Balance Sheets | 1 |
| Condensed Consolidated Statements of Operations | 2 |
| Condensed Consolidated Statements of Changes in Equity | 3 |
| Condensed Consolidated Statements of Cash Flows | 4 |
| Note to Condensed Consolidated Financial Statements | 5 - 10 |

**Muskrat Minerals Incorporated**

**Condensed Consolidated Balance Sheets**

**(Amounts presented in Canadian Dollars)**

| | 30-Sep 2012 (Unaudited) | 30-Jun 2012 (Audited) |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets: | | |
| Cash | **418,686** | 1,796,393 |
| Other receivable | **28,633** | 23,488 |
| | **447,319** | 1,819,881 |
| Investment in associate (Note 4) | **4,092,664** | 2,813,328 |
| Equipment (Note 3) | **3,435** | 3,684 |
| | **4,543,418** | 4,636,893 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Trade and other payables | **51,517** | 50,547 |
| | **51,517** | 50,547 |
| Shareholders' equity | | |
| Share capital (Note 6) | **8,948,978** | 8,948,978 |
| Contributed surplus | **178,300** | 178,300 |
| Deficit | **(4,635,377)** | (4,540,932) |
| | **4,491,901** | 4,586,346 |
| | **4,543,418** | 4,636,893 |

*See accompanying notes to the condensed consolidated financial statements*

Approved on behalf of the Board:

*David J. Hennigar*

*Francis H. MacKenzie*

November 28, 2012

**Muskrat Minerals Incorporated**

**Condensed Consolidated Statements of Operations (Unaudited)**

**For the 3 months ended September 30, 2012 and September 30, 2011**

**(Amounts presented in Canadian Dollars)**

| | **3 months ended** | |
|---|---|---|
| | **30-Sep-12** | **30-Sep-11** |
| | **$** | $ |
| Operating expenses: | | |
| General and administrative | **46,685** | 11,290 |
| Depreciation | **249** | 333 |
| Loss before the undernoted | **(46,934)** | (11,623) |
| Share of loss of an associate (Note 4) | **47,172** | - |
| Interest | **339** | 1,836 |
| Net loss and comprehensive loss | **(94,445)** | (13,459) |
| Net loss per share | **($0.005)** | ($0.004) |
| Weighted average number of shares outstanding - basic and dilutive | **17,251,015** | 3,372,917 |

*See accompanying notes to the condensed consolidated financial statements*

## Muskrat Minerals Incorporated

**Condensed Consolidated Statemente of Changes in Equity (Unaudited)**
**For the 3 months ended September 30, 2012 and September 30, 2011**
**(Amounts presented in Canadian Dollars)**

| | Number of Shares Issued | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance June 30, 2011** | 26,983,333 | 2,638,509 | 108,300 | (4,189,925) | (1,443,116) |
| Net loss for the period | | | | (13,459) | (13,459) |
| **Balance September 30, 2011** | 26,983,333 | 2,638,509 | 108,300 | (4,203,384) | (1,456,575) |
| **Balance June 30, 2012** | 17,251,015 | 8,948,978 | 178,300 | (4,540,932) | 4,586,346 |
| Net loss for the period | | | | (94,445) | (94,445) |
| **Balance September 30, 2012** | 17,251,015 | 8,948,978 | 178,300 | (4,635,377) | 4,491,901 |

*See accompanying notes to the condensed consolidated financial statements*

## Muskrat Minerals Incorporated

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

**For the 3 months ended September 30, 2012 and September 30, 2011**

**(Amounts presented in Canadian Dollars)**

| | 3 months ended | |
|---|---|---|
| | **30-Sep-12** | **30-Sep-11** |
| | $ | $ |
| **Cash flows from operating activities:** | | |
| Net income (loss) | **(94,445)** | (13,459) |
| Items not involving cash: | | |
| Depreciation | **249** | 333 |
| Share of loss of associate (Note 4) | **47,172** | - |
| Changes in non-cash operating working capital | | |
| Other receivables | **(5,145)** | - |
| Trade and other payables | **970** | 2,838 |
| | **(51,199)** | (10,288) |
| **Cash flow from financing activities:** | | |
| Increase (decrease) in loans from shareholders | **-** | 8,541 |
| | **-** | 8,541 |
| **Cash flow from investing activities:** | | |
| Additional investment in associate (Note 4) | **(1,326,508)** | - |
| | **(1,326,508)** | - |
| Increase (decrease) in cash during the period | **(1,377,707)** | (1,747) |
| Cash and deposite, beginning of period | **1,796,393** | 2,250 |
| Cash and deposits, end of period | **418,686** | 503 |

*See accompanying notes to the condensed consolidated financial statements*

## 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. The shares of the Corporation are listed on the Canadian National Stock Exchange ("CNSX") under the symbol YYR.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation and Statement of Compliance

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

The unaudited condensed interim financial statements for the 3 month period ended September 30, 2012, and the notes thereto (the "Interim Financial Statements"), together with the Company's annual audited financial statements issued under International Financial Reporting Standards ("IFRS") for the 15 month period ended June 30, 2012, present the Company's financial results of operations and financial position under IFRS as at and for the 3 months ended September 30, 2012, including 2011 comparative periods. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company adopted in its financial statements for the 15 month period ending June 30, 2012 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS.

The policies set out in note 2 were consistently applied to all the periods.

### (b) Basis of Consolidation

These condensed 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 condensed 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 condensed 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 condensed 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 |
| Other receivables | Loans and receivables | Amortized cost |
| Trade and other payables | Other financial liabilities | Amortized cost |
| Loans from directors and shareholders | 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 condensed 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 could be applicable or could have a significant impact to the

Company, are discussed in detail in Note 2(n) to the June 30, 2012 audited financial statements. The pronouncements, which will be effective for the fiscal year commenting July 1, 2013, have not yet been adopted and are being evaluated to determine the resultant impact on the Company.

## 3. EQUIPMENT

September 30, 2011

| Description | Cost | | | Accumulated Depreciation | | | Net Book |
|---|---|---|---|---|---|---|---|
| | Balance Jun 30, 2011 | Additons | Balance Sep 30, 2011 | Balance Jun 30, 2011 | Depreciation for period | Balance Sep 30, 2011 | Value Sep 30, 2011 |
| Computer hardware | $ 73,775 | - | $ 73,775 | $ 70,234 | $ 266 | $ 70,499 | $ 3,276 |
| Office furniture and equipment | 10,419 | - | 10,419 | 9,079 | 67 | 9,146 | 1,273 |
| | $ 84,194 | $ - | $ 84,194 | $ 79,313 | $ 333 | $ 79,646 | $ 4,549 |

September 30, 2012

| Description | Cost | | | Accumulated Depreciation | | | Net Book |
|---|---|---|---|---|---|---|---|
| | Balance Jun 30, 2012 | Additons | Balance Sep 30, 2012 | Balance Jun 30, 2012 | Depreciation for period | Balance Sep 30, 2012 | Value Sep 30, 2012 |
| Computer hardware | $ 73,775 | - | $ 73,775 | $ 71,183 | $ 194 | $ 71,377 | $ 2,398 |
| Office furniture and equipment | 10,419 | - | 10,419 | 9,328 | 55 | 9,382 | 1,037 |
| | $ 84,194 | $ - | $ 84,194 | $ 80,510 | $ 249 | $ 80,759 | $ 3,435 |

## 4. INVESTMENT IN ASSOCIATE

Through its investment in NSL, the Company now holds a 41.1% 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.

The investment in associate consists of the following:

| | 3 months 30-Sep-12 | 3 months 30-Sep-11 |
|---|---|---|
| Balance beginning of period | $ 2,813,328 | $ - |
| Additional investment in GRI | 1,326,508 | - |
| Share of loss for period | (47,172) | - |
| Balance at end of period | $ 4,092,664 | $ - |

## 5. LOANS FROM DIRECTORS, AND SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

To facilitate the settlement of a long term debt 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 and the remainder were 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.

| | | 30-Sep-12 | | 30-Sep-11 |
|---|---|---|---|---|
| Directors - 8.75% no fixed terms of repayment | $ | - | $ | 16,944 |
| Shareholders - 8.75% no fixed terms of repayment | | - | | 1,303,509 |
| Shareholder - 9%, repayable as noted above | | - | | 78,422 |
| Shareholder - without interest repayable as noted above | | - | | 16,892 |
| Total | $ | - | $ | 1,415,767 |

## 6. SHARE CAPITAL

| COMMON STOCK OUTSTANDING | Number of Shares | Amount |
|---|---|---|
| Authorized: | | |
| Unlimited number of common shares without par value | | |
| Issued and outstanding: | | |
| June 30, 2012 and September 30, 2012 | 17,251,015 | $ 8,948,978 |

## 7. 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 144,000 options to acquire common shares outstanding under the plan as at September 30, 2012. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding as at September 30, 2012:

| | | Weighted average exercise price | Issued |
|---|---|---|---|
| Balance June 30, 2012 | $ | 0.73 | 331,500 |
| Expired | $ | 0.80 | (187,500) |
| Balance September 30, 2012 | $ | 0.65 | 144,000 |

## 8. COMMITMENTS

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

## 9. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans from directors and shareholders, 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-Sep-12 | | 30-Sep-11 |
|---|---|---|---|---|
| Loans from directors and shareholders | $ | - | $ | 1,415,767 |
| Share capital | | 8,948,978 | | 2,638,509 |
| Contributed surplus | | 178,300 | | 108,300 |
| Deficit | | (4,635,377) | | (4,203,383) |
| | $ | 4,491,901 | | (40,807) |

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 fiscal period ended June 30, 2012.

## 10. 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 September 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.