

## **MUSKRAT MINERALS INCORPORATED**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FOR THE YEAR ENDED JUNE 30, 2013**

The following is a discussion of the audited consolidated financial condition and results of operations of Muskrat Minerals Incorporated (“MMI” or “the Corporation”) for the year ended June 30, 2013. This discussion and analysis should be read in conjunction with the Corporation’s annual audited consolidated financial statements and the related notes thereto for the year then ended.

The Corporation principle asset is an indirect 40.4% (41.1% at June 30, 2013 and 29.9% at June 30, 2012) interest in Grand River Ironsands Inc. (“GRI”), which in turn owns 70% (74.85% at June 30, 2013 and 83.1% at June 30, 2012) of North Atlantic Iron Corporation (“NAIC”), a joint venture investing to become a vertically integrated pig iron producer with an iron sands project in Labrador and Newfoundland and 100% of Forks Specialities Metal Inc. (“FSM”) which owns and operates two electric arc smelting furnaces in Pennsylvania, USA. .

For fiscal 2012 the investment in GRI has been recorded as a “Pooling of Interest” and accounted for on an equity basis. During fiscal 2013 the Corporation acquired additional shares in GRI, increasing the ownership to 41.1%, which, combined with the shareholdings of directors and related parties, resulted in the Corporation acquiring a deemed controlling interest in GRI, requiring consolidation of their operations for fiscal 2013. (Refer to Note 2 of the June 30, 2013 audited financial statements)

The consolidated financial statements are presented in Canadian dollars which is also the Corporation and its subsidiaries’ functional currency and 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”). These accounting policies are based on the IFRS standards and IFRIC interpretations that are applicable at June 30, 2013.

Additional information about MMI can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Canadian National Stock Exchange Disclosure Hall at [www.cnsx.ca](http://www.cnsx.ca)

This MD&A is dated as of October 28, 2013 and contains discussion of material events up to and including that date.

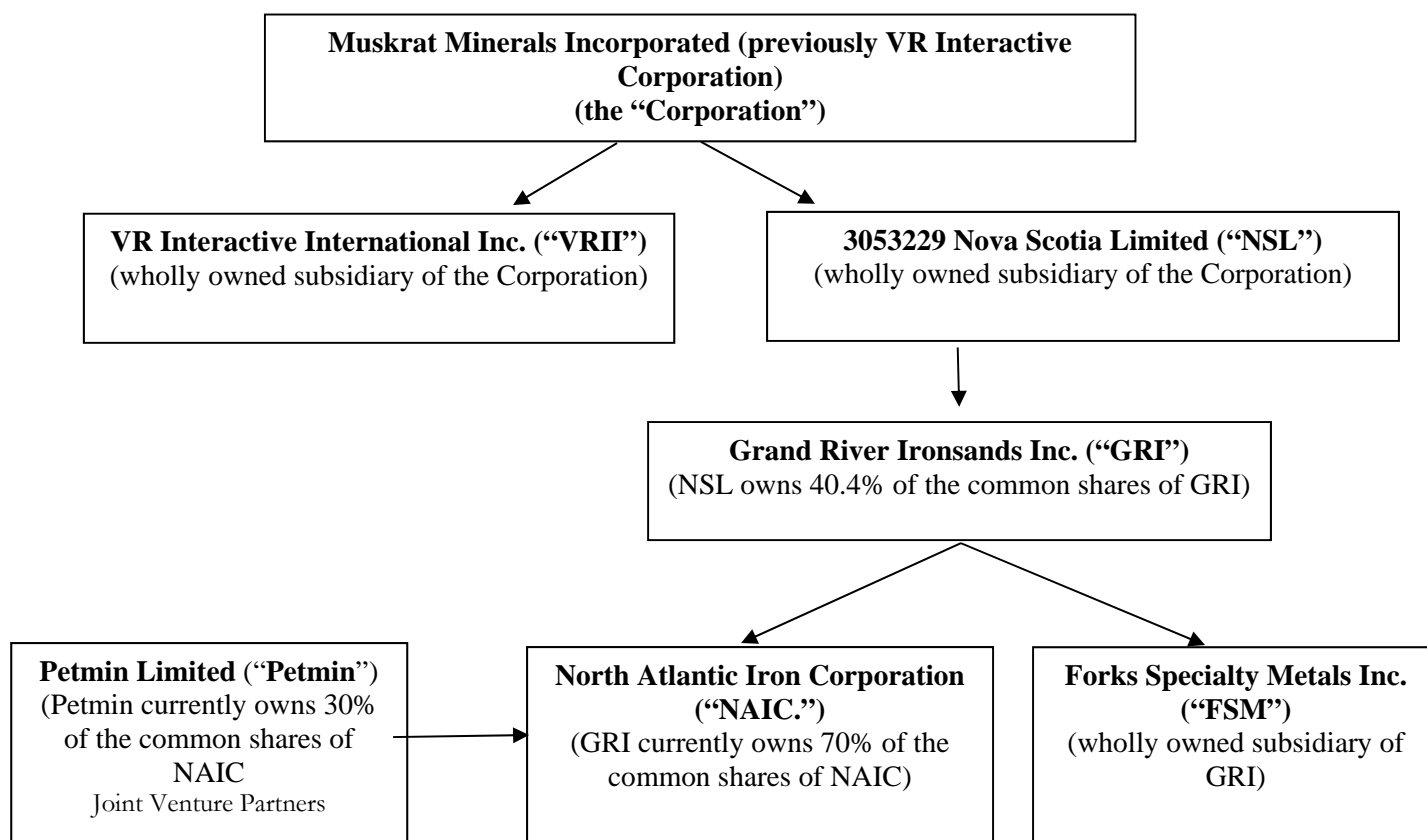
### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The following discussion and analysis contains forward-looking statements which reflects management’s expectations regarding the Corporation’s future growth, results of operations, performance, and business prospects and opportunities. Although the forward-looking statements reflects management’s current assumptions based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Corporation cannot be certain that actual results will be consistent with these forward looking statements. Forward-looking statements involve significant known and unknown risks, assumptions and uncertainties that may cause the Corporation’s actual results, performance, prospects, and opportunities in future periods to differ materially from those expressed or implied by such forward looking statements. These risks and uncertainties include, among other things, market demand, commodity pricing, regulatory matters, currency risks, liability claims, integration of new operations, financing risks, and interest rate risks. Although the Corporation has attempted to identify important risks and factors that could cause actual results to differ materially from those described in the forward-looking statements, there may be other factors and risks that may cause results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results may differ materially from those anticipated in such statements. Certain factors that may impact operations are also discussed. Such comments will be affected by, and may involve, known and unknown risks and uncertainties that may cause the actual results of the Corporation to be materially different from those expressed or implied. Accordingly, readers should not place undue reliance on forward-looking statements. These forward looking statements are made as of the date of this MD&A and, except as required by law, the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

## CORPORATE OVERVIEW

MUSKRAT MINERALS INCORPORATED (the “Corporation”) is a publicly listed Corporation, trading on the Canadian National Stock Exchange (the “CNSX”), with a ticker symbol “YYR”. Headquartered in Toronto, Canada, the Corporation wholly-owns VR Interactive International Inc. (“VRII”), and 3053229 Nova Scotia Inc. (“NSL”) which in turn owns 40.4% (41.1% at June 30, 2013 and 29.9% at June 30, 2012) of Grand River Ironsands Inc. (“GRI”). GRI in turn owns 70% (74.85% at June 30, 2013 and 89.3% at June 30, 2012) of North Atlantic Iron Corporation (“NAIC”), which is investing to become a vertically integrated pig iron producer with an iron sands project in Labrador and Newfoundland, and 100% of Forks Speciality Metals Inc. (“FSM”), which owns and operates two electric arc smelting furnaces in Pennsylvania.

Below is a chart of the corporate structure of the Corporation and its wholly and partially owned subsidiaries, along with the current and potential joint venture partners hereinafter explained:



## SIGNIFICANT HIGHLIGHTS

During the year ended June 30, 2013, and to the date of this MD&A, has significantly advanced its investment in Grand River Ironsands Inc. and indirectly in North Atlantic Iron Corporation.

- On July 20, 2012 Muskrat Minerals Incorporated (CNSX: YYR) concluded a share acquisition from two shareholders in the privately-owned GRI. In total, 2,380,017 shares in GRI were acquired for \$1,190,009 by the Corporation, increasing its NSL subsidiary’s ownership position in GRI from 6,900,000 shares (29.9% of GRI shares issued) to 9,280,017 shares (40.22%).
- On August 21, 2012 project partner Petmin, of Johannesburg, South Africa, pursuant to the joint –venture agreement with GRI announced that the Corporation has increased its investment in NAIC by US \$4.5 million, or an additional 5.6% of the project, taking its overall stake to 22.5%.

- On August 31, 2012 the Corporation acquired an additional 195,000 shares of GRI increasing its NSL subsidiary's ownership from 40.2% (9,280,017 shares) to 41.1% (9,475,017 shares). The shares were acquired for an aggregate consideration of \$136,500 from three unrelated shareholders of the privately-owned GRI.
- On April 7, 2013 Petmin advanced an additional US \$2 million against its commitment to invest an additional US \$6 million in NAIC for an additional 7.5% of the project. Once the additional \$4,000,000 has been received Petmin's overall stake in the project will increase to 30%.
- On July 17, 2013, GRI reported that Petmin advanced an additional US\$2 million against its commitment to invest an additional US\$6 million in NAIC.
- On October 11, 2013 GRI issued 179,982 flow thru common share at \$2.25 per share and 199,395 non-flow thru common shares at \$2.10 per share for an aggregate consideration of \$823,689. The shares issuances reduce the corporation's interest in GRI to 40.4%.
- On October 22, 2013 Petmin advanced the final US\$2 million against its commitment to invest an additional US\$6 million in NAIC for an additional 7.5% of the project. Petmin's overall stake in NAIC now stands at 30%.
- Management continues to monitor the operations of its investment in GRI and to seek other investment opportunities.

## CURRENT BUSINESS ACTIVITIES

The Corporation's 100% owned NSL Subsidiary has a 40.4% shareholding in GRI, a private company which was incorporated on March 24, 2001, in the Province of Nova Scotia, pursuant to the *Companies Act* (Nova Scotia). As of time of issuance of this MD&A, GRI has a 70% shareholding (undiluted and potentially 50.1% (fully diluted) in NAIC, a joint venture investing to become a vertically integrated pig iron producer. In addition, NAIC is involved in the exploration and development of an iron sands project near Happy Valley-Goose Bay, NL, Canada which will provide feed stock for NAIC's intended pig iron production facility.

GRI, prior to the creation of the NAIC joint venture, assembled and secured 1,800 mineral claims covering 450 square kilometres (100% of claims under their previous control) in the area of Happy Valley-Goose Bay, Newfoundland and Labrador, Canada. GRI and its new subsidiary, NAIC, entered into a joint venture by a share purchase agreement dated September 15, 2010, as amended on August 22, 2011 with Petmin (JSE: PET), a publicly traded mining company in South Africa, whereby GRI contributed its mineral claims to NAIC and Petmin acquires shares in NAIC through cash investments. The summary details of the Joint Venture were publicly announced on November 18, 2011.

## OVERVIEW OF NAIC

NAIC is the Joint Venture entity that holds the mineral claim licenses for mineral sands located in Happy Valley-Goose Bay, Newfoundland and Labrador. NAIC primary goal is to become a vertically integrated North American pig iron producer utilizing mineral sands owned by NAIC as the primary feed stock. The joint venture project includes the mining of the mineral sands; the separation and production of iron sand; the development of the pig-iron making process; the construction, commissioning and operation of pig iron smelting plant; and, all transportation and logistics systems. This fully integrated pig iron production solution is herein referred as the "Project" or "Joint Venture" or "Joint Venture Project".

Petmin invests its contributions to NAIC. Since entering into the Joint Venture agreement with GRI Petmin has invested a total of US\$17 million into NAIC and currently holds a 30% ownership position. Their latest investment was made on October 22, 2013 (US\$2.0 million) and completed Petmin's commitment to advance an additional US \$6.0 million in 2013, earning an additional 7.5% ownership in NAIC. At the date of this MD&A Petmin owns 30% of the common shares of NAIC. Petmin has an option to acquire up to 40% of NAIC for a total of US\$25 million (US\$17 million invested to date). Following the completion of its US\$25 million investment, Petmin has the option to acquire an additional 9.9% of the common shares of NAIC, at a fair market price, increasing its potential ownership of NAIC to 49.9% on a fully diluted basis.

Operationally, progress has been made on a number of fronts.

- A pilot separation plant in Happy Valley-Goose Bay was commissioned on August 13, 2012, to produce iron ore concentrate from NAIC's iron sands resource. 200 tonnes of concentrate was transported to the United States in December 2012 to be used as feedstock for significant smelting test campaigns.
- GRI acquired two 1MW electric arc furnaces in early 2013, located in Easton, PA. These furnaces are demonstration scale versions of what NAIC plans to use in a commercial pig iron production plant. They provide the resources and facilities required to undertake the extensive smelting tests required to prove the technical and economic viability of producing pig iron from NAIC's iron sands. Data from these tests will support the Preliminary Economic Assessment ("PEA") and future Feasibility Studies. These furnaces are operated by a USA incorporated company FSM, a wholly owned subsidiary of GRI. Currently FSM is focused solely on providing support and testing facilities to NAIC. Once that testing is completed, GRI will determine the role FSM will play going forward.
- The partners of NAIC (which include GRI) hot commissioned the FSM furnaces in Easton, PA in February 2013 and smelted their first iron concentrate briquettes (approximately 9000 lbs. of material) producing over 2,600 pounds of hot metal. This first round of testing used a high grade coke as a reductant, similar to what is used by blast furnace steel makers. Following this successful use of a high grade reductant in the pig iron production process, plans were put in place for tests using different lower cost reductants (coal).
- As planned following the successful smelt test in February, a second round of testing was conducting using lower cost reductant. Following laboratory scales tests, a thermal coal from the Illinois Basin was chosen. This is type of coal is inexpensive and readily available. Using this coal, a three day smelting effort at the FSM facility was completed July 31-August 2, 2013. Pig iron was successfully produced proving that a thermal (low cost) coal could be used as a reductant. Further optimization of the pig iron and slag chemistry is ongoing.
- Following completion of the first two smelt tests, NAIC was able to show that a wide range of coals can be used as a reductant for producing pig iron from its iron sands concentrate. Plans were put into place to use briquettes, containing the thermal coal, in Rotary Hearth Furnace ("RHF") tests to create an intermediate product, Direct Reduced Iron ("DRI") for smelting in the FSM electric furnaces. Producing DRI, for smelting in an electric furnace will result in test work confirming NAIC's intended commercial flow sheet: (i) Briquettes > (ii) Briquettes reduced in an RHF to create DRI > (iii) smelting of DRI in electric furnace to produce pig iron.
- During September, briquettes, containing NAIC iron sands and the tested thermal coal, were shipped to a third party Rotary Hearth Furnace (Midrex Technical Centre) in North Carolina, whereby the iron sands briquettes were reduced to make DRI of over 75% metallization. During the 14 day campaign at Midrex approximately 30 tonnes of DRI was produced and then shipped to the FSM facility. This DRI will be smelted in late October and early November to make a pig iron. As indicated, the objective of this process of iron sands briquettes to DRI to Pig Iron is designed to replicate the process of a commercial pig iron plant. A number of steel mills and traders will be invited and the process will be carried out under the supervision of an independent party Hatch Engineering.
- In addition to the iron making technology that NAIC has been focused on for more than four years; a second iron making process has also been under investigation. This process, known as Ausiron, has been developed by Outotec. A scouting test using NAIC iron concentrate and Australian coals successfully produced pig iron in early 2013. Additional and more advanced testing will be done before end of calendar year at the Ausiron facility in Australia using coals representative of what would be available for a North American facility.
- The selection of a site for pig iron production has the most significant impact on the economics of the project. Among factors being considered are proximity to end markets and raw material inputs, access to a port with reasonable shipping time to Goose Bay, and the availability and price of power. These input factors contribute significantly to the cost of pig iron production. Several sites in the US and Canada have been asked to submit proposals for evaluation. The site selection process for locating the first plant has been progressing with the preferred site(s) scheduled to be identified after the major melting tests are completed and North American Steel Mills have had the opportunity to review the results. This decision is now expected before Q1 2014.

- The NI43 -101 compliant PEA which has been underway for the past 12 months is expected to be published before the end of Q1 2014. The PEA covers all aspects of the project including geology, environmental, concentration, smelting, site selection and infrastructure requirements. The PEA will provide clarity on best methods for mining as well as beneficiation. Materials handling has also been an aspect of significance and several options are being reviewed. In addition, advanced discussions have been underway with regards to shipping solutions, port facilities, and other logistics concerns.
- NAIC currently has an inferred resource of 594m tonnes of iron sands at 9.53 wt %, of which 37.46% is  $Fe_2O_3$ , from which NAIC produces a concentrate of approximately 54% Fe, a quality feed-stock for high-purity pig iron production. An updated NI43-101 compliant statement published by SRK Consulting in February 2013 confirms an indicated resource of 334m tonnes with a further 260m tonnes in the inferred category. The resource statement is based on just 3% of NAIC's 450 square km claim. During the next few months the company will direct efforts to better understanding the potential quantities of other valuable minerals contained in the non-magnetic tailings (e.g. garnet, zircon, etc.) and better understand their economic potential.
- A review of the relevant environmental regulatory process is complete and NAIC met in January 2013 with senior environmental officials for Newfoundland and Labrador. Canadian regulators require environmental registration shortly after the conclusion of a PEA. Environmental approval for the mine can be expected about 12 months after registration, whereas approval for a pig iron plant can take between 20 to 24 months. Stantec engineers in Happy Valley-Goose Bay have been engaged to develop the strategy and approach for the environmental permitting and process for the mining operation in Happy Valley-Goose Bay. Community consultation and environmental registration will commence after TWP has completed and NAIC has submitted the Preliminary Economic Assessment.
- The summer 2013 drill program was completed in August 2013 with a goal to complement the existing resource targets and further expand NAIC's total resource. It is widely expected that a second program will be planned for either the fall of 2013 or the winter of 2014.
- NAIC has currently identified a resource of sufficient size to supply 20 years of iron concentrate for a pig iron plant with production capacity of 500,000 tonnes. NAIC, through technical work with Tenova, TWP, and tests at FSM and the Midrex Technology centre, has determined that production of 800,000 tpa of pig iron is possible. This is achieved using the same RHF but increasing the size of the submerged arc furnace. This increase in output lowers the capital intensity per tonne of pig iron production and also reduces operating costs. As a result, drill plans and permits are being put in place with a goal to increase NAIC's defined resources. There is an enormous mineral resource base under staked claim and efforts will be focused on drilling additional resources that optimize the cost of delivered concentrate to a pig iron facility.
- Tenova Group has been engaged since January 2012 on the conceptual design and pre-engineering report on the commercial size iron making plant. Hatch Engineering is conducting a technical review and will provide input on the equipment selected, projected production levels and CapEx and OpEx. This work will be the basis for efforts to move forward on permitting, financial modeling, completion of the feasibility report, and eventual financing. The details of this report will be made available, when the PEA is completed and released.

The next several months will be active for NAIC as they complete the resource measurement, smelting tests, conceptual plant design, site selection and PEA. The Corporation will work closely with NAIC and its partners to ensure milestones are met and will assist in any way to move the project to commercial success.

In addition, the Corporation may seek growth opportunities for its Shareholders by investing in related projects in Newfoundland and Labrador, and/or by continuing to increase its ownership of GRI.

## **FINANCIAL SUMMARY**

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. During the year the Corporation acquired additional shares in an associated company GRI increasing the ownership from 29.9% to 41.1%, which, combined with the



shareholdings of directors and related parties, resulted in the Corporation acquiring a deemed controlling interest in GRI, requiring the reporting and disclosure on a consolidated basis of GRI and its operating subsidiaries.

The June 30, 2013 consolidated financial statements include the accounts of the Corporation and the following entities:

- 100% VR Interactive International Inc. (“VRI”)
  - Incorporated in Nova Scotia and engaged in the development of 360° Surroundphoto technology. This technology has since been abandoned and the company is currently inactive.
- 100% 3053229 Nova Scotia Limited (“NSL”)
  - A holding company incorporated in Nova Scotia
  - 41.1% Grand River Ironsands Incorporated (“GRI”)
    - Incorporated in Nova Scotia engaged in the exploration and development of mineral deposits
    - 100% Forks Specialty Metals Inc. (“FSM”)
      - Incorporated in Pennsylvania engaged in iron ore smelting
    - 74.85% (70% at date of MD&A) North Atlantic Iron Corporation (“NAIC”)
      - Incorporated in Nova Scotia engaged in the exploration and development of mineral deposits

All inter-company transactions and balances have been eliminated on consolidation.

The following discussion addresses the operating results and financial condition of the Corporation for the year ended June 30, 2013. This discussion and analysis is qualified in its entirety by reference to and should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended June 30, 2013, and the related notes thereto, as well as reference to the forward looking statements within this report. All results in this report are presented in Canadian dollars, unless otherwise indicated.

The following tables summarize selected yearly and quarterly financial results from operation for the last three fiscal years. The results are only consolidated for fiscal 2013 making comparisons to prior years difficult.

<b>Selected Fiscal Year Audited Operating Results</b>			
	<b>30-Jun-13</b>	<b>30-Jun-12</b>	<b>30-Jun-11</b>
	<b>\$'s</b>	<b>\$'s</b>	<b>\$'s</b>
Revenues	-	-	-
General and administration	338,286	186,510	-
Operating Expenses	1,166,238	-	36,694
Management fees	456,158	32,500	-
Stock based compensation	218,000	70,000	-
Depreciation	7,886	1,555	1,602
Interest	19,967	7,424	122,929
Net income (loss) before under noted item	(2,206,536)	(297,989)	(161,225)
Share of loss of an associate	-	(62,815)	-
Gain on Debt forgiveness	373,463	-	435,155
Gain on acquisition of control	8,709,672	-	-
Bargain purchase gain	2,784,620	-	-
Income tax recovery	1,058,339	-	-
Non-controlling interest	355,912	-	-
Net income (loss)	11,075,470	(360,804)	273,930
Net income (loss) per share	\$0.64	(\$0.058)	\$0.081
Avg. Weighted shares O/S	17,251,015	6,227,493	3,372,917

## Overall performance for the 12 months ended June 30, 2013

The Corporation had no revenue during the year and anticipates no significant revenue in the immediate future.

Net income for the 12 months ended June 30, 2013, was \$11,075,470 (\$0.64 per share) compared to a net loss \$360,804 (\$0.070 per share) for the prior fiscal year ended June 30, 2012. The results for 2013 reflect the gain upon consolidation, bargain share purchase, one-time windfall from the settlement of long-term debt, and related income tax recovery, without which the loss would have been (\$1,850,627) (\$0.1073 per share).

The significant increase in expenses for the fiscal year June 30, 2013 is due to the consolidation of GRI and its subsidiaries into MMI.

On July 20, 2012 the Corporation concluded an agreement with two shareholders of GRI to purchase 2,380,017 shares of GRI for \$1,190,009 and the forgiveness of a debt of \$373,463 owing by GRI to the shareholders. The purchase increased the Corporation's ownership to 40.23% and effective control of GRI.

The acquisition of control of GRI was accounted for as a step acquisition. The aggregate fair value of the assets acquired and the liabilities assumed were as follows on the acquisition date, July 20, 2012.

<b>Acquisition of control of GRI</b>	
Assets acquired	\$
Cash	6,904,194
Other receivable	399,365
Loans receivable	109,318
Investment	6,500
Iron interests	47,498,827
Mineral claim deposits	137,870
Prepaid expenses and deposit	19,663
Property and equipment	203,333
	55,279,070
Liabilities assumed	
Trade and other payables	(1,004,962)
Deferred tax	(12,160,008)
Due to related party	(373,463)
Non-controlling interest of NAIC	(3,214,243)
	(16,752,676)
Net assets acquired	38,526,394
Non-controlling interest	23,028,766
	15,497,628
Investment in associate at date of acquisition	2,813,328
	12,684,300
Cash consideration	1,190,009
Gain on acquisition of control	11,494,292
<b>Breakdown of gain from acquisition:</b>	
Gain from bargain transaction	2,784,620
Gain from remeasurement when acquiring control	8,709,672
	11,494,292

## Selected Quarterly Financial Data

The following table reports the operating results for the last eight quarters. The adjustments and restatements necessary to reflect the consolidation of the Corporation with GRI and its subsidiaries were all recorded in the June 30, 2013 quarter, making comparison to previous quarters difficult.

Selected Quarterly Financial Data								
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
	2013	2013	2012	2012	2012	2012	2011	2011
Revenue	-	-	-	-	-	-	-	-
Expenses								
Gen & Admin	622,119	39,911	303,729	46,685	168,725	90,114	11,280	11,290
Operating Expenses	1,166,238	-	-	-	-	-	-	-
<b>Operating loss before under noted</b>	<b>(1,788,357)</b>	<b>(39,911)</b>	<b>(303,729)</b>	<b>(46,685)</b>	<b>(168,725)</b>	<b>(90,114)</b>	<b>(11,280)</b>	<b>(11,290)</b>
Share of Loss in associate	234,494	(112,923)	(74,399)	(47,172)	(62,815)	-	-	-
Depreciation	(7,189)	(216)	(232)	(249)	(268)	(288)	(309)	(333)
Interest expense	(19,594)	(17)	(17)	(339)	(53)	(1,846)	(1,851)	(1,836)
Non-controlling interest	355,912	-	-	-	-	-	-	-
Gain on Debt forgiveness	373,463	-	-	-	-	-	-	-
Gain on acquisition of control	8,709,672	-	-	-	-	-	-	-
Bargain purchase gain	2,784,620	-	-	-	-	-	-	-
Income tax recovery	1,058,339	-	-	-	-	-	-	-
<b>Net Income(Loss)</b>	<b>11,701,359</b>	<b>(153,067)</b>	<b>(378,377)</b>	<b>(94,445)</b>	<b>(231,861)</b>	<b>(92,248)</b>	<b>(13,440)</b>	<b>(13,459)</b>
Income (Loss) per share	\$0.678	(\$0.009)	(\$0.022)	(\$0.005)	(\$0.013)	(\$0.024)	(\$0.004)	(\$0.004)
<b>Avg. Weighted Shares O/S</b>	<b>17,251,015</b>	<b>17,251,015</b>	<b>17,251,015</b>	<b>17,251,015</b>	<b>17,251,015</b>	<b>3,830,437</b>	<b>3,372,917</b>	<b>3,372,917</b>

## Segmented Information

	Corporate		GRI		NAIC		FSM		Eliminations		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - external customers	-	-	-	-	-	-	-	-	-	-	-	-
Revenue - intersegment	-	-	52,538	-	2,803	-	630,338	-	(685,679)	-	-	-
	-	-	52,538	-	2,803	-	630,338	-	(685,679)	-	-	-
Operating expenses	1,057,839	289,010	241,371	-	1,044,237	-	520,915	-	(685,679)	-	2,178,683	289,010
	(1,057,839)	(289,010)	(188,833)	-	(1,041,434)	-	109,423	-	-	-	(2,178,683)	(289,010)
Share of loss of an associate	-	(62,815)	-	-	-	-	-	-	-	-	-	(62,815)
Depreciation	(897)	(1,555)	(4,320)	-	(907)	-	(265,792)	-	264,030	-	(7,886)	(1,555)
Interest and bank charges	(374)	(7,424)	-	-	(12,695)	-	(6,898)	-	-	-	(19,967)	(7,424)
Gain on debt forgiveness	373,463	-	-	-	-	-	-	-	-	-	373,463	-
Gain from bargain transaction	2,784,620	-	-	-	-	-	-	-	-	-	2,784,620	-
Gain on acquisition of control	8,709,672	-	-	-	-	-	-	-	-	-	8,709,672	-
	11,866,484	(71,794)	(4,320)	-	(13,602)	-	(272,690)	-	264,030	-	11,839,902	(71,794)
Segment income (loss) before taxes	10,808,645	(360,804)	(193,153)	-	(1,055,036)	-	(163,267)	-	264,030	-	9,661,219	(360,804)
Total assets	262,420	4,636,893	929,242	-	54,005,365	-	2,286,088	-	264,030	-	57,747,145	4,636,893
Total liabilities	11,123,030	50,547	1,314,486	-	558,577	-	1,089,216	-	-	-	14,085,309	50,547

The Corporation's Board of Directors monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Corporation's income taxes are monitored on a consolidated level and are not allocated to operating segments.



## Geographical segments

The above segments are managed on a worldwide basis, but operate in two principal geographical areas, namely, Canada and the United States.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

There are no revenues from external customers for the periods ending June 30, 2013 or June 30, 2012.

Non-current assets	2013	2012
	\$	\$
Canada	54,163,493	2,817,012
United States of America	1,852,361	-
Total non-current assets	56,015,854	2,817,012

## Selected Consolidated Financial Information

Selected items from the Consolidated Balance Sheet as at June 30, 2013, with comparable numbers for the prior two years.

Selected Consolidated Balance Sheet Items			
	Year End	Year End	Year End
	June 30, 2013	June 30, 2012	June 30, 2011
	\$'s	\$'s	\$'s
Cash	1,055,880	1,796,393	2,250
Accounts Receivable	121,236	23,448	-
Prepaid and other deposits	438,357	-	-
Investment and loan receivable	115,818	-	-
Investment in associate	-	2,813,328	-
Iron interests	53,548,968	47,444,361	-
Mineral claim deposits	434,677	137,870	-
Property and equipment	2,032,209	3,684	4,881
Accounts Payable	(1,557,741)	(50,547)	(43,022)
Directors and Shareholder advances	-	-	(1,407,226)
Long term debt	(1,425,900)	-	-
Deferred Taxes	(11,101,669)	-	-
Shareholders' Equity (Deficiency)	16,754,681	4,586,346	(1,443,116)
Shareholders' Equity associated with Non controlling interests	26,907,155	-	-

All monetary assets are located in Nova Scotia. Investment in GRI, a Nova Scotia private company whose operate an iron sands project, located in Newfoundland and Labrador, and a smelting facility in Pennsylvania, USA. Details of significant balance sheet items are detailed below.

## Prepaid and Other Deposits

The prepaid and other deposits in the amount of \$438,357, consists principally of a rent security deposit for the smelting facility in Forks, PA, in the amount of \$273,889 and prepaid liability and environmental insurance in the amount of \$119,991. The balance covers various utilities prepaid.

## Iron interests

GRI, prior to the creation of the NAIC joint venture, assembled and secured 1,800 mineral claims covering 450 square kilometres (100% of claims under their previous control) in the area of Happy Valley-Goose Bay, Newfoundland and Labrador, Canada. The joint venture agreement required GRI to transfer its mineral claims to NAIC and Petmin acquires shares in NAIC through cash investments. The summary details of the Joint Venture were publicly announced on November 18, 2011.

<b>Iron Interests</b>				
	<b>Acquired</b>	<b>Additions</b>	<b>Balance 30-Jun-12</b>	<b>Total 2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Labrador Mineral Sands	47,383,806	6,050,141	53,433,947	47,329,340
Porcupine Strand	115,021	-	115,021	115,021
	47,498,827	6,003,893	53,548,968	47,444,361

The Labrador Mineral Sands relates to 22 licenses held by NAIC, which include Churchill River, Mud Lake, Muskrat Lake, Goose Bay, and Hamilton River. The Porcupine Strand property was acquired from a former director of the Company for \$NIL cash consideration other than reimbursement of staking costs. The property consists of four mineral licenses covering approximately 3.5 square kilometres in Labrador. The Company has received notice that the federal government intends to establish the Mealy Mountain National Park which will encompass the lands to which the Company has staked these claims. While the plans for the park have not yet been approved or finalized, the Company has renewed the claims as recently as November 2010 but has been refused exploration permits in this regard. The Company anticipates that should the federal government's plans go forward with the park development, it will receive compensation sufficient to recover any investment it has made in these claims to date.

## Mineral Claim Deposits

Mineral claim deposits are licenses held by NAIC with the province of Newfoundland and Labrador required a deposit and commitment by NAIC to inject a prescribed amount of exploration expenditures into the land designated by the license within a five year time frame. If NAIC doesn't fulfill their commitment, they will forfeit the deposit.

<b>Mineral claim deposits</b>				
			<b>Balance</b>	<b>Total</b>
	<b>Acquired</b>	<b>Additions</b>	<b>June 30, 2013</b>	<b>June 30, 2012</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Mineral claim deposits	137,870	296,807	434,677	137,870
NAIC is required to inject the following exploration expenditures:				
			2013	182,593
			2014	596,265
			2015	210,275
			2018	24,981
			2022	162,900

### Property and Equipment

Description	Cost				Accumulated Depreciation			Net Book
	Balance			Balance	Balance		Balance	Value
	2012	Acquisition	Additions	Jun 30, 2012	Jun 30, 2012	Depreciation	Jun 30, 2013	Jun 30, 2013
Computer hardware	73,776	5,826	9,311	88,913	71,183	2,278	73,461	15,452
Automotive equipment	-	-	5,500	5,500	-	-	-	5,500
Industrial equipment	-	196,429	2,099,916	2,296,345	-	303,254	303,254	1,993,091
Office furniture and equipment	10,419	1,078	18,238	29,735	9,328	2,241	11,569	18,166
	<b>84,195</b>	<b>203,332</b>	<b>2,132,965</b>	<b>2,420,492</b>	<b>80,510</b>	<b>307,773</b>	<b>388,284</b>	<b>2,032,209</b>

### Accounts Payable

Accounts payable was unusually high at June 30, 2013 principally due to commission on Petmin's advances of \$355,000 that was outstanding and liabilities of \$258,000 related to the Revenue Canada disallowing the drilling at Porcupine Strand property, thereby disqualifying flow through financing funds from the tax credit. A legal claim for damages has been tabled with Revenue Canada. The balance is normal trade payables that are for the most part current.

### 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.

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

	<b>30-Jun-13</b>
	\$
Income (loss) before income taxes	9,661,219
Combined Federal and Provincial tax rate	31%
Expected expense (recovery) at statutory tax rates	2,994,978
Non-deductible stock based compensation and other	71,386
Unrealized gain on acquisition of control and bargain purchase	(3,563,230)
Benefit of net deferred tax assets previously not recognized	(561,473)
<b>Deferred tax recovery</b>	<b>(1,058,339)</b>

Deferred tax assets consist of:

	<b>30-Jun-13</b>	<b>30-Jun-12</b>
	\$	\$
Non-capital losses	1,121,877	247,498
Iron interests	(12,393,047)	-
Property and equipment	28,002	89,687
Loans receivable	66,861	-
Investment	(43)	-
Share issue costs	74,681	-
	(11,101,669)	337,185
Valuation allowance	-	(337,185)
	<b>(11,101,669)</b>	<b>-</b>

### Shareholders' Equity

The increase in Shareholders' Equity is the result of the gain on consolidation and bargain purchase gain as outline in Note 3 of the audited financial statements at June 30, 2013.

### LIQUIDITY AND CAPITAL RESOURCES

The Corporation has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed through sale of its equity securities by way of private placements and or shareholders loans and advances. There can no assurances that equity financing or other sources of capital will be available or available on terms acceptable to the Corporation if and when required.

At June 30, 2013 the Corporation's had cash on hand of \$1,055,880. Subsequent to June 30 over \$6.8 million has been raised though the Company's joint venture partner and shares issuances. At October 28, 2013 the consolidated entities had cash balances totaling CDN\$2,964,000.

The Corporation expects that it will operate at a loss for the foreseeable future, but believes the current cash will be sufficient for it to complete discretionary activities, and fund its currently anticipated general and administrative costs, through the next 18 to 24 months.

The Corporation believes that outside sources for debt and additional equity capital, if needed, will be available to finance ongoing operations and expansion. The form of any financing will vary depending upon prevailing market and other conditions, and may include short or long-term borrowings from financial institutions, or the issuance of additional equity or

debt securities. However, there can be no assurance that funds will be available on terms acceptable to the Corporation and its actions with respect to these activities will be guided accordingly.

### Long-Term Debt

During the year, NAIC received an interest-free repayable loan from ACOA, a government agency, in the amount of \$500,000. The loan is repayable in five annual equal and consecutive installments commencing six months after the end of the fiscal year in which 'Project Success' is achieved. It is anticipated that 'Project Success' will be achieved in the fiscal year ending June 30, 2015 and repayments will commence in December 2015. The carrying value of the loan has been discounted using an effective interest rate of 9%.

During the year, FSM received a loan from the State of Pennsylvania in the amount of US\$1, 600,000 (\$1,628,987) to partially finance the acquisition of industrial equipment in Forks Township, Pennsylvania. The loan bears interest at 1% and is repayable in monthly principal installments of US\$14,017, commencing March 1, 2013, maturing on February 1, 2023. The carrying value of the loan has been discounted using an effective interest rate of 9%.

### Share Capital

A summary of the Corporation's common shares outstanding as of June 30, 2013 and June 30, 2012, together with changes during the periods ending on those dates are presented below:

COMMON STOCK ISSUED AND OUTSTANDING	June 30, 2013		June 30, 2012	
	Number of Shares	\$	Number of Shares	\$
Opening Balance	17,251,015	8,948,978	26,983,333	2,638,509
Reduction resulting from 8:1 share consolidation	-	-	(23,610,416)	-
Shares issued for debt	-	-	2,578,098	1,320,450
Issued on asset acquisition	-	-	6,900,000	3,174,000
Private Placement	-	-	4,400,000	2,024,000
Issue related Costs	-	-	-	(207,981)
<b>Closing Balance</b>	<b>17,251,015</b>	<b>8,948,978</b>	<b>17,251,015</b>	<b>8,948,978</b>

At the Annual General and Special Shareholders ("AGM") meeting Shareholders held on February 10, 2012 shareholders:

- Approved a Special Resolution to consolidate the Corporation's Common Shares on the basis of one (1) new common share for eight (8) existing common shares. At the time of the meeting there were 26,983,333 common share outstanding, resulting in a reduction in the common shares outstanding to 3,372,917 Common Shares outstanding prior to giving effect to the issuance of any Common Shares issued in exchange for debt; prior to giving effect to the issuance of any Common Shares for project acquisition; and prior to giving effect to the issuance of any Common Shares to recapitalize the Corporation.
- approved a Special Resolution providing for the issuance of 2,578,098 post consolidation Common Shares at a deemed value of \$0.51218 per Common Share in settlement of current Directors and Shareholders loans to the Corporation in the aggregate amount of \$1,320,450;

- approved a Special Resolution approving the acquisition of one hundred percent (100%) of 3053229 Nova Scotia Limited (“NSL” incorporated under the Nova Scotia Companies Act, through the issuance of 6,900,000 post consolidation common shares of the Corporation to NSL common shareholders. NSL holds a 29.90% interest in Grand River Iron Sands Incorporated (“GRI”) incorporated under the Nova Scotia Companies Act an Nova Scotia Incorporated Company. (See Note 14 to the unaudited Financial Statements at June 30, 2012)

On March 28, 2012 the Corporation closed a non-brokered private placement raising gross proceeds of \$2,024,000 with the issuance of 4,400,000 post-consolidation common shares of the Corporation at an issuance price of \$0.46 per common share. Closing and legal cost amounted to \$207,981 for net proceeds of \$1,816,019.

There were no stock issuances during fiscal 2013.

## **Stock Options**

Under the Corporation’s employee stock option program, the Board of Directors may, at its discretion, grant options to purchase common shares to directors, officers, employees or consultants of the Corporation. At the Annual General Meeting of Shareholders (“AGM”) held on November 30, 2012 shareholders approved the number of shares reserved for issuance under the Plan be increased to a maximum of 20% of the issued and outstanding shares, as of the record date, in accordance with the Stock Option Plan approved by Shareholders. However, only 10% can be issued to insiders of the Corporation. Vesting periods are determined by the Board of Directors at the time of the grant and can range up to 3 years from the date of the grant.

The Corporation has reserved 3,450,203 common shares pursuant to the stock option plan. Any unexercised options that expire or are forfeited become available again for issuance under the plan. Compensation costs of options granted under the stock option plan are measured at the granting date based upon a fair value of the award and is recognized over the related service period.

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. Upon the resignation of two directors of the Corporation in November and December of 2011 50,000 of these options expired. On July 27, 2012 the remaining 187,500 (post consolidation) options expired without being exercised.

On May 28, 2012, 144,000 options were granted to Directors and Officers under the stock purchase plan at an exercise price of \$0.65. These options vested immediately.

On November 30, 2012, 450,000 options were granted to Directors and Officers under the stock option plan at an exercise price of \$0.65. These options vested immediately.

A summary of the Corporation’s outstanding stock option and changes during the fiscal years ended June 30, 2013 and June 30, 2012 are presented below:



Continuity of Stock Options Issued and Outstanding				
	June 30, 2013		June 30, 2012	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
<b>Balance beginning of year</b>	<b>331,500</b>	<b>\$0.73</b>	<b>237,500</b>	<b>\$0.80</b>
Cancelled during the year	(187,500)	\$0.80	(50,000)	\$0.80
Issued during the year	450,000	\$0.65	144,000	\$0.65
<b>Balance end of year</b>	<b>594,000</b>	<b>\$0.65</b>	<b>331,500</b>	<b>\$0.73</b>

Options outstanding at June 30, 2013 are as follows:

Grant Date	Expiry Date	Exercise Price	Issued	Exercisable
			June 30, 2013	
May 28, 2012	May 28, 2022	\$0.65	144,000	144,000
November 30, 2012	Nov. 30, 2022	\$0.65	450,000	450,000
<b>Total</b>			<b>594,000</b>	<b>594,000</b>

Continuity of Contributed Surplus for the fiscal years ended June, 30, 2013 and June 30, 2012 are presented below:

Continuity of Contributed Surplus		
	June 30, 2013	June 30, 2012
<b>Balance beginning of year</b>	<b>\$ 178,300</b>	<b>\$ 108,300</b>
Stock Compensation Expense	218,000	70,000
<b>Balance end of year</b>	<b>\$ 396,300</b>	<b>\$ 178,300</b>

The stock option expense for 2013 included in the statement of operations is \$218,000 (2012 - \$70,000).

The fair value of the option issued in 2013 and 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 yield of nil, volatility factor of 100%, share price of \$0.65, and a weighted average expected life of the option of 5 years.

### Grand River Ironsands Incorporated Stock Options

The Board of Directors of GRI has established a stock option plan under which options to purchase common shares are granted to directors, officers, and key employees of GRI. Options to acquire common shares are granted at prices as determined by the Board of Directors. Options expire five years from the date of the grant.

GRI has reserved 2,306,970 common shares pursuant to the stock option plan. There are 1,842,000 options to acquire common shares outstanding under the plan as at June 30, 2013. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

A summary of the GRI's outstanding stock option and changes during the fiscal years ended June 30, 2013 and June 30, 2012 are presented below:

Continuity of Stock Options Issued and Outstanding				
	June 30, 2013		June 30, 2012	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Balance beginning of year	2,120,000	\$1.25	1,945,000	\$1.25
Cancelled/expired during the year	(365,000)	\$1.25	(370,000)	\$1.25
Issued during the year	87,000	\$1.25	545,000	\$1.25
<b>Balance end of year</b>	<b>1,842,000</b>	<b>\$1.25</b>	<b>2,120,000</b>	<b>\$1.25</b>

Options outstanding at June 30, 2013 are as follows:

Grant Date	Expiry Date	Exercise Price	Issued	Exercisable
			June 30, 2013	
May 31, 2009	May 31, 2014	\$1.25	365,000	365,000
Dec. 31, 2010	Dec. 31, 2015	\$1.25	365,000	365,000
Sept. 02, 2011	Sept. 02, 2016	\$1.25	480,000	480,000
May 31, 2012	May 31, 2017	\$1.25	545,000	545,000
Nov. 05, 2012	Nov. 05, 2017	\$1.25	87,000	87,000
<b>Total</b>			<b>1,842,000</b>	<b>1,842,000</b>

GRI does not calculate and expense the fair value of options issued due to the fact there is no public market for the shares and therefore no liquidity or basis for established fair value.

## CRITICAL ACCOUNTING POLICIES

### General

The accounting policies have been reviewed with the Corporation's Audit Committee and are as described in Note 2 to the consolidated financial statements.

### Basis of Presentation and Consolidation

The 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 the financial statements represent the Company'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, 2013.

### International Financing Reporting Standards (IFRS)

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2013. Those pronouncements that are not applicable or do not have a significant impact to the Corporation 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 Corporation.

(i) IFRS 9 Financial Instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). 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 (“IFRS 10”) 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 (“IFRS 11”) 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 (“IFRS 12”) 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 (“IFRS 13”) 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.

The Corporation has completed the conversion to IFRS and there were no changes required to the opening balance sheet as at April 1, 2011.

The conversion to IFRS is discussed in detail in Note 3 to the consolidated financial statements for the 15 months ended June 30, 2012.

### **Critical Accounting Estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses during the reporting period.

Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates. Following is a list of critical accounting estimates and assumptions that the Corporation believes could impact its reported financial position, results of operations and cash flows.

### **Management of Capital**

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

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.

### **Stock-based compensation and other stock-based payments**

The Corporation has a stock option plan for directors, officers, consultants and employees. The Corporation recognizes the value of stock options over their vesting periods as compensation expense. This accounting policy is applied prospectively to all stock options awarded to employees and directors that call for settlement by issuance of equity instruments. The fair value of stock options and other stock-based compensation is determined using the Black-Scholes option pricing model. Once fair value is measured, the value is expensed over the period the options vest and contributed surplus is increased by the corresponding amount. Any consideration paid on the exercise of stock options is credited to capital stock and the related fair value amount of stock-based compensation is transferred from contributed surplus to capital stock.

### **Non employees**

The Corporation recognizes stock-based compensation issued to non-employees as an asset or expense based on the fair value of the equity instrument issued.

### **Government financing**

The Corporation makes periodic applications for financial assistance under available government assistance programs in the jurisdictions in which the Corporation operated. Grants related to capital expenditures are reflected as a reduction of the cost of the related assets. Grants related to current operating expenditures are generally recorded as a reduction of expenditures at the time the eligible expenditures are incurred. Repayable interest free loans are carried at discounted present value with the offsetting benefit credited against the property, plant and equipment for capital programs and grants for current operating programs.

## **RISK FACTORS**

### ***Limited Business History***

The likelihood of success of the Corporation must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business. The Corporation has limited financial resources and there is no assurance that additional funding shall be available to it for further operations or to fulfill its obligations under applicable agreements. There is no assurance that the Corporation can generate revenues, operate profitably, or provide a return on investment, or that it shall successfully implement its plans.

### ***Additional Funding Requirements***

The Joint Venture shall require additional financing to continue its operations. There can be no assurance that GRI, NAIC or its joint venture partners shall be able to obtain adequate financing in the future, or that the terms of such financing shall be favourable for further evaluation, exploration and development of its projects or investments. Failure to obtain such additional financing could result in delay or indefinite postponement of exploration and development and the indirect property interests of the Corporation with the possible dilution or loss of such interests. Further, revenues, financings and profits, if any, shall depend upon various factors, including the success, if any, of exploration programs and general market conditions for natural resources.

### ***Property Commitments***

The property of NAIC in which the Corporation has an indirect interest is subject to work commitments and may be subject to other land payments, royalties and/or work commitments to the land claim holder, the Innu First Nation. Failure by GRI and NAIC to meet their payment obligations or otherwise fulfill its commitments under these agreements could result in the loss of related property interests and dilution.

### ***Potential Joint Ventures***

Due to the cost of establishing and operating mining operations, the Corporation may enter into joint ventures in respect of certain mineral exploration properties that may be acquired by the Corporation. Any failure of such joint venture partners to meet their obligations to the Corporation or to third parties could have a material adverse effect on the joint ventures and the Corporation as a result. In addition, the Corporation may be unable to exert influence over strategic decisions made in respect

### ***Resources and Reserves***

The property of NAIC and others in which the Corporation shall have an indirect interest does not contain identified mineral resources (NI 41-101) currently. Ultimately, even if the Corporation has success in identifying mineral resources on any properties it may acquire, the economics of potential projects may be affected by many factors beyond the capacity of it to anticipate and control, such as the marketability of the mineral products under profitable conditions, government regulations relating to health, safety and the environment, the scale and scope of royalties and taxes on production. One or more of these risk elements could have an adverse impact on costs of an operation which, if significant enough, could reduce or eliminate the profitability of a particular project.

### ***Properties Remote***

The property of NAIC is located in a remote area with limited infrastructure. Exploration activities on such projects are particularly vulnerable to delays and additional costs due to weather conditions, labour shortages and other unforeseeable issues.

### ***Operational Risks***

The Corporation shall be subject to a number of operational risks and may not be adequately insured for certain risks, including: environmental pollution, accidents or spills, industrial and transportation accidents, which may involve hazardous materials, labour disputes, catastrophic accidents, fires, blockades or other acts of social activism, changes in the regulatory environment, impact of non-compliance with laws and regulations, natural phenomena, such as inclement weather conditions, floods, earthquakes, ground movements, cave-ins and encountering unusual or unexpected geological conditions and technological failure of exploration methods. This lack of insurance coverage could have an adverse impact on the Corporation's future cash flows, earnings, results of operations and financial condition.

### ***Competition for Mineral Acquisition Opportunities***

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with larger, better established mining companies with substantial capabilities and greater financial and technical resources, the Corporation may be unable to acquire rights to exploit additional attractive mining

properties on terms that the Corporation considers acceptable. If the Corporation is not able to acquire such interests, this could have an adverse impact on the Corporation's future cash flows, earnings, results of operations and financial condition.

### ***Exploration and Development Activities May Not be Successful***

Exploration for and development of mineral properties involves significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. The Corporation cannot ensure that its future exploration and development programs shall result in profitable commercial mining operations.

### ***Properties May be Subject to Defects in Title***

Although the Corporation is not aware of any existing title uncertainties with respect to the property, there is no assurance that such uncertainties shall not result in future losses or additional expenditures, which could have an adverse impact on the Corporation's future cash flows, earnings, results of operations and financial condition.

### ***Environmental, Health and Safety Risks***

Mining and exploration companies such as the Corporation must comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, "laws") drawn from a number of jurisdictions.

### ***Decommissioning and Reclamation***

Environmental regulators are increasingly requiring financial assurances to ensure that the cost of decommissioning and reclaiming sites is borne by the parties involved, and not by government. It is not possible to predict what level of decommissioning and reclamation (and financial assurances relating thereto) may be required in the future by regulators.

### ***Governmental Regulation and Policy Risks***

Mining operations and exploration activities, refining, conversion and transport in Canada are subject to extensive laws and regulations. Such regulations relate to production, development, exploration, exports, imports, taxes and royalties, labour standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response, and other matters. Since legal requirements change, are subject to interpretation and may be enforced in varying degrees in practice, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations.

### ***Commodity Price Fluctuations***

The price of commodities varies on a daily basis but long term averages are the best method of estimating future prices. However, price volatility could have dramatic effects on the Corporation's results of operations and the ability of the Corporation to execute its business plan.

### ***Currency Fluctuations***

The Corporation presently maintains its accounts in Canadian dollars. The Corporation's future operations may make it subject to foreign currency fluctuations and such fluctuations may materially affect its financial position and results.

### ***Key Personnel***



The senior officers of the Corporation are critical to its success. In the event of the departure of a senior officer, the Corporation believes that it shall be successful in attracting and retaining qualified successors but there can be no assurance of such success. Recruiting qualified personnel as the Corporation grows is critical to its success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Corporation's business activity grows, it shall require additional key financial, administrative and mining personnel as well as additional operations staff. If the Corporation is not successful in attracting and training qualified personnel, the efficiency of its operations could be affected, which could have an adverse impact on the Corporation's future cash flows, earnings, results of operations and financial condition.

### ***Price Volatility of Publicly Traded Securities***

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price shall not occur. It may be anticipated that any quoted market for the shares of the Corporation shall be subject to market trends generally, notwithstanding any potential success of the Corporation in creating revenues, cash flows or earnings. The value of the Corporation's shares shall be affected by such volatility. An active public market for the Corporation's shares might not develop or be sustained after completion of the Proposed Transactions.

### ***Legal Proceedings***

There are no outstanding legal proceedings against the Corporation.

### ***Market for Securities***

The Common Shares of the Corporation are listed and posted for trading on the Canadian National Stock Exchange (CNSX) under the trading symbol "YJR".

### ***Cash Flow Requirements***

**The long-term debt repayments or payments under various operating leases for the next five years are as follows:**

<b>Contractual Obligations</b>					
<b>Description</b>	<b>Total</b>	<b>Less than one year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Loan repayment- ACOA- CAD	\$ 500,000	\$ -	\$ 200,000	\$ 200,000	\$ 100,000
Loan repayment - State of PA- USD	1,549,000	153,000	312,000	318,000	766,000
Property Rental- FSM - USD	3,263,000	725,000	1,450,000	1,088,000	-
	\$ 5,312,000	\$ 878,000	\$ 1,962,000	\$ 1,606,000	\$ 866,000

### ***Transactions with Related Parties***

During the year ended June 30, 2013, the Company incurred the following related party expenditures.

To facilitate the settlement of a long term debt owing to the Atlantic Canada Opportunities Agency ("ACOA") in fiscal 2011, a shareholder advanced \$75,000 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 June 30, 2012 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 10) and the remainder 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.

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

<b>Relationship</b>	<b>Purpose of Transaction</b>	<b>Amount (\$)</b>
Directors of the Company	Directors Fees	9,800
Key Management Personnel	Consulting Fees	165,000
Directors and Officers -MMI	Stock based compensation	218,000
Key operating personnel	Consulting fees	271,875
Key operating personnel	Salaries	51,514
		716,189
Capitalized		346,875
Operating expenses		369,314

Key management personnel include the Company's President, Vice President and the Chief Financial officer for MMI, President, Chief Executive officer, and Chief Financial officer and Chief Corporate Affairs, Geologist, and Chief Operating Officer for GRI.

These transactions with related parties have been valued in the consolidated financial statements at the estimated fair value, which is the amount of consideration established and agreed to by the related parties.

#### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

#### **Proposed Transactions**

As at the date of this MD&A there are no proposed transactions that the board of directors or senior management who believe that confirmation of the decision by the board is probable, have decided to proceed with and that have not been publicly disclosed.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Exchange Administrators ("MI52-109"), MMI's Chief Executive Officer (CEO) and MMI Chief Financial Officer (CFO) will be filing annual certificates "Certification of Disclosure of Issuers' Annual and Interim Filings" concurrent with the completion of filing its annual filings. The certifying officers have concluded that disclosure controls and procedures are effective at June 30, 2012. Upon completion of its filings, the signed certificates will be available on SEDAR.

The CEO and CFO are reasonably certain that all information is made known to them and those procedures have been implemented to provide reasonable assurance of the reliability of the financial reporting and preparation of the financial statements for external reporting.

The Board of Directors together with an independent and highly qualified audit committee provide direct oversight responsibilities for the review of the quarterly and annual financial statements.

#### **Changes Internal Control over Financial Reporting**

The Certifying Officers have indicated that there were no significant changes in the Corporation's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

## **ADDITIONAL INFORMATION**

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interest of insiders in material transactions, if applicable, is contained in the Corporation's information circular for its most recent annual meeting of shareholders, and in the Corporation's comparative financial statements for its most recently completed financial year.

This document may contain forward-looking statements, which may include sales, earnings, and profitability comments. These statements may contain words such as "anticipated", "expected", "could", "should", "may", "plans", "will", or similar expressions that are based on and arise out of our experience, our perception of trends, current conditions and expected future developments as well as other factors. These statements are not a guarantee of future performance. By their very nature, forward-looking statements involve uncertainties and risks that the forecasts and targets will not be achieved.

Readers are cautioned not to place undue reliance on forward looking statements as a number of important factors, as disclosed herein and in the Corporation's other continuous disclosure documents, could cause actual results to differ materially from those expressed in such forward looking statements. The Corporation includes in publicly available documents filed from time to time with securities commissions, and the CNSX Exchange, a thorough discussion of the risk factors that can cause the Corporation's anticipated outcomes to differ from actual outcomes. The Corporation disclaims any intention or obligation to update or revise forward-looking statements.

## **Public Securities Filings**

Other information about the Corporation, including the annual information form and other disclosure documents, reports, statements or other information that is filed with Canadian securities regulatory authorities can be downloaded in portable document format (PDF) from the SEDAR web site for Canadian regulatory filings at [www.sedar.com](http://www.sedar.com) additional information is also available on the Canadian National Stock Exchange Disclosure Hall at [www.cnsx.ca](http://www.cnsx.ca)

## **CORPORATE PROFILE**

### **Board of Directors**

J. Paul Allingham  
David J. Hennigar  
C.H. (Bert) Loveless  
Francis H. MacKenzie  
Jean-Marc MacKenzie  
Paul R. Snelgrove  
K. Barry Sparks  
E. Christopher Stait-Gardner

### **Corporate Officers**

David J. Hennigar, Chairman  
Francis H. MacKenzie, President & Chief Executive Officer  
C.H. (Bert) Loveless, Vice President  
Lorne S MacFarlane, Chief Financial Officer  
Lina Tannous, Secretary

### **Corporate Head Office**

Muskrat Minerals Incorporated  
Attn: K. Barry Sparks

1470 – 141 Adelaide Street West  
Toronto, ON M5H 3L5  
Fax Number: (902) 484-7599  
Phone Number: (902) 499-7150

**Mailing Address**

Muskrat Minerals Incorporated  
Attn: Lorne S. MacFarlane  
380 Bedford Highway  
Halifax, NS B3M 2L4

**Corporate Information**

Bankers	Bank of Montreal, Main Branch, Halifax, Nova Scotia
Lawyers	RBC Law, Halifax, Nova Scotia
Auditors	Collins Barrow, Toronto LLP
Transfer Agent & Registrar	Equity Financial Trust Company, Toronto, Ontario

**Stock Exchange**

Canadian National Stock Exchange (“CNSX”}  
Trading Symbol: YJR

**Shareholder Information**

Contact Person:	C H Bert Loveless
Contact Telephone Number:	(902) 471 -8028
Contact E-Mail Address:	bert@muskratminerals.ca.