



**MUSKRAT MINERALS INCORPORATED**

**Audited Consolidated Financial Statements**

**For the years ended June 30, 2014 and 2013**

**(expressed in Canadian dollars)**

## **Management's Responsibility for Financial Information**

The consolidated financial statements, the notes thereto and other financial information contained in the management's discussion and analysis are the responsibility of management of Muskrat Minerals Incorporated and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, include amounts which reflect management's best estimates and judgments based on current available information. Muskrat Minerals Incorporated maintains systems of internal accounting and administrative controls in order to provide reasonable assurance that the Corporation's assets are appropriately accounted for and adequately safeguarded, and that financial information is accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the audited consolidated financial statements and the accompanying management's discussion and analysis.

The Audit Committee is composed of three non-management, independent directors and meets periodically with management and the independent auditors to review internal accounting controls, auditing matters and financial reporting issues, and to satisfy itself that all parties are properly discharging their responsibilities. The Audit Committee also reviews the consolidated financial statements, the management's discussion and analysis of financial results, the independent auditor's report and considers and recommends to shareholders, the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited, on behalf of the shareholders, by the Corporation's independent auditors, Collins Barrow Toronto LLP, in accordance with Canadian generally accepted auditing standards. Collins Barrow Toronto LLP have full and free access to the Audit Committee.

*"Francis H. MacKenzie"*

Francis H. MacKenzie  
President and Chief Executive Officer

*"Lorne S. MacFarlane"*

Lorne S. MacFarlane  
Chief Financial Officer

October 23, 2014

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**Muskrat Minerals Incorporated**  
Financial Information



June 30, 2014 and 2013

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Muskrat Minerals Incorporated

We have audited the accompanying consolidated financial statements of Muskrat Minerals Incorporated which comprise the consolidated balance sheets as at June 30, 2014 and 2013, the consolidated statements of operations and comprehensive income (loss), statement of changes in equity and cash flows for the years ended June 30, 2014 and 2013 and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Muskrat Minerals Incorporated as at June 30, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Muskrat Minerals Incorporated has material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

*Collins Barrow Toronto LLP*

Chartered Accountants  
Licensed Public Accountants  
October 23, 2014  
Toronto, Canada

**Muskrat Minerals Incorporated**  
**Consolidated Balance Sheets**  
(Amounts presented in Canadian Dollars)



	30-Jun 2014	30-Jun 2013
	\$	\$
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	1,977,562	1,055,880
Other receivable	62,598	121,236
Prepaid and other deposits	431,837	438,357
Investments (Note 4)	474,487	115,818
	<b>2,946,484</b>	<b>1,731,291</b>
Non-current assets:		
Iron interests (Note 5)	56,191,752	53,548,968
Mineral claim deposits (Note 6)	334,045	434,677
Property and equipment (Note 7)	2,089,440	2,032,209
	<b>58,615,237</b>	<b>56,015,854</b>
	<b>61,561,721</b>	<b>57,747,145</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade and other payables	1,390,611	1,557,740
<b>Non-current liabilities:</b>		
Long term debt (Note 9)	1,453,032	1,425,900
Deferred taxes	10,289,326	11,101,669
	<b>11,742,358</b>	<b>12,527,569</b>
<b>Shareholders' equity</b>		
Share capital (Note 10)	8,948,978	8,948,978
Stock based payment reserve	913,000	288,000
Retained earnings	9,085,852	7,517,703
Equity Attributable to shareholders	<b>18,947,830</b>	<b>16,754,681</b>
Non-controlling interests	<b>29,480,922</b>	<b>26,907,155</b>
	<b>48,428,752</b>	<b>43,661,836</b>
	<b>61,561,721</b>	<b>57,747,145</b>

GOING CONCERN (Note 1)

COMMITMENTS (NOTE 14)

SUBSEQUENT EVENT (Note 17)

*See accompanying notes to the consolidated financial statements*

Approved on behalf of the Board:

*David J. Hennigar*

*Francis H. MacKenzie*

October 23, 2014

**Musktrat Minerals Incorporated**  
**Consolidated Statements of Operations and Comprehensive**  
**Income (Loss)**



For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

	Years Ended	
	30-Jun-14	30-Jun-13
	\$	\$
<b>Operating expenses:</b>		
Advertising and promotion	1,000	2,100
Utilities	137,571	91,874
Consulting	22,065	64,065
Dues and fees	20,187	25,470
Exploration costs	92,608	8,101
Foreign exchange losses	10,692	30,319
General and administrative	149,459	122,926
Insurance	126,340	66,796
Management fees	911,606	456,158
Professional fees	78,650	39,161
Rental	805,759	416,172
Travel	481,995	586,027
Stock based compensation (Note 11)	625,000	218,000
Salaries and wages	91,534	51,514
	<b>3,554,466</b>	<b>2,178,683</b>
Loss before the undernoted	<b>(3,554,466)</b>	<b>(2,178,683)</b>
Depreciation	<b>(18,491)</b>	<b>(7,886)</b>
Interest and bank charges	<b>(31,243)</b>	<b>(19,967)</b>
Gain on conversion of debts (Note 3)	<b>622,153</b>	<b>-</b>
Unrealised gain (loss) on investments	<b>(263,483)</b>	<b>-</b>
Gain on debt forgiveness (Note 3)	<b>-</b>	<b>373,463</b>
Gain from bargain transaction (Note 3)	<b>-</b>	<b>2,784,620</b>
Gain on acquisition of control (Note 3)	<b>-</b>	<b>8,709,672</b>
Net income (loss) and comprehensive income (loss) before taxes	<b>(3,245,530)</b>	<b>9,661,219</b>
Income tax recovery (Note 13)	<b>812,343</b>	<b>1,058,339</b>
Net income (loss) and comprehensive income (loss)	<b>(2,433,187)</b>	<b>10,719,558</b>
Non-controlling interest	<b>1,291,293</b>	<b>355,912</b>
Net income (loss) and comprehensive income (loss) attributable to shareholders	<b>(1,141,894)</b>	<b>11,075,470</b>
Net income (loss) per share - basic (Note 12)	<b>(\$0.066)</b>	<b>\$0.642</b>
Net income (loss) per share - diluted (Note 12)	<b>(\$0.066)</b>	<b>\$0.640</b>
Weighted average number of shares outstanding - basic (Note 12)	<b>17,251,015</b>	<b>17,251,015</b>
Weighted average number of shares outstanding - diluted (Note 12)	<b>17,251,015</b>	<b>17,303,500</b>

See accompanying notes to the consolidated financial statements

**Musktrat Minerals Incorporated**

**Consolidated Statement of Changes in Equity**

**For the years ended June 30, 2014 and 2013**

**(Amounts presented in Canadian Dollars)**



	Number of Shares Issued	Share Capital	Stock based payment reserve	Retained earnings (Deficit)	Total Shareholders Equity	Non-controlling interest	Total Equity
		\$	\$	\$	\$		
<b>Balance June 30, 2012</b>	17,251,015	8,948,978	178,300	(4,540,932)	4,586,346	-	4,586,346
Acquisition of deemed control in associate (Note 3)	-	-	-	-	-	23,028,766	23,028,766
Non-controlling interest acquired on acquisition (Note 3)	-	-	-	-	-	3,214,243	3,214,243
Gain on acquisition and divesture of investment in subsidiary (Note 3)	-	-	-	874,865	874,865	1,020,058	1,894,923
Net income for the period	-	-	-	11,075,470	11,075,470	(355,912)	10,719,558
Redassification upon expiration of options (Note 11)	-	-	(108,300)	108,300	-	-	-
Stock-based compensation (Note 11)	-	-	218,000	-	218,000	-	218,000
<b>Balance June 30, 2013</b>	17,251,015	8,948,978	288,000	7,517,703	16,754,681	26,907,155	43,661,836
Gain on divesture of investment in subsidiary (Note 3)	-	-	-	2,710,042	2,710,042	3,865,060	6,575,102
Net income for the period	-	-	-	(1,141,894)	(1,141,894)	(1,291,293)	(2,433,187)
Stock-based compensation (Note 11)	-	-	625,000	-	625,000	-	625,000
<b>Balance June 30, 2014</b>	17,251,015	8,948,978	913,000	9,085,852	18,947,829	29,480,922	48,428,751

**Muskrat Minerals Incorporated**  
**Consolidated Statements of Cash Flows**  
For the years ended June 30, 2014 and 2013  
(Amounts presented in Canadian Dollars)



	Years Ended	
	30-Jun-14	30-Jun-13
	\$	\$
<b>Cash flows generated from operating activities:</b>		
Net income (loss)	(2,433,187)	10,719,558
Items not involving cash:		
Depreciation	18,491	7,886
Forfeiture mineral claim deposits (Note 6)	25,863	-
Stock based compensation	625,000	218,000
Gain on debt forgiveness (Note 3)	-	(373,463)
Gain from bargain transaction (Note 3)	-	(2,784,620)
Gain on acquisition of control (Note 3)	-	(8,709,672)
Gain on conversion of debts	(622,153)	-
Unrealised gain (loss) on investments	263,483	-
Deferred taxes	(812,343)	(1,058,339)
Changes in non-cash operating working capital		
Other receivables	58,638	301,617
Prepaid and other deposits	6,520	(418,694)
Trade and other payables	(167,128)	502,232
	<b>(3,036,816)</b>	<b>(1,595,495)</b>
<b>Cash flow generated from financing activities:</b>		
Proceeds of long term debt	-	2,182,880
Repayment of long term debt	(138,838)	(53,893)
	<b>(138,838)</b>	<b>2,128,987</b>
<b>Cash flows (provided) generated from investing activities:</b>		
Acquisition, net of cash acquired	-	5,577,685
Proceeds on sale of non-controlling interest (Note 3)	7,291,184	2,031,423
Investment in property and equipment (Note 7)	(216,945)	(2,672,736)
Investment in minerals claim deposits (Note 6)	(192,519)	(296,807)
Refund on minerals claim deposits (Note 6)	267,288	-
Investment in iron interests (Note 5)	(3,051,672)	(5,913,570)
	<b>4,097,336</b>	<b>(1,274,005)</b>
Increase (decrease) in cash during the period	921,682	(740,513)
Cash and cash equivalents, beginning of period	1,055,880	1,796,393
Cash and cash equivalents, end of period	1,977,562	1,055,880

*See accompanying notes to the condensed consolidated financial statements*



# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

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. The Corporation’s Head Office is located at 610 – 141 Adelaide Street West, Toronto, ON M5H 3L5.

The Corporation’s subsidiaries, Grand River Ironsands Incorporated and North Atlantic Iron Corporation, principal place of business is Newfoundland and Labrador and the subsidiary Forks Specialty Metals Inc. principal place of business is Pennsylvania, USA.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation and its subsidiaries have not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the subsidiary’s interest in the underlying mining claims, the ability of the Corporation and its subsidiaries to obtain necessary financing from shareholders, investors and lenders to complete the development, and upon future profitable production or proceeds from the disposition thereof.

The Corporation has had recurring negative cash flows from operations and will require additional financing to fund its continuing exploration efforts. These uncertainties cast significant doubt upon the Corporation’s ability to continue as a going concern. Although the Corporation has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Corporation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Corporation’s functional currency. The functional currency of the US subsidiary is the US dollar.

The consolidated financial statements for the year ended June 30, 2014 (including comparatives) were approved and authorized for issue by the board of directors on October 23, 2014.

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“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, 2014.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Basis of Consolidation

These consolidated financial statements include the accounts of the Corporation and the following entities:

- 100% VR Interactive International Inc. (“VRI”)  
Incorporated in Nova Scotia initially 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
  - 40.2% (2013 -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
  - 67.2% (2013 - 74.85%) North Atlantic Iron Corporation (“NAIC”)  
Incorporated in Newfoundland and Labrador engaged in the exploration and development of mineral deposits

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

### (c) Business combinations, goodwill and non-controlling interests

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses as follows:

- Cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- If the acquisition cost is less than the fair value of the net assets acquired, the difference is recognized as gain directly in the income statement.
- Transaction costs are expensed as incurred.

For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

When the Corporation acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to its fair value as at the acquisition date through profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Business combinations, goodwill and non-controlling interests (Continued)

Transactions with non-controlling interests are treated as transactions with equity owners of the Corporation. For purchases from non-controlling interests that do not involve loss of control, the difference between the fair value of the consideration paid and the share of the carrying value of net assets acquired is recorded in equity. Similarly, gains or losses on disposals to non-controlling interests, which do not involve loss of control, are computed and also recorded in equity.

#### (d) Iron Interests

Iron interests and mining reserves are stated at cost by capitalizing related expenditures until they are technically feasible and commercially viable. Upon commercial viability, depletion commences on a unit-of-sale basis over the estimated recoverable measured and indicated reserves.

Pre-exploration expenses are generally expensed unless management considers it probable that future economic benefits can be identified. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the year the disposition or abandonment occurs.

The cost associated with resources and exploration potential is capitalized at acquisition and is classified as non-depletable until such time as it is transferred to the depletable category, generally as a result of the conversion of resource or exploration potential into reserves. On transfer, the asset is tested for impairment.

#### (e) Restoration, rehabilitation and environmental obligation

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises.

#### (f) Property and Equipment

Property and Equipment is recorded at cost less accumulated depreciation and any impairment. The cost of an item of property and equipment consists of the purchase price and any cost directly attributable to bringing the asset to the location and condition necessary for its intended use.

Depreciation is provided using the declining balance method at the following annual rates:

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

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Impairment of Assets

Property and equipment, iron interests 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 (other than iron interests which are assessed annually for impairment indicators) that are not amortized are subject to an annual impairment assessment. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value (less costs of disposal) 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, less costs of disposal. 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 its 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.

### (h) Share Issuance Costs

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

### (i) Foreign Currency

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the income statement.

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Foreign Currency (Continued)

Financial statements of subsidiaries, affiliates and joint ventures for which the functional currency is not the Canadian dollar are translated into Canadian dollar as follows: all asset and liability accounts are translated at the balance sheet exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income and recorded in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to the income statement and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Canadian dollars at the balance sheet rate.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

### (j) 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.

### (k) Stock based Payments

Stock 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 fair value is measured at grant date and each tranche is recognized over the period in which the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

Stock 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 Corporation rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received. The Corporation then measures 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (1) Financial Assets and Liabilities

The Corporation recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as FVTPL or other financial liabilities, which are subsequently measured at amortized cost using the effective interest rate method.

The Corporation's financial assets include cash, investments, and other receivable. The Corporation's financial liabilities include trade and other payables, and long term debt. Classification of these financial instruments is as follows:

Asset/Liability	Classification
Cash	FVTPL
Investments	FVTPL
Other receivable	Loans and receivable
Trade and other payables	Other financial liabilities
Long-term debt	Other financial liabilities

Financial assets are derecognized when the Corporation's rights to cash flows from the respective assets have expired or have been transferred and the Corporation has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of operations and comprehensive loss.

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Financial Assets and Liabilities (Continued)

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### (m) Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, 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, impairment of assets, and management's going concern assumption assessment.

### (n) Provisions

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

### (o) 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Recent Accounting Pronouncements

#### (i) Adopted during the year

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. The Company has evaluated the impact of IFRS 10 and determined that they will not have a material impact on the consolidated financial statements.

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. The Company has evaluated the impact of IFRS 11 and determined that they will not have a material impact on the consolidated financial statements.

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. The Company has evaluated the impact of IFRS 12 and determined that they will not have a material impact on the consolidated financial statements.

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; it 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. The Company has evaluated the impact of IFRS 13 and determined that they will not have a material impact on the consolidated financial statements.



# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (p) Recent Accounting Pronouncements (continued)

- (ii) Issued but not yet effective

IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2018, introduces new requirements for the classification and measurement of financial instruments. The effective date for this standard has not been finalized by the IASB. Management anticipates that this standard will be adopted in the Company's consolidated financial statements from the date of application and has not yet considered the impact of the adoption of IFRS 9.

### 3. INVESTMENT IN ASSOCIATED COMPANY, ACQUISITION AND DIVESTURE

On March 28, 2012, the Corporation acquired all of the issued and outstanding shares of NSL. Through its investment in NSL, the Corporation held a 29.9% equity interest in GRI.

On July 20, 2012, NSL 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 indirect ownership to 40.23% which, combined with the shareholdings of directors and related parties, resulted in the Corporation acquiring a controlling interest in 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:

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

### 3. INVESTMENT IN ASSOCIATED COMPANY, ACQUISITION AND DIVESTURE (Continued)

Acquisition of control of GRI	
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
	<hr/>
	55,279,070
	<hr/>
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)
	<hr/>
	(16,752,676)
	<hr/>
Net assets acquired	38,526,394
Non-controlling interest	23,028,766
	<hr/>
	15,497,628
Investment in associate at date of acquisition	2,813,328
	<hr/>
	12,684,300
Cash consideration	1,190,009
	<hr/>
Gain on acquisition of control	11,494,292
	<hr/>
<b>Breakdown of gain from acquisition:</b>	
Gain from bargain transaction	2,784,620
Gain from remeasurement when acquiring control	8,709,672
	<hr/>
	11,494,292
	<hr/>

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 3. INVESTMENT IN ASSOCIATED COMPANY, ACQUISITION AND DIVESTURE (Continued)

#### Non-controlling interest acquisition and divestitures

- (i) On August 29, 2012, NSL acquired 195,000 additional common shares of GRI. NSL purchased the common shares representing 0.85% of the outstanding shares for \$136,500. The transaction with non-controlling interest is treated as transaction with equity owners of the Corporation.

	\$
Non-controlling interest acquired	325,650
Amount paid for shares	(136,500)
	<hr/>
Gain on acquisition of non-controlling interests	189,150

- (ii) On October 11, 2013, November 29, 2013 and April 4, 2014 GRI issued an aggregate of 433,830 flow through and non-flow through shares for an aggregate consideration of \$1,072,054 less issue costs of \$117,770 and flow through expenditures and share premium of \$188,320 for net proceed of \$765,964.

The transactions are treated as divestitures of the Corporation's indirect interest in GRI, as follows:

	\$
Proceeds from sale	765,964
Net assets sold	701,449
	<hr/>
Gain on disposition of non-controlling interests	64,515

- (iii) On April 5, 2013, Petmin Limited, an unrelated entity, ("Petmin") acquired an additional 23 common shares of NAIC increasing its non-controlling interest in NAIC from 22.5% to 25.1%, in exchange for cash consideration of \$2,031,423 (US\$2,000,000).

On July 17, 2013, Petmin acquired an additional 23 common shares of NAIC increasing its non-controlling interest in NAIC from 25.1% to 27.6%, in exchange for cash consideration of \$2,070,400 (US\$2,000,000).

On October 22, 2013, Petmin acquired an additional 23 common shares of NAIC increasing its non-controlling interest in NAIC from 27.6% to 30.0%, in exchange for cash consideration of \$2,072,700 (US\$2,000,000).

On April 7, 2014, Petmin acquired an additional 30 common shares of NAIC increasing its non-controlling interest in NAIC from 30.0% to 32.8%, in exchange for cash consideration of \$2,193,800 (US\$2,000,000).

# MUSKRAT MINERALS INCORPORATED

Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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## 3. INVESTMENT IN ASSOCIATED COMPANY, ACQUISITION AND DIVESTURE (Continued)

### Non-controlling interest acquisition and divestitures

The transaction are treated as divestitures of the Corporation's indirect interest in NAIC, as follows:

	Years ended	
	30-Jun-14	30-Jun-13
	\$	\$
Proceeds from sale	6,336,900	2,031,423
Net assets sold	173,687	(361,849)
<u>Gain on divestiture to non-controlling interests</u>	<u>6,510,587</u>	<u>1,669,574</u>
This gain has been allocated between the Corporation and the non-controlling interest of GRI as follows:		
Non-controlling interest	3,865,060	983,859
Controlling interest	2,645,527	685,715
<u>Total gain on divestiture to non-controlling interests</u>	<u>6,510,587</u>	<u>1,669,574</u>

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 4. INVESTMENT AND LOANS RECEIVABLE

The following items were acquired during acquisition of control of GRI (Note 3)

	Book Value \$'s
Demand loan to a Company, associated by virtue of a common director, issued January 2009 with interest at 10% per annum calculated and paid monthly. Further consideration of 100,000 common shares has been received. No payments have been received to date. The principal is secured by a first charge over accounts receivable. No interest has been recognized on the loan.	87,732
Convertible debenture receivable from the same company above, issued June 6, 2011 with interest at a rate of 10% per annum calculated and paid semiannually. The debenture can be converted to common shares at the option of the Company at \$0.10 up to November 30, 2012 or at \$0.25 after November 30, 2012 to maturity. No interest has been recognized on the loan.	21,586
Investment in same company	6,500
	<hr/> 115,818 <hr/>

On November 15, 2013 GRI accepted a Debt Settlement Agreement proposed by the associated company whereby GRI would receive 4,204,560 common shares and 2,102,280 share purchase warrants. The common shares and warrants have been received and were assigned fair values as follows:

	\$
2,102,280 share purchase warrants	205,901
4,204,560 Common shares	525,570
Market value of shares and warrants on conversion	731,471
Total loan value	(109,318)
Gain on conversion	622,153
Market value of investments as of June 30, 2014	
2,102,280 share purchase warrants	87,077
4,204,560 Common shares	378,410
100,000 Common shares	9,000
Market value of shares and warrants on conversion	474,847

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 5. IRON INTERESTS

The following items were acquired during acquisition of control of GRI (Note 3)

Property	June 30, 2013		
	Acquired	Additions	Balance
Labrador Mineral Sands	47,383,806	6,050,141	53,433,947
Porcupine Strand	115,021	-	115,021
	47,498,827	6,050,141	53,548,968

  

Property	June 30, 2014		
	Acquired	Additions	Balance
Labrador Mineral Sands	53,433,947	2,642,784	56,076,731
Porcupine Strand	115,021	-	115,021
	53,548,968	2,642,784	56,191,752

The Labrador Mineral Sands relates to 19 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 Corporation 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 Corporation has received notice that the federal government intends to establish the Mealy Mountain National Park which will encompass the lands to which the Corporation has staked these claims. While the plans for the park have not yet been approved or finalized, the Corporation has renewed the claims as recently as November 2010 but have been refused exploration permits in this regard. The Corporation 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 6. MINERAL CLAIM DEPOSITS

Mineral claim deposits are licenses held by NAIC with the province of Newfoundland and Labrador that 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 fulfills their commitment, the deposit will be fully refundable; if NAIC doesn't fulfill their commitment, they will forfeit the deposit, at which time the cost will be written off. As at June 30, 2014 the Corporation has injected the prescribed amount of exploration expenditures into the land except where noted.

Mineral Claim deposits	\$
Acquired	137,870
Additions	296,807
Balance June 30, 2013	434,677
Loss on forfeiture of deposit	(25,863)
Additions	192,519
Refund of deposits	(267,288)
Balance June 30, 2014	334,045

NAIC is required to inject the following exploration expenditures:

	\$
2015	633,532
2016	54,991
2017	105,396
2023	72,242
2024	60,300

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

### 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Description	Cost					Accumulated Depreciation				Net Book Value Jun 30, 2013	
	Balance Jun 30, 2012		Acquisition	Write-off	Balance Jun 30, 2013		Balance Jun 30, 2012	Write-off	Depreciation for period		Balance 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	
	\$ 84,195	\$ 203,333	\$ -	\$ 2,132,965	\$ 2,420,493	\$ 80,511	\$ -	\$ 307,773	\$ 388,285	\$ 2,032,209	

Description	Cost					Accumulated Depreciation				Net Book Value Jun 30, 2014	
	Balance Jun 30, 2013		Acquisition	Write-off	Balance Jun 30, 2014		Balance Jun 30, 2013	Write-off	Depreciation for period		Balance Jun 30, 2014
Computer hardware	\$ 88,913	\$ -	\$ (73,775)	-	\$ 15,138	\$ 73,461	\$ (73,775)	\$ 5,965	\$ 5,651	\$ 9,487	
Automotive equipment	5,500	-	-	795	6,295	-	-	1,888	1,888	4,407	
Industrial equipment	2,296,345	-	-	327,195	2,623,540	303,254	-	278,353	581,607	2,041,933	
Office furniture and equipment	29,735	-	(10,419)	23,342	42,658	11,569	(10,419)	7,895	9,045	33,613	
	\$ 2,420,493	\$ -	\$ (84,194)	\$ 351,332	\$ 2,687,631	\$ 388,285	\$ (84,194)	\$ 294,101	\$ 598,191	\$ 2,089,440	

During the year depreciation in the amount of \$246,926 (2013 - \$264,030) was capitalized to iron interests.

### 8. RELATED PARTY TRANSACTIONS

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

	Years ended	
	30-Jun-14	30-Jun-13
Management fees	\$ 165,000	\$ 165,000
Consulting fees	821,606	271,875
Directors fees	13,650	9,800
Salaries and benefits	91,534	51,514
Stock based compensation	625,000	218,000
	1,716,790	716,189
Capitalized	88,650	346,875
Operating expenses	\$ 1,628,140	\$ 369,314



# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

### 9. LONG TERM DEBT

During fiscal 2013, NAIC received an interest-free repayable loan from ACOA, a government agency, in the amount of \$500,000 to assist in the execution of the Labrador Mineral Sands Project. 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 fiscal 2103, FSM received a loan from the State of Pennsylvania in the amount of US\$1, 600,000 (\$1,682,880) 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%.

Summary of long term debt:

	30-Jun-14	30-Jun-13
	\$	\$
<b>ACOA Loan</b>		
Loan amount	336,684	336,684
Accretion capitalized to iron interest	31,583	-
Balance end of period	368,267	336,684
<b>Industrial equipment loan</b>		
Loan amount	1,089,216	1,143,109
Repayments	(138,838)	(53,893)
Accretion capitalized to property and equipment	134,387	-
Balance end of period	1,084,765	1,089,216
Total	1,453,032	1,425,900

The future minimum payments, including maturities, are as follows:

	(in US\$)
2015	\$ 168,204
2016	168,204
2017	168,204
2018	168,204
2019	168,204
Thereafter	554,773

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 10. SHARE CAPITAL

	Number of Shares	Amount
Authorized:		
Unlimited number of common shares without par value		
<b>Issued and outstanding June 30, 2013 and June 30, 2014</b>	<b>17,251,015</b>	<b>\$ 8,948,978</b>

### 11. 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 exercise 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 ask 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 3,450,203 common shares pursuant to the stock option plan. There are 1,579,000 (2013 - 594,000) options to acquire common shares outstanding under the plan as at June 30, 2014. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

On May 28, 2012, 144,000 options were granted to directors, officers, and employees under the stock purchase plan at an exercise price of \$0.65. These options vested immediately and expire in 10 years. The fair value of these option was estimated to be \$0.25 at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 1.56%; dividend yields of nil; volatility factor of 100%; share price of \$0.65; and a weighted average expected life of the option of 5 years. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

On November 28, 2012, 450,000 options were granted to directors, officers, and employees under the stock purchase plan at an exercise price of \$0.65. These options vested immediately and expire in 10 years. The fair value of these option was estimated to be \$0.49 at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 1.56%; dividend yields of nil; volatility factor of 100%; share price of \$0.65; and a weighted average expected life of the option of 5 years. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

On December 6, 2013, 985,000 options were granted to directors, officers, and employees under the stock purchase plan at an exercise price of \$0.85. These options vested immediately and expire in 10 years. The fair value of these option was estimated to be \$0.63 at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 1.56%; dividend yields of nil; volatility factor of 100%; share price of \$0.85; and a weighted average expected life of the option of 5 years. The expected volatility of the Corporation is based on historical volatility of comparable entities for the same weighted average expected life of the option.

The stock option expense for 2014 included in the statement of operations is \$625,000 (2013 - \$218,000).

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

### 11. STOCK BASED COMPENSATION PLAN (Continued)

Options issued and outstanding as at June 30, 2013 and June 30, 2014:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2012	0.73	331,500
Expired	(0.80)	(187,500)
Granted	0.65	450,000
Balance June 30, 2013	0.65	594,000
Granted	0.85	985,000
Balance June 30, 2014	0.77	1,579,000

The following table summarizes information about the options outstanding and exercisable at June 30, 2013 and June 30, 2014:

June 30, 2013				
Options Outstanding and Exercisable				
Number of options outstanding	Expiry date	Exercise price \$	Number of options exercisable	Weighted average remaining contractual life
144,000	28/May/2022	0.65	144,000	8.92
450,000	28/Nov/2022	0.65	450,000	9.42
594,000			594,000	9.3

June 30, 2014				
Options Outstanding and Exercisable				
Number of options outstanding	Expiry date	Exercise price \$	Number of options exercisable	Weighted average remaining contractual life
144,000	28/May/2022	0.65	144,000	7.92
450,000	28/Nov/2022	0.65	450,000	8.42
985,000	6/Dec/2023	0.85	985,000	9.44
1,579,000			1,579,000	9.01

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 11. STOCK BASED COMPENSATION PLAN (Continued)

#### GRI Stock Option Plan

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 2,356,433 (2013 – 2,306,970) common shares pursuant to the stock option plan. There are 1,862,000 (2013 – 1,842,000) options to acquire common shares outstanding under the plan as at June 30, 2014. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

On December 6, 2013, 500,000 options were granted under the stock purchase plan at an exercise price of \$2.10. These options vested immediately and expire in 5 years.

Options issued and outstanding as at June 30, 2013 and June 30, 2014:

	Weighted average exercise price \$	Issued
Balance June 30, 2012	1.25	2,120,000
Expired	(1.25)	(365,000)
Granted	1.25	87,000
Balance June 30, 2013	1.25	1,842,000
Granted	2.10	500,000
Cancelled and expired	(1.25)	(480,000)
Balance June 30, 2014	1.47	1,862,000

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 11. STOCK BASED COMPENSATION PLAN (Continued)

The following table summarizes information about the options outstanding and exercisable at June 30, 2013 and June 30, 2014:

June 30, 2013			
Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
365,000	31/May/2014	1.25	365,000
365,000	31/Dec/2015	1.25	365,000
480,000	2/Sep/2016	1.25	480,000
545,000	31/May/2017	1.25	545,000
87,000	5/Nov/2017	1.25	87,000
1,842,000			1,842,000

June 30, 2014			
Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
390,000	31/Dec/2015	1.25	390,000
415,000	2/Sep/2016	1.25	415,000
495,000	31/May/2017	1.25	495,000
87,000	5/Nov/2017	1.25	87,000
475,000	6/Dec/2018	2.10	475,000
1,862,000			1,862,000

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 12. NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated by dividing the net income (loss) per financial statements by the weighted average number of common shares outstanding for the year. The dilutive effect of the outstanding options at June 30, 2014 and 2013 is calculated as follow:

	June 30, 2013			
Options exercisable	Exercise price	proceeds	Common Shares	
594,000	\$ 0.65	\$ 386,100	594,000	
Buy-back at average price	\$ 0.713		541,515	
Dilutive effect of exercise of options				52,485
Weighted average number of shares outstanding - basic				17,251,015
Weighted average number of shares outstanding - diluted				17,303,500

The Company has a loss during 2014 therefore the options effect is anti-dilutive.

### 13. INCOME TAXES

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

	30-Jun-14	30-Jun-13
	\$	\$
Income (loss) before income taxes	\$ (3,245,530)	\$ 9,661,219
Combined Federal and Provincial tax rate	31%	31%
Expected recovery at statutory rates	\$ (1,006,114)	\$ 2,994,978
Non-deductible stock based compensation and other	194,077	71,386
Unrealized gain on acquisition of control, bargain purchase	-	(3,563,230)
Benefit of net deferred tax assets previously not recognized	(306)	(561,473)
Deferred tax recovery	\$ (812,343)	\$ (1,058,339)

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 13. INCOME TAXES (Continued)

Deferred tax assets consist of:

	30-Jun-14	30-Jun-13
	\$	\$
Non-capital losses	1,647,158	1,121,877
Iron interests	(11,969,333)	(12,383,047)
Property and equipment	(1,072)	28,002
Loans receivable	-	66,861
Investment	(44,369)	(43)
Share issue costs	78,290	74,681
	(10,289,326)	(11,091,669)

At June 30, 2014, the Corporation and its subsidiaries had approximately \$5,313,413 of non-capital losses carried forward to reduce future years' taxable income. The deferred tax benefit of these losses has been recognized as a reduction of the deferred tax liabilities. The non-capital losses expire as follows:

	\$
2028	22,819
2029	285,167
2030	67,716
2031	313,104
2032	533,819
2033	2,109,571
2034	1,981,217
	5,313,413

### 14. COMMITMENTS

GRI, subsequent to the incorporation of NAIC, provided Petmin Limited ("Petmin"), an unrelated entity, with options to invest in NAIC in three phases. The first option was exercised November 17, 2010 with Petmin signing a purchase agreement to buy 26 common shares in NAIC from treasury for \$1,512,135 (US\$1,500,000), representing a 5% interest in the outstanding common shares.

The second option was amended August 18, 2011 into two phases, exercisable upon satisfaction of various performance conditions. Phase 2a was exercised August 31, 2011 with a capital injection of \$1,956,800 (US\$2,000,000) from Petmin in exchange for 34 common shares, increasing its interest to 10.7% of the issued and outstanding common shares.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 14. COMMITMENTS (continued)

Phase 2b was exercised on April 20, 2012 with a capital injection of \$2,973,800 (US\$3,000,000), by Petmin in exchange for 42 common shares, increasing its interest to 16.9% of the issued and outstanding common shares.

The third option is divided into three phases with payments of US\$4.5M, \$6.0M and \$8.0M for phases 3a, 3b and 3c respectively each with various milestones. Petmin will take back sufficient common shares to increase its interest to 40% of the issued and outstanding common shares after payment has been made on phase 3c.

Phase 3a(1) was exercised on July 5, 2012 and phase 3a(2) was exercised on July 13, 2012 with a combined capital injection of \$4,576,393 (US\$4,500,000), by Petmin in exchange for 43 common shares, increasing its interest to 22.48% of the issued and outstanding capital.

Phase 3b(1) was exercised on April 5, 2013 with a capital injection of \$2,031,423 (US\$2,000,000), by Petmin in exchange for 23 common shares, increasing its interest to 25.15% of the issued and outstanding capital. Phase 3b(2) was exercised on July 17, 2013 with a capital injection of \$2,070,400 (US\$2,000,000), by Petmin in exchange for 23 common shares, increasing its interest to 27.6% of the issued and outstanding capital. Phase 3b(3) was exercised on October 22, 2013 with a capital injection of \$2,072,700 (US\$2,000,000), by Petmin in exchange for 23 common shares, increasing its interest to 30.0% of the issued and outstanding capital.

Phase 3c(1) was exercised on April 7, 2014 with a capital injection of \$2,193,800 (US\$2,000,000), by Petmin in exchange for 30 common shares, increasing its interest to 32.8% of the issued and outstanding capital. As at June 30, 2014, an additional US\$6,000,000 remains outstanding with respect to Phase 3c. Upon exercising these remaining options Petmin will be entitled to an additional 89 shares in NAIC which will give it a 40% interest.

In addition Petmin has the option (the "Grand River Option") to acquire an additional 9.9% interest in NAIC in exchange for common shares in Petmin equal to 9.9% of the value of the mineral rights of NAIC at the time Petmin exercises the Grand River Option.

NAIC, GRI, and Petmin entered into a management service agreement on June 1, 2013 for a period of 24 months, in the amount of US\$300,000 per year which shall be paid by NAIC to Petmin on a quarterly basis, payable in arrears. The agreement shall renew automatically for subsequent one year periods if not specifically terminated in accordance with the agreement. NAIC also agrees to reserve for issuance 2.5% of its issued and outstanding shares to be issued to Petmin, releasable in increments of 1% upon completion of a satisfactory preliminary economic assessment and the balance of 1.5% upon completion of a satisfactory bank feasibility study.



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### 15. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its long-term debt, share capital, stock based payment reserve, retained earnings and non-controlling interest. Its objective when managing capital is to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

	30-Jun-14	30-Jun-13
	\$	\$
Long term debt	1,453,032	1,425,900
Share capital	8,948,978	8,948,978
Stock based payment reserve	913,000	288,000
Retained earnings	9,085,851	7,517,702
Non-controlling interest	29,480,922	26,907,155
	49,881,783	45,087,736

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 period ended June 30, 2013.

### 16. FINANCIAL INSTRUMENTS

As at June 30, 2014, the Corporation carried cash and cash equivalents and investments at fair value and is considered Level 1, within the fair value hierarchy.

#### Risk Disclosures

The main risks the Corporation's financial instruments could be exposed to are credit risk, liquidity risk, equity and other price risk, foreign exchange risk, and interest rate risk.

#### Credit Risk

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

#### Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure, as far as 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 16. FINANCIAL INSTRUMENTS (Continued)

#### Equity and Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those subject to normal market fluctuations and the risks inherent in investment in financial markets). The maximum risk resulting from financial instruments held by the Corporation is equivalent to the fair value of the financial instruments. As at June 30, 2014 approximately 16% (2013 – 6%) of the Corporation's total assets are subject to overall market exposure.

For this Corporation, the most significant exposure to other price risk arises from its investment in the equity security. As of June 30, 2014, had the prices on the respective stock exchange for these securities raised or lowered by 10%, with all other variables held constant, the total assets would have increased or decreased respectively by approximately \$47,449. (2013 – 11,582)

#### Foreign Currency Risk

The Corporation has long term debt denominated in US dollars. The carrying value of these items may change due to fluctuations in foreign exchange rates. The Corporation has cash and trade and payable denominated in US dollars. A five percent change in the US dollar to Canadian dollar exchange rate would not have a significant impact on their carrying values.

#### Interest Rate Risk

The Corporation is exposed to interest rate price risk to the extent that a portion of the long-term debt is at a fixed interest rate.

### 17. SUBSEQUENT EVENT

On August 11, 2014 the Corporation's wholly owned subsidiaries VRI and NSL were amalgamated into the parent company.

The Corporation now has direct and indirect interests in the following entities:

- 40.2% Grand River Ironsands Incorporated ("GRI")
  - 100% Forks Specialty Metals Inc. ("FSM")
  - 67.2% North Atlantic Iron Corporation ("NAIC")

### 18. SEGMENTED INFORMATION

As at June 30, 2014 the Corporation had a corporate head office and three business segments:

1. GRI is a development stage enterprise in the process of exploring its mineral properties, held both directly and indirectly through its majority-owned subsidiary NAIC.
2. NAIC is a development stage enterprise in the process of exploring its mineral properties in Newfoundland and Labrador, Canada.
3. FSM operates a smelting plant in Forks Township, Pennsylvania.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

### 18. SEGMENTED INFORMATION (Continued)

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.

The results of the segments are as follows:

	Corporate		GRI		NAIC		FSM		Eliminations		Consolidated	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Revenue - external customers	-	-	-	-	-	-	-	-	-	-	-	-
Revenue - intersegment	-	-	86,886	52,538	-	2,803	1,387,003	630,338	1,473,890	685,679	-	-
	-	-	86,886	52,538	-	2,803	1,387,003	630,338	1,473,890	685,679	-	-
Operating expenses	895,692	1,057,839	326,853	241,371	790,965	1,044,237	1,222,621	520,915	(318,335)	685,679	3,554,466	2,178,683
	(895,692)	(1,057,839)	(239,967)	(188,833)	(790,965)	(1,041,434)	164,382	109,423	1,792,224	-	(3,554,466)	(2,178,683)
Depreciation	(2,787)	(897)	(5,787)	(4,320)	(3,084)	(907)	(253,759)	(265,792)	246,926	264,030	(18,491)	(7,886)
Interest and bank charges	(75)	(374)	(8,445)	-	(5,034)	(12,695)	(17,689)	(6,898)	-	-	(31,243)	(19,967)
Gain on conversion of debts	-	-	622,153	-	-	-	-	-	-	-	622,153	-
Unrealised gain (loss) on investments	-	-	(263,483)	-	-	-	-	-	-	-	(263,483)	-
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
	(2,862)	11,866,484	344,438	(4,320)	(8,118)	(13,602)	(271,448)	(272,690)	246,926	264,030	308,936	11,839,902
Segment income (loss) before taxes	(898,554)	10,808,645	104,471	(193,153)	(799,083)	(1,055,036)	(107,066)	(163,267)	2,039,150	264,030	(3,245,530)	9,661,219
Total assets	88,817	262,420	931,142	929,242	55,222,280	54,005,365	3,006,238	2,286,088	2,313,244	264,030	61,561,721	57,747,145
Total liabilities	10,262,675	11,123,030	897,755	1,314,486	843,665	558,577	1,128,874	1,089,216	-	-	13,132,969	14,085,309

Inter-segment revenues are eliminated and reflected in the "eliminations" column.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the years ended June 30, 2014 and 2013

(Amounts presented in Canadian Dollars)

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### 18. SEGMENTED INFORMATION (Continued)

#### 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 years ending June 30, 2014 or June 30, 2013.

Non-current assets:

	2014	2013
	\$	\$
Canada	56,666,098	54,163,493
United States of America	1,949,139	1,852,361
Total non-current assets	58,615,237	56,015,854