



**MUSKRAT MINERALS INCORPORATED**

**Condensed Consolidated Financial Statements**

**For the three month periods ended September 30, 2015 and September 30, 2014**

**(expressed in Canadian dollars)**

**(UNAUDITED)**

**In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated financial statements for the three month periods ended September 30, 2015 and September 30, 2014**

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

The condensed 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 condensed 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 condensed 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 condensed consolidated financial statements and the management's discussion and analysis of financial results and reports its findings to the Board of Directors for its consideration when approving the condensed consolidated financial statements for issuance to the shareholders.

*"Francis H. MacKenzie"*

Francis H. MacKenzie  
President and Chief Executive Office

*"Lorne S. MacFarlane"*

Lorne S. MacFarlane  
Chief Financial Officer

November 27, 2015

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**Muskrat Minerals Incorporated**



Financial Information

September 30, 2015

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



	30-Sep 2015 \$	30-Jun 2015 \$
<b>Assets</b>		
<b>Current assets:</b>		
Cash	2,287,532	1,375,031
Restricted cash (Note 5)	-	610,000
Accounts receivable	44,200	62,379
Other receivable	174,177	117,417
Prepaid and other deposits	756,215	532,240
Investments (Note 4)	34,889	92,266
	<b>3,297,013</b>	<b>2,789,333</b>
<b>Non-current assets:</b>		
Iron interests (Note 5)	60,928,667	60,396,574
Mineral claim deposits (Note 6)	-	-
Property and equipment (Note 7)	136,644	141,808
	<b>61,065,311</b>	<b>60,538,382</b>
	<b>64,362,324</b>	<b>63,327,715</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade and other payables (Notes 5 and 18)	408,570	2,952,819
Current portion long term debt (Note 9)	208,345	1,184,923
	<b>616,915</b>	<b>4,137,742</b>
<b>Non-current liabilities:</b>		
Long term debt (Note 9)	2,711,198	1,663,511
Deferred taxes (Note 13)	8,690,530	8,805,720
	<b>11,401,728</b>	<b>10,469,231</b>
<b>Shareholders' equity</b>		
Share capital (Note 10)	8,948,978	8,948,978
Equity component convertible debenture (Note 9)	649,593	649,593
Stock based payment reserve	2,243,000	2,243,000
Retained earnings	10,281,141	7,758,986
Accumulated other comprehensive income	180,125	117,670
Equity Attributable to shareholders	<b>22,302,836</b>	<b>19,718,227</b>
Non-controlling interests	<b>30,040,845</b>	<b>29,002,515</b>
	<b>52,343,681</b>	<b>48,720,742</b>
	<b>64,362,324</b>	<b>63,327,715</b>

*The accompanying notes form an integral part of these consolidated financial statements*

Approved on behalf of the Board:

David J. Hennigar

Francis H. MacKenzie

November 27, 2015

**Muskkrat Minerals Incorporated**
**Consolidated Statements of Loss and Comprehensive Loss**

For the three months ended September 30, 2015 and September 30, 2014



(Amounts presented in Canadian Dollars)

	3 months ended	
	30-Sep-15	30-Sep-14
	\$	\$
<b>Operating expenses:</b>		
Utilities	19,621	20,311
Consulting	72,730	750
Dues and fees	2,995	10,706
Exploration costs	-	49,113
Foreign exchange losses	(216,311)	19,483
General and administrative	76,704	38,224
Insurance	26,625	33,591
Management fees	244,933	149,008
Professional fees	-	7,500
Rental	262,909	280,601
Travel	(79,468)	164,794
Salaries and wages	132,508	98,442
	<b>543,246</b>	<b>872,523</b>
Loss before the undermoted	(543,246)	(872,523)
Expense recovery re Porcupine Strand (Note 5)	167,370	-
Depreciation	(2,820)	(9,009)
Interest and bank charges	(53,261)	(4,482)
Realized gain (loss) on investments (Note 4)	(26,925)	-
Unrealized gain (loss) on investments (Note 4)	47,688	(91,895)
Net Loss before taxes	(411,194)	(977,909)
Income tax recovery (Note 13)	115,190	303,151
Net Loss	<b>(296,004)</b>	<b>(674,758)</b>
<b>Net loss attributable to:</b>		
Shareholders of the Corporation	(239,272)	(237,320)
Non-controlling interest	(56,732)	(437,438)
Net loss	<b>(296,004)</b>	<b>(674,758)</b>
Net loss per share (Note 12)	<b>(\$0.02)</b>	<b>(\$0.04)</b>
Weighted average number of shares outstanding (Note 10)	<b>17,251,018</b>	17,251,015
Net loss	(296,004)	(674,758)
Other comprehensive income		
<i>Items that may be subsequently reclassified to loss</i>		
Cumulative translation adjustments	143,546	-
Comprehensive loss	<b>(152,458)</b>	<b>(674,758)</b>
<b>Comprehensive loss attributable to:</b>		
Shareholders of the Corporation	(176,817)	(237,320)
Non-controlling interest	24,359	(437,438)
Comprehensive loss	<b>(152,458)</b>	<b>(674,757)</b>

**Muskrat Minerals Incorporated**

**Consolidated Statement of Changes in Equity**

For the three months ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)



	Number of Shares Issued	Share Capital	Equity Component Convertible Debenture	Stock based payment reserve	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity	Non-controlling interest	Total Equity
		\$		\$	\$	\$	\$		
<b>Balance June 30, 2014</b>	17,251,018	8,948,978	-	913,000	9,085,852	-	18,947,830	29,480,922	48,428,752
Gain on divesture of investment in subsidiary (Note 3)	-	-	-	-	-	-	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(237,320)	-	(237,320)	(437,438)	(674,758)
Stock-based compensation (Note 11)	-	-	-	-	-	-	-	-	-
<b>Balance September 30, 2014</b>	17,251,018	8,948,978	-	913,000	8,848,532	-	18,710,510	29,043,484	47,753,994
<b>Balance June 30, 2015</b>	17,251,018	8,948,978	649,593	2,243,000	7,758,986	117,670	19,718,227	29,002,515	48,720,742
Net Loss	-	-	-	-	(239,272)	-	(239,272)	(56,732)	(296,004)
Other comprehensive income for the period	-	-	-	-	-	62,455	62,455	81,091	143,546
Comprehensive income (loss) for the period	-	-	-	-	(239,272)	62,455	(176,817)	24,359	(152,458)
Gain on divesture of investment in subsidiary (Note 3)	-	-	-	-	1,667,712	-	1,667,712	1,013,971	2,681,683
Gain on acquisition of shares in subsidiary (Note 3)	-	-	-	-	1,093,714	-	1,093,714	-	1,093,714
<b>Balance September 30, 2015</b>	17,251,018	8,948,978	649,593	2,243,000	10,281,141	180,125	22,302,836	30,040,845	52,343,681

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

**Musktrat Minerals Incorporated**  
**Consolidated Statements of Cash Flows**  
**For the three months ended September 30, 2015 and September 30, 2014**  
**(Amounts presented in Canadian Dollars)**



	3 months ended	
	30-Sep-15	30-Sep-14
	\$	\$
<b>Cash flows generated from operating activities:</b>		
Net loss	(296,004)	(674,758)
Items not involving cash:		
Depreciation	2,820	9,009
Loss (gain) on sale of investments	26,925	-
Unrealized loss (gain) on investments	(47,688)	91,895
Deferred taxes	(115,190)	(303,151)
Changes in non-cash operating working capital		
Other receivables	(38,581)	(21,573)
Prepaid and other deposits	(223,975)	71,116
Trade and other payables	(1,515,144)	46,617
	<u>(2,206,837)</u>	<u>(780,845)</u>
<b>Cash flow generated from financing activities:</b>		
Repayment of long term debt	(51,021)	(40,592)
	<u>(51,021)</u>	<u>(40,592)</u>
<b>Cash flows (provided) generated from investing activities:</b>		
Proceeds mineral claim settlement	610,000	-
Proceed sale of investments	78,140	-
Proceeds sale of non-controlling interest	2,548,000	-
Acquisition of shares in subsidiary	(350,000)	-
Investment in iron interests	284,219	(142,443)
	<u>3,170,359</u>	<u>(142,443)</u>
Increase (decrease) in cash during the period	912,501	(963,880)
Cash, beginning of period	1,375,031	1,977,562
Cash, end of period	<u>2,287,532</u>	<u>1,013,682</u>

*The accompanying notes form an integral part of these consolidated financial statements*

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 1. NATURE OF OPERATIONS

Muskrat Minerals Incorporated (“the Corporation”) was incorporated on October 4, 2000 under the laws of the Province of Alberta pursuant to the provisions of the *Business Corporations Act*. The Corporation, as a result of the recent acquisition and reorganization, has now transitioned into the mining and exploration sector. The Corporation’s Head Office is located at 1600 – 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 condensed 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 condensed 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 condensed 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.

These condensed 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 September 30, 2015.



# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Basis of Consolidation

On August 11, 2014 the Corporation's wholly owned subsidiaries VRI and NSL were amalgamated into the parent company. These condensed consolidated financial statements include the accounts of the Corporation and the following entities:

- 44.3% Grand River Ironsands Incorporated ("GRI")  
A company incorporated in Nova Scotia engaged in the exploration and development of mineral deposits
- 100% Forks Specialty Metals Inc. ("FSM")  
A company incorporated in Pennsylvania engaged in iron ore smelting
- 62.2% North Atlantic Iron Corporation ("NAIC")  
A corporation 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 three month periods ended September 30, 2015 and September 30, 2014

(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 recorded in equity.

#### (d) Investment in Associate

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

#### (e) Iron Interests

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

Pre-exploration 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 value associated with resources and exploration potential is allocated 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.

#### (f) 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

#### (g) 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Property and Equipment (continued)

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%

#### (h) Impairment of Assets

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

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds 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.

#### (i) Share Issuance Costs

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

#### (j) 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 three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) 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.

#### (k) 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.

#### (l) 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 cost is recognized on a straight-line graded method basis adjusted for expected forfeitures as an employee or director expense with a corresponding increase to equity in stock based payment reserve. Consideration paid by employees or directors on the exercise of stock options is recorded as share capital.

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 three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) 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 ("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 other financial liabilities, and are subsequently measured at amortized cost using the effective interest rate method.

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

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

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 condensed 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 three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) 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.

#### (n) Use of Estimates

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, and impairment of assets.

#### (o) Provisions

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

#### (p) 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.

#### (q) Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2014. Those pronouncements that could be applicable or could have a significant impact to the Corporation are discussed in detail in Note 2(p) to the June 30, 2014 audited financial statements.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 3. INVESTMENT IN SUBSIDIARY COMPANIES

As of August 29, 2012 the Corporation had acquired 9,475,017 shares in GRI increasing its holding in GRI to 41.1% which, when combined with the holdings of Directors and associated companies, gave the Corporation effective control of GRI and its 77.5% owned subsidiary NAIC.

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 \$2,031,400 (US\$2,000,000).

#### *Non-controlling interest divesture*

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 23, 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).

On October 24, 2014, Petmin acquired an additional 15 common shares of NAIC increasing its non-controlling interest in NAIC from 32.8% to 34.1%, in exchange for cash consideration of \$1,123,300 (US\$1,000,000).

On October 11, 2013 and November 29, 2013 GRI issued an aggregate of 433,582 flow through and non-flow through shares from treasury for an aggregate consideration of \$943,854 less issue costs of \$106,992 for net proceeds of \$836,862. These transactions reduced the Corporation’s interest in GRI from 41.07% to 40.32%.

On February 17, 2015, Petmin acquired an additional 15 common shares of NAIC increasing its non-controlling interest in NAIC from 34.1% to 35.4%, in exchange for cash consideration of \$1,240,300 (US\$1,000,000).

On June 5, 2015 the Corporation acquired an additional 265,000 common shares of GRI representing 1.13% of the outstanding shares for \$132,500.

On July 8, 2015, Petmin acquired an additional 30 common shares of NAIC increasing its non-controlling interest in NAIC from 35.4% to 37.8%, in exchange for cash consideration of \$2,548,000 (US\$2,000,000).

These transactions have been treated as a divestiture of the Corporation’s indirect interest in NAIC as follows:

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 3. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

	3 months ended	
	30-Sep-15	30-Sep-14
	\$	\$
Proceeds from sale	2,548,000	-
Net assets sold	133,683	-
Gain on divestiture to non-controlling interests	2,681,683	-
This gain has been allocated between the Corporation and the non-controlling interest of GRI as follows:		
Non-controlling interest	1,013,971	-
Controlling interest	1,667,712	-
Total gain on divestiture to non-controlling interests	2,681,683	-

The Corporation acquired additional common shares of GRI as follows: 200,000 shares on July 17, 2015; 200,000 shares on September 3, 2015 and 300,000 shares on September 25, 2015 for an aggregate consideration of \$350,000, increasing the Corporation's ownership of GRI to 44.3%.

These transactions have been recorded as follows:

	\$
Non-controlling interest acquired	1,443,714
Cost of shares acquired	350,000
Gain on acquisition of non-controlling interest	1,093,714

### 4. INVESTMENT

The Corporation has the following holdings and disposition of investments:

<b>Market value of investments</b>	30-Sep-15	30-Sep-14
	\$	\$
2,102,280 share purchase warrants	7,860	12,850
284,520 Common shares (2014 - 4,304,560)	27,029	387,410
Market value of investments	34,889	400,260
Value at beginning of period	32,766	737,971
Unrealized gain (loss) on investments held	2,123	(337,711)
Previous unrealized loss recorded on shares sold	45,565	-
Unrealized gain (loss) for period	47,688	(337,711)
<b>Sale of investments</b>	30-Sep-15	30-Sep-14
	\$	\$
Proceeds sale of 850,000 shares (2014 nil)	78,140	-
Cost of shares sold	105,065	-
Realized loss on investments	(26,925)	-



# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 5. IRON INTERESTS

September 30, 2014				
	Balance			Balance
	30-Jun-14	Additions	Reductions	30-Sep-14
	\$	\$	\$	\$
Labrador Mineral Sands	57,658,901	247,559	-	57,906,460
Porcupine Strand	115,021	-	-	115,021
	57,773,922	247,559	-	58,021,481

  

September 30, 2015				
	Balance			Balance
	30-Jun-15	Additions	Reductions	30-Sep-15
	\$	\$	\$	\$
Labrador Mineral Sands	60,281,553	647,114	-	60,928,667
Porcupine Strand	115,021	-	115,021	-
	60,396,574	647,114	115,021	60,928,667

The Labrador Mineral Sands relates to 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.

On April 14, 2015 GRI received a cheque for \$610,000 from the Province of Newfoundland and Labrador pursuant to an agreement dated March 24, 2015 between GRI and the Government of Newfoundland and Labrador. This amount represents a recovery of the costs associated with the forfeiture of the Porcupine Strand licenses. The funds were held in trust by GRI pending the finalization of a land transfer agreement between the Government of Canada ("Canada") and the Government of Newfoundland and Labrador ("the Province") and the reimbursement by Canada for costs incurred by the Province with respect to the termination of these claims. On September 14, 2015 GRI received a letter from the Province confirming that all conditions of the transfer had been met and the funds were now released.

The transaction has been recorded as follows:

	\$
Recovery Resource Property expenditures	327,609
Expense recovery	167,370
Porcupine Strand cost	115,021
	610,000

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 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.

Mineral claim deposits:

	30-Sep-15	30-Sep-14
	\$	\$
Balance beginning of period	-	334,045
Additions	-	-
Balance end of period	-	334,045

### 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

September 30, 2014

Description	Cost			Accumulated Depreciation			Net Book Value
	Balance	Balance	Balance	Balance	Balance	30-Sep-14	
	30-Jun-14	Additions	30-Sep-14	30-Jun-14	Additions		30-Sep-14
Computer hardware	\$ 15,138	-	\$ 15,138	\$ 5,651	\$ 712	\$ 6,363	\$ 8,775
Automotive equipment	6,295	-	6,295	1,888	331	2,219	4,076
Other equipment	196,430	-	196,430	70,713	6,285	76,998	119,432
Office furniture and equipment	42,658	-	42,658	9,045	1,681	10,726	31,932
	\$ 260,521	\$ -	\$ 260,521	\$ 87,297	\$ 9,009	\$ 96,306	\$ 164,215

September 30, 2015

Description	Cost			Accumulated Depreciation			Net Book Value
	Balance	Balance	Balance	Balance	Balance	30-Sep-15	
	30-Jun-15	Additions	30-Sep-15	30-Jun-15	Additions		30-Sep-15
Computer hardware	\$ 15,138	-	\$ 15,138	\$ 8,498	\$ 498	\$ 8,995	\$ 6,143
Automotive equipment	6,295	-	6,295	3,210	231	3,442	2,853
Other equipment	196,430	-	196,430	95,856	5,028	100,884	95,547
Office furniture and equipment	51,832	3,607	55,440	20,324	3,014	23,338	32,102
	\$ 269,695	\$ 3,607	\$ 273,303	\$ 127,888	\$ 8,771	\$ 136,658	\$ 136,644

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 8. RELATED PARTY TRANSACTIONS

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

	3 months ended	
	30-Jun-15	30-Jun-14
Management fees	\$ 41,250	\$ 41,250
Consulting fees	208,753	99,110
Salaries and benefits	155,335	126,899
	405,338	267,259
Capitalized to iron interests	27,897	19,809
Operating expenses	\$ 377,441	\$ 247,450

### 9. LONG TERM DEBT

#### ACOA Loan

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, 2019 and repayments will commence in December 2019. The carrying value of the loan has been discounted using an effective interest rate of 9%.

#### Industrial Equipment Loan

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%.

#### Convertible Debenture

On May 1, 2015 the Corporation announced that it had completed a non-brokered private placement of an unsecured convertible debenture for proceeds of \$2,000,000. A company controlled by an officer and director of the Corporation fully subscribed to the offering.

The debenture matures on May 1, 2020 and bears interest at a rate of 5% per annum payable quarterly. The debenture is convertible, at the option of the holder, into common shares of the Corporation on or prior to the maturity date. The conversion price will be \$0.80 per common share if exercised within 12 months of closing and will increase by \$0.05 per common share on the anniversary date each year thereafter until the maturity date.

At the option of the Corporation, quarterly interest may be converted into common shares of the Corporation at a conversion price equal to the volume-weighted average trading price of the shares for the 20 consecutive trading days prior to conversion.

The debenture will not be listed on the CSE, however the common shares issuable upon any conversion will be listed and will be subject to a four month hold period from the date of issuance.

The debenture is a compound financial instrument and as such has been recorded as a liability and as equity. The liability component was valued first and the difference between the proceeds of the debenture and the fair value of the liability was assigned to the equity component. The present value of the liability

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 9. LONG TERM DEBT (continued)

was calculated using a discount rate of 14% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the debenture was issued. The liability component will be accreted to the face value of the liability using the effective interest method. The accretion of the liability is charged at an effective interest rate of 14% such that at maturity the liability component is equal to the face value of the outstanding debenture. The balance of the liability component is shown in the table below.

Summary of long term debt:

	year ended	
	30-Sep-15	30-Sep-14
	\$	\$
<b>ACOA Loan</b>		
Loan amount beginning of period	281,411	368,267
Accretion capitalized to iron interests	6,379	8,348
Balance end of period	287,790	376,616
<b>Convertible debenture</b>		
Amount outstanding beginning of period	1,382,100	-
Accretion expense for period	24,192	-
Balance end of period	1,406,293	-
<b>Industrial equipment loan</b>		
Loan amount beginning of period	1,184,923	1,089,216
Repayments	(51,021)	(138,838)
Accretion capitalized to iron interests	91,558	134,387
Current portion	(208,345)	-
Balance end of period	1,017,115	1,084,765
Total	2,711,198	1,461,380

### 10. SHARE CAPITAL

#### COMMON STOCK OUTSTANDING

	Number of	Amount
	Shares	
Authorized:		
Unlimited number of common shares without par value		
<b>Issued and outstanding September 30, 2015 and</b>		
<b>September 30, 2014</b>	<b>17,251,018</b>	<b>\$ 8,948,978</b>

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 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 option prices which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant.

The Corporation has reserved 3,450,203 common shares pursuant to the stock option plan. There are 1,579,000 options to acquire common shares outstanding under the plan as at September 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 at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 1.56%; dividend yields of nil; volatility factor of 100%; and a weighted average expected life of the option of 5 years. The expected volatility of the 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 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 prices 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 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 prices 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.

On December 8, 2014, 535,000 options were granted to directors, officers, employees and consultants under the stock purchase plan at an exercise price of \$0.75. These options vested immediately and expire in 10 years. The fair value of these option was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 1.44%; dividend yields of nil; volatility factor of 157.51%; share prices of \$0.75; and a weighted average expected life of the option of 5 years. The expected volatility is based on historical volatility of the Company's shares since March 30, 2012

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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

Options issued and outstanding as at September 30, 2014 and September 30, 2015:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2014	0.77	1,579,000
Granted	-	-
Balance September 30, 2014	0.77	1,579,000
Balance June 30, 2015	0.77	2,114,000
Granted	-	-
Balance June 30, 2015	0.77	2,114,000

The following table summarizes information about the options outstanding and exercisable at September 30, 2014 and September 30, 2015:

September 30, 2014			
Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
144,000	28-May-2022	0.65	144,000
450,000	28-Nov-2022	0.65	450,000
985,000	6-Dec-2023	0.85	985,000
1,579,000			1,579,000

September 30, 2015			
Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
144,000	28-May-2022	0.65	144,000
450,000	28-Nov-2022	0.65	450,000
985,000	6-Dec-2023	0.85	985,000
535,000	8-Dec-2024	0.75	535,000
2,114,000			2,114,000

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 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 common shares pursuant to the stock option plan. There are 2,356,000 options to acquire common shares outstanding under the plan as at September 30, 2015. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding as at September 30, 2015:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2015	1.60	2,356,000
Issued	-	-
Balance September 30, 2015	1.60	2,356,000

The following table summarizes information about the options outstanding and exercisable at September 30, 2015:

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
494,000	8-Dec-2019	2.10	494,000
2,356,000			2,356,000

### 12. EARNINGS (LOSS) PER SHARE

Earnings (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 period. The Company has a loss in both the current and prior year quarter and the options effect is anti-dilutive.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 13. INCOME TAXES

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

	30-Sep-15	30-Sep-14
	\$	\$
Income (loss) before income taxes	(411,194)	(977,909)
Combined Federal and Provincial tax rate	31%	31%
Expected recovery at statutory rates	(127,469)	(303,152)
Subsidiary rate differential	12,279	-
Deferred tax recovery	(115,190)	(303,152)

Deferred tax liability consists of:

	30-Sep-15	30-Sep-14
	\$	\$
Non-capital losses	3,136,134	1,950,310
Iron interests	(11,829,593)	(11,969,333)
Property and equipment	(935)	(1,072)
Investment	(8,628)	(44,369)
Share issue costs	12,492	78,290
	(8,690,530)	(9,986,174)

### 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 18th, 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.

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.



# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 14. COMMITMENTS (continued)

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 25.2% 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 23, 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.

Phase 3c(2) was exercised on October 24, 2014 with a capital injection of \$1,123,300 (US\$1,000,000), by Petmin in exchange for 15 common shares, increasing its interest to 34.1% of the issued and outstanding capital.

Phase 3c(3) was exercised on February 17, 2015 with a capital injection of \$1,240,300 (US\$1,000,000), by Petmin in exchange for 15 common shares, increasing its interest to 35.4% of the issued and outstanding capital.

Phase 3c(4) was exercised on July 8, 2015 with a capital injection of \$2,548,000 (US\$2,000,000), by Petmin in exchange for 30 common shares, increasing its interest to 37.8% of the issued and outstanding capital. As at September 30, 2015, an additional US\$2,000,000 remains outstanding with respect to Phase 3c. Upon exercising these remaining options Petmin will be entitled to an additional 29 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 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, accumulated other comprehensive income, 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-Sep-15	30-Sep-14
	\$	\$
Long term debt	2,711,198	1,517,553
Share capital	8,948,978	8,948,978
Equity component convertible debenture	649,593	-
Stock based payment reserve	2,243,000	913,000
Accumulated other comprehensive income	180,125	-
Retained earnings	10,281,141	8,848,533
Non-controlling interest	30,040,845	29,043,485
	55,054,879	49,271,549

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

The Corporation is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Corporation's overall strategy with respect to management of capital remains unchanged from the year ended June 30, 2014.

### 16. FINANCIAL INSTRUMENTS

As at September 30, 2015, the Corporation carried cash 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, 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 institution and in reliable trust account in Canada, and as result, believes its exposure to credit risk is minimal.

#### Liquidity Risk

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

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 16. FINANCIAL INSTRUMENTS (continued)

#### **Liquidity Risk (continued)**

equity financing have provided the necessary liquidity required. Trade and other payables are due within 12 months.

#### **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 payables denominated in US dollars and 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.

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

### 17. SEGMENTED INFORMATION

As at September 30, 2015 the Corporation had a corporate head office and three business segments:

1. GRI, a private corporation, incorporated under the *Companies Act* of Nova Scotia, is a development stage enterprise in the process of exploring its mineral properties, held both directly and indirectly through its majority-owned subsidiary North Atlantic Iron Corporation.
2. NAIC, a private corporation, incorporated under the *Corporations Act* of Newfoundland and Labrador, is a development stage enterprise in the process of exploring its mineral properties in Newfoundland and Labrador, Canada. It is a majority owned subsidiary of GRI.
3. FSM, a private corporation, incorporated under the laws of Pennsylvania, operates a smelting plant in Forks Township, Pennsylvania. It is a wholly owned subsidiary of GRI.

The results of the segments are as follows:

	Corporate		GRI		NAIC		FSM		Eliminations		Consolidated	
	30-Sep-15	30-Sep-14	30-Sep-15	30-Sep-14	30-Sep-15	30-Sep-14	30-Sep-15	30-Sep-14	30-Sep-15	30-Sep-14	30-Sep-15	30-Sep-14
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - external customers	-	-	-	-	-	-	-	-	-	-	-	-
Revenue - intersegment	-	-	524,433	58,811	-	4,924	460,435	466,110	(984,868)	(529,845)	-	-
	-	-	524,433	58,811	-	4,924	460,435	466,110	(984,868)	(529,845)	-	-
Operating expenses	38,391	46,670	112,529	149,678	613,248	215,340	591,036	598,652	(811,956)	(137,816)	543,246	872,524
EBITDA	(38,391)	(46,670)	411,904	(90,867)	(613,248)	(210,416)	(130,600)	(132,542)	(172,912)	(392,029)	(543,246)	(872,524)
Depreciation and Amortization	-	-	(818)	(1,086)	(378)	(6,277)	(1,624)	(117,726)	-	116,080	(2,819)	(9,009)
Interest and bank charges	(43,824)	(12)	(3,599)	(770)	(326)	(350)	(5,513)	(3,350)	-	-	(53,262)	(4,482)
Expense recovery	-	-	167,370	-	-	-	-	-	-	-	167,370	-
Realized loss on investments	-	-	(26,925)	-	-	-	-	-	-	-	(26,925)	-
Unrealized gain on investments	-	-	47,688	(91,895)	-	-	-	-	-	-	47,688	(91,895)
	(43,824)	(12)	183,716	(93,751)	(703)	(6,627)	(7,137)	(121,076)	-	116,080	132,052	(105,386)
Segment income (loss) before taxes	(82,215)	(46,682)	595,620	(184,618)	(613,951)	(217,043)	(137,737)	(253,618)	(172,912)	(275,949)	(411,194)	(977,910)
Total assets	5,219,958	4,150,694	5,909,487	5,989,800	62,844,691	58,302,643	3,408,380	2,779,588	(13,020,191)	(10,527,772)	64,362,324	60,694,953
Total liabilities	10,141,933	10,081,534	161,661	1,414,729	1,296,475	629,834	3,484,612	3,334,415	(3,066,038)	(2,519,555)	12,018,643	12,940,957

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

The Corporation's Board of Directors evaluates the performance of these segments and allocates resources to them based on certain performance measures (mainly earnings from operations and cash flow from operations). Segment earnings correspond to each business' earnings from operations. The Corporation's management reporting system evaluates performance based on a number of factors; however the primary profitability measure is the earnings from operations before depreciation, amortization, net financing income or expense and income taxes ("EBITDA").

# MUSKRAT MINERALS INCORPORATED

## Notes to Consolidated Financial Statements

For the three month periods ended September 30, 2015 and September 30, 2014

(Amounts presented in Canadian Dollars)

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### 17. 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.

Revenues from external customers for the period ending September 30, 2015 was \$ nil (September 30, 2014 nil)

Non-current assets:

	30-Sep-15	30-Sep-14
	\$	\$
Canada	58,215,896	57,022,373
United States of America	2,849,415	1,831,413
Total non-current assets	61,065,311	58,853,786