



**METALO MANUFACTURING INC.**  
**(FORMERLY MUSKRAT MINERALS INCORPORATED)**

**Audited Consolidated Financial Statements**

**For the year ended June 30, 2016**

**(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 Metalo Manufacturing Inc. (formerly Muskrat Minerals Incorporated) (the "Corporation") 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. The Corporation 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 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 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 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

October 28, 2016

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**Metalo Manufacturing Inc.**  
**(formerly Muskrat Minerals Incorporated)**



Financial Information

June 30, 2016

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October 28, 2016

## **Independent Auditor's Report**

### **To the Shareholders of Metalo Manufacturing Inc.**

We have audited the accompanying consolidated financial statements of Metalo Manufacturing Inc. (formerly Muskrat Minerals Inc.) and its subsidiaries, which comprise the consolidated balance sheets as at June 30, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 Metalo Manufacturing Inc. and its subsidiaries as at June 30, 2016 and 2015 and their financial performance and their 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 of the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Metalo Manufacturing Inc.'s ability to continue as a going concern.

(signed) "PricewaterhouseCoopers LLP"

#### **Chartered Professional Accountants**

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*PricewaterhouseCoopers LLP*  
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**Metallo Manufacturing Inc.**  
**(formerly Muskrat Minerals Incorporated)**  
**Consolidated Balance Sheets**  
(Amounts presented in Canadian Dollars)



	30-Jun 2016 \$	30-Jun 2015 \$
<b>Assets</b>		
<b>Current assets:</b>		
Cash	591,665	1,375,031
Restricted cash (Note 5)	-	610,000
Accounts receivable	-	62,379
Other receivable	114,337	117,417
Prepaid and other deposits	446,448	532,240
Investments (Note 4)	16,381	92,266
	<b>1,168,831</b>	<b>2,789,333</b>
<b>Non-current assets:</b>		
Iron interests (Note 5)	57,109,885	60,396,574
Project development costs	2,074,815	-
Property and equipment (Note 7)	2,101,813	141,808
	<b>61,286,513</b>	<b>60,538,382</b>
	<b>62,455,344</b>	<b>63,327,715</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade and other payables	1,105,061	2,952,819
Current portion long-term debt (Note 9)	1,171,550	1,184,923
	<b>2,276,611</b>	<b>4,137,742</b>
<b>Non-current liabilities:</b>		
Long-term debt (Note 9)	1,789,334	1,663,511
Deferred taxes (Note 14)	7,733,931	8,805,720
	<b>9,523,265</b>	<b>10,469,231</b>
	<b>11,799,876</b>	<b>14,606,973</b>
<b>Shareholders' equity</b>		
Share capital (Note 10)	8,973,978	8,948,978
Equity component convertible debenture (Note 9)	649,593	649,593
Stock based payment reserve	2,531,000	2,243,000
Retained earnings	10,136,031	7,758,986
Accumulated other comprehensive income	154,225	117,670
Equity attributable to shareholders	<b>22,444,827</b>	<b>19,718,227</b>
Non-controlling interests	<b>28,210,641</b>	<b>29,002,515</b>
	<b>50,655,468</b>	<b>48,720,742</b>
	<b>62,455,344</b>	<b>63,327,715</b>

*Note 1 - Nature of operations and going concern*

*Note 15 - Commitments*

*Note 18 - Subsequent events*

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

Approved on behalf of the Board:

David J. Hennigar

Francis H. MacKenzie

*Metallo Manufacturing Inc.*

October 28, 2016

**Metalto Manufacturing Inc.**  
**(formerly Muskrat Minerals Incorporated)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**



	years ended	
	30-Jun-16	30-Jun-15
	\$	\$
Operating expenses (Note 13)	(4,197,318)	(5,993,982)
Expense recovery re Porcupine Strand (Note 5)	494,979	-
Depreciation	(533,589)	(36,732)
Interest and bank charges	(294,675)	(59,825)
Loss on sale of property & equipment	(853)	-
Realized loss on investments (Note 4)	(234,046)	(146,293)
Unrealized gain on investments (Note 4)	241,323	9,615
Net loss before taxes	(4,524,179)	(6,227,217)
Income tax recovery (Note 14)	1,071,789	1,483,610
Net loss	(3,452,390)	(4,743,607)
<b>Net loss attributable to:</b>		
Shareholders of the Corporation	(1,007,539)	(2,686,633)
Non-controlling interest	(2,444,851)	(2,056,974)
Net loss	(3,452,390)	(4,743,607)
Net loss per share (Note 12)	(\$0.06)	(\$0.16)
Weighted average number of shares outstanding (Note 10)	17,260,049	17,251,018
Net loss	(3,452,390)	(4,743,607)
Other comprehensive income		
<i>Items that may be subsequently reclassified to loss</i>		
Cumulative translation adjustments	82,508	290,413
Comprehensive loss	(3,369,882)	(4,453,194)
<b>Comprehensive loss attributable to:</b>		
Shareholders of the Corporation	(970,984)	(2,568,962)
Non-controlling interest	(2,398,898)	(1,884,232)
Comprehensive loss	(3,369,882)	(4,453,194)

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

**Metalo Manufacturing Inc.**

(formerly Muskrat Minerals Incorporated)

Consolidated Statement of Changes in Equity

For the years ended June 30, 2016 and June 30, 2015

(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	9,085,851	-	18,947,829	29,480,922	48,428,751
Net loss and comprehensive loss for the year	-	-	-	-	(2,686,632)	-	(2,686,632)	(2,056,975)	(4,743,607)
Other comprehensive income for the year	-	-	-	-	-	117,670	117,670	172,743	290,413
Comprehensive income (loss) for the year	-	-	-	-	(2,686,632)	117,670	(2,568,962)	(1,884,232)	(4,453,194)
Gain on divestiture of investment in subsidiary (Note 3)	-	-	-	-	945,406	-	945,406	1,405,825	2,351,231
Gain on acquisition of shares in subsidiary (Note 3)	-	-	-	-	414,361	-	414,361	-	414,361
Equity attributable to convertible debenture	-	-	649,593	-	-	-	649,593	-	649,593
Stock-based compensation (Note 11)	-	-	-	1,330,000	-	-	1,330,000	-	1,330,000
<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	48,720,741
<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 and comprehensive loss for the year	-	-	-	-	(1,007,539)	-	(1,007,539)	(2,444,851)	(3,452,390)
Other comprehensive income for the year	-	-	-	-	-	36,555	36,555	45,953	82,508
Comprehensive income (loss) for the year	-	-	-	-	(1,007,539)	36,555	(970,984)	(2,398,898)	(3,369,882)
Shares issued in payment of interest	56,021	25,000	-	-	-	-	25,000	-	25,000
Divestiture of investment in subsidiary (Note 3)	-	-	-	-	2,290,870	-	2,290,870	3,050,738	5,341,608
Change in non-controlling interest on acquisition of shares in subsidiary (Note 3)	-	-	-	-	1,093,714	-	1,093,714	(1,443,714)	(350,000)
Stock-based compensation (Note 11)	-	-	-	288,000	-	-	288,000	-	288,000
<b>Balance June 30, 2016</b>	17,307,039	8,973,978	649,593	2,531,000	10,136,031	154,225	22,444,827	28,210,641	50,655,468

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

**Metalto Manufacturing Inc.**  
**(formerly Muskrat Minerals Incorporated)**  
**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**



	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
<b>Cash flows generated from operating activities:</b>		
Net loss	(3,452,390)	(4,743,607)
Items not involving cash:		
Depreciation	533,589	36,732
Forfeiture mineral claim deposits	-	515,667
Stock based compensation	288,000	1,330,000
Loss on sale of property & equipment	853	-
Loss on sale of investments	234,046	146,293
Unrealized gain on investments	(241,323)	(9,615)
Interest paid by issuance of shares	25,000	-
Expense recovery Porcupine Strand	(494,979)	-
Deferred taxes	(1,071,789)	(1,483,610)
Changes in non-cash operating working capital		
Other receivables	65,459	(54,819)
Prepaid and other deposits	85,791	(100,403)
Trade and other payables	(975,638)	952,208
	<b>(5,003,381)</b>	<b>(3,411,154)</b>
<b>Cash flow generated from financing activities:</b>		
Proceeds of long term debt	-	2,000,000
Repayment of long term debt	(120,614)	(133,514)
	<b>(120,614)</b>	<b>1,866,486</b>
<b>Cash flows (provided) generated from investing activities:</b>		
Proceeds mineral claim settlement	610,000	-
Proceeds sale of property & equipment	2,000	-
Proceed sale of investments	83,163	245,543
Proceeds sale of non-controlling interest	5,341,608	2,363,600
Acquisition of shares in subsidiary	(350,000)	(132,500)
Investment in property development	(1,273,642)	-
Investment in iron interests	(72,500)	(1,534,506)
	<b>4,340,629</b>	<b>942,137</b>
Decrease in cash during the year	(783,366)	(602,531)
Cash, beginning of year	1,375,031	1,977,562
Cash, end of year	<b>591,665</b>	<b>1,375,031</b>



**METALO MANUFACTURING INC.**  
**(formerly MUSKRAT MINERALS INCORPORATED)**  
**Notes to Consolidated Financial Statements**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Metalo Manufacturing Inc. (formerly 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*. In addition to the mining and exploration sector, the Corporation is in the process of expanding into the manufacturing 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, the subsidiary 8593302 Canada Inc. principal place of business is Quebec 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. Management plans to raise additional debt and/or equity financing in order to continue operations. 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. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used, that would be necessary if the Corporation was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations, and such adjustments could be material.

**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 and the functional currency of its Canadian subsidiaries. The functional currency of the US subsidiary is the US dollar.

These consolidated financial statements were approved and authorized for issue by the board of directors on October 28, 2016.

**METALO MANUFACTURING INC.**  
**(formerly MUSKRAT MINERALS INCORPORATED)**  
**Notes to Consolidated Financial Statements**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Basis of Presentation and Statement of Compliance (continued)**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the Chartered Professional Accountants of Canada Handbook– Accounting – Part 1 (“CPA Canada Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

**(b) Basis of Consolidation**

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

- 44.3% (2015 – 41.3%) Grand River Ironsands Incorporated (“GRI”)  
A company incorporated in Nova Scotia engaged in the exploration and development of mineral deposits
- 100% (2015 – 100%) Forks Specialty Metals Inc. (“FSM”)  
A company incorporated in Pennsylvania engaged in iron ore smelting
- 60% (2015 – 64.6%) North Atlantic Iron Corporation (“NAIC”)  
A corporation incorporated in Newfoundland and Labrador engaged in the exploration and development of mineral deposits
  - 100% (2015 - 0%) 8593302 Canada Inc.  
A corporation incorporated in Canada expected to be engaged in steel manufacturing

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
- 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; and
- 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.

**METALO MANUFACTURING INC.**  
**(formerly MUSKRAT MINERALS INCORPORATED)**  
**Notes to Consolidated Financial Statements**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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) 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 costs 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.

**(e) Intangible assets**

Intangible assets are comprised of the project development cost that have been incurred related to the future investment in a manufacturing facility that management expects to construct in the province of Quebec. Depreciation will commence once the project is completed.

**METALO MANUFACTURING INC.**  
**(formerly MUSKRAT MINERALS INCORPORATED)**  
**Notes to Consolidated Financial Statements**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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. 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 Non-Financial 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 year 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.

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**Notes to Consolidated Financial Statements**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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.

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 year. 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 years that the temporary differences are expected to reverse. The effect of changes in rates is included in the statement of comprehensive income in the year 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.

**METALO MANUFACTURING INC.**  
**(formerly MUSKRAT MINERALS INCORPORATED)**  
**Notes to Consolidated Financial Statements**  
**For the years ended June 30, 2016 and June 30, 2015**  
**(Amounts presented in Canadian Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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.

**(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 held-for-trading are recognized at 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, restricted 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	Loans and receivables
Restricted cash	Loans and receivables
Investments	FVTPL
Loans receivable	Loans and receivables
Trade and other payables	Other financial liabilities
Long-term debt	Other financial liabilities

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Financial Assets and Liabilities (continued)**

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 loss 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.

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) Impairment of Financial Assets**

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. A significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

- Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- Available-for-Sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost and available-for-sale financial assets are reversed in subsequent years if the amount of the loss decreases and the decrease can be related

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Impairment of Financial Assets (continued)**

objectively to an event occurring after the impairment was recognized. Impairment losses on available for-sale equity instruments are not reversed.

**(o) Critical Accounting Estimates and Judgments**

The preparation of consolidated financial statements under IFRS requires the Corporation to make estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ materially from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying value of assets and liabilities are as follows:

**Recoverability of Iron Interests**

At the end of each reporting year, the Corporation assesses each of its iron interests to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as, the year for which the Corporation has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Corporation does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.

**Deferred Income Taxes**

The Corporation is periodically required to estimate the tax base of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the year of changes.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Critical Accounting Estimates and Judgments (continued)**

Each year, the Corporation evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for gold, production costs, quantities of proven and probable reserves, interest rates, and foreign currency exchange rates.

**Share-based Payments**

The Corporation makes certain estimates and assumptions when calculating the estimated fair values of stock options granted and warrants issued. The significant assumptions used include estimates of expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for grants of stock options and the issuance of warrants.

**Valuation of Convertible Debentures**

On May 1, 2015, the Corporation issued convertible debentures for gross proceeds of \$2,000,000 (see note 9). The fair value of the components, being the convertible debentures and the equity component of the convertible debentures, must be calculated initially in order to allocate the proceeds to the components. The valuation is complex, as there is no active trading market for these items and is based on significant unobservable inputs. The valuation considers factors such as limited available market information, management's assumptions of expected cash flows related to the instruments, including reasonably possible alternative assumptions, maturity dates and expected return of capital on a discounted basis.

Based on management's analysis as at May 1, 2015, the fair value of the liability component of the convertible debenture instrument was \$1,350,407. The Corporation has estimated the fair value of this liability based on the net present value of expected repayments, using a discount rate of 14%. If a discount rate of 19% had been used, this would have resulted in the liability being \$255,715 lower and comprehensive loss being \$3,246 lower. If a discount rate of 9% had been used, this would have resulted in the liability being \$324,640 higher and comprehensive loss being \$6,473 higher.

**(p) 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.

**(q) 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 year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Earnings Per Share (continued)**

common shareholders by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive ordinary shares into common shares.

**(r) Recent Accounting Pronouncements**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2015, and have not been applied in preparing these consolidated financial statements. Accordingly, the Company expects to adopt these standards as set forth below.

*i) IFRS 9, Financial Instruments*

IFRS 9, “Financial instruments” (“IFRS 9”) introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement, to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity’s own credit risk, from financial liabilities designated under the fair value option, in other comprehensive loss, without having to adopt the remainder of IFRS 9; and (iii) remove the previous mandatory effective date for adoption of January 1, 2015, although the standard is available for early adoption.

The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

*ii) IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”) effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the measurement, presentation and disclosure of leases

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(r) Recent Accounting Pronouncements (continued)**

and supersedes IAS 17, "Leases". The adoption of IFRS 16 will result in substantially all lessee leases being recorded on the balance sheet as an asset with a corresponding liability with both current and long-term portions. The Company is currently reviewing the impact of IFRS 16 on its financial statements.

**3. INVESTMENT IN SUBSIDIARY COMPANIES**

On June 5, 2015, the Corporation acquired 265,000 common shares of GRI representing 1.1% of the outstanding shares for a consideration \$132,500 and in the current fiscal year 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 24, 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:

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
Non-controlling interest acquired	1,443,715	546,861
Cost of shares acquired	350,000	132,500
Attributed to the equity of the Corporation	1,093,715	414,361

***Non-controlling interest divestiture***

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 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 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).

On February 10, 2016, Petmin acquired an additional 29 common shares of NAIC increasing its non-controlling interest in NAIC from 37.8% to 40.0%, in exchange for cash consideration of \$2,793,608 (US\$2,000,000).

These transactions have been treated as a divestiture of the Corporation's interests in NAIC as follows:

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

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
Proceeds from sale	5,341,608	2,351,231
<p>Proceeds have been allocated between the Corporation and the non-controlling interest of GRI as follows:</p>		
Non-controlling interest	3,050,738	1,405,825
Controlling interest	2,290,870	945,406
<b>Total</b>	<b>5,341,608</b>	<b>2,351,231</b>

**4. INVESTMENT**

The Corporation has the following holdings and disposition of investments:

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
<b>Market value of investments</b>		
234,020 Common shares (2015 - 1,134,520)	16,381	79,416
nil share purchase warrants (2015 - 2,102,280)	-	12,850
Market value of investments	16,381	92,266
Change in unrealized loss during the year	241,323	9,615

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**4. INVESTMENT (continued)**

<b>Disposition</b>	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
<b>Shares</b>	\$	\$
Proceeds sale of 900,500 shares (2015 3,120,040)	83,163	245,543
Cost of shares sold	111,307	391,836
Realized loss on investments	(28,145)	(146,293)
<b>Warrants</b>		
Expiration of 2,102,280 share purchase warrants (2015 - nil)	-	-
Original book value warrants	205,901	-
	(205,901)	-
Realized loss on investments	(234,046)	(146,293)

**5. IRON INTERESTS**

	June 30, 2015			
	Balance 30-Jun-14	Additions	Reductions	Balance 30-Jun-15
	\$	\$	\$	\$
Labrador Mineral Sands	57,992,946	2,470,229	(181,622)	60,281,553
Porcupine Strand	115,021	-	-	115,021
	58,107,967	2,470,229	(181,622)	60,396,574

	June 30, 2016			
	Balance 30-Jun-15	Additions	Reductions & Reclassification	Balance 30-Jun-16
	\$	\$	\$	\$
Labrador Mineral Sands	60,281,553	72,499	(3,244,167)	57,109,885
Porcupine Strand	115,021	-	(115,021)	-
	60,396,574	72,499	(3,359,188)	57,109,885

The Labrador Mineral Sands relates to licenses held by NAIC, which include Churchill River, Mud Lake, Muskrat Lake, Goose Bay, and Hamilton River. The reduction in the prior year is the write-off associated with the forfeiture of mineral claims discussed in Note 6. There was no such write-off in the current year. The reduction in the current year represents the reversal of a previous accrual in the amount of \$871,048 and the reclassification of \$2,373,089 in industrial equipment at Forks Specialty Metals used in the evaluation the technical feasibility of the Corporation's iron interests.

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**5. IRON INTERESTS (continued)**

Additions to Iron interest includes accretion in the amount of \$ nil (2015 - \$233,672) on the industrial equipment loan.

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 had 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.

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"). As at June 30, 2015, the \$610,000 received was included in both restricted cash and trade and other payables on the balance sheet. This was a non-cash transaction and has been excluded from the statement of cash flows. 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. This transaction was recorded in the current fiscal year as follows:

	\$
Gain on disposition of Porcupine Strand	494,979
Porcupine Strand cost recovery	115,021
	<u>610,000</u>

**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. During the year ended June 30, 2015, the Corporation did not fulfill certain commitments and forfeited \$354,045. There were no forfeitures in the current year.

Mineral claim deposits:

	30-Jun-16	30-Jun-15
	\$	\$
Balance beginning of year	-	334,045
Forfeiture of deposits	-	(334,045)
Balance end of year	<u>-</u>	<u>-</u>

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**7. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	Computer equipment \$	Automotive equipment \$	Industrial equipment \$	Office furniture and equipment \$	Total \$
<b>For the year ended June 30, 2015</b>					
Opening net book value	9,487	4,407	125,718	33,613	173,225
Additions	-	-	-	-	-
Depreciation	(2,846)	(1,322)	(25,143)	(9,434)	(38,745)
Foreign exchange differences	-	-	-	7,328	7,328
<b>Net Book Value</b>	<b>6,641</b>	<b>3,085</b>	<b>100,575</b>	<b>31,507</b>	<b>141,808</b>
<b>As at June 30, 2015</b>					
Cost	15,138	6,295	196,430	42,658	260,521
Accumulated depreciation	- 8,496.80	(3,210)	(95,855)	(18,479)	(126,041)
Foreign exchange differences	-	-	-	7,328	7,328
<b>Net Book Value</b>	<b>6,641</b>	<b>3,085</b>	<b>100,575</b>	<b>31,507</b>	<b>141,808</b>
<b>For the year ended June 30, 2016</b>					
Opening net book value	6,641	3,085	100,575	31,507	141,808
Reclassification of equipment	-	-	2,373,089	-	2,373,089
Additions	-	-	10,537	-	10,537
Disposals	-	(2,853)	-	-	(2,853)
Depreciation	(1,991)	(232)	(524,674)	(6,692)	(533,589)
Foreign exchange differences	-	-	111,368	1,453	112,821
<b>Net Book Value</b>	<b>4,650</b>	<b>-</b>	<b>2,070,895</b>	<b>26,268</b>	<b>2,101,813</b>
<b>As at June 30, 2016</b>					
Cost	15,138	-	2,580,056	42,658	2,637,852
Accumulated depreciation	(10,488)	-	(620,529)	(25,171)	(656,188)
Foreign exchange differences	-	-	111,368	8,781	120,149
<b>Net Book Value</b>	<b>4,650</b>	<b>-</b>	<b>2,070,895</b>	<b>26,268</b>	<b>2,101,813</b>

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As discussed in Note 5, industrial equipment with a cost basis of \$3,527,932 and accumulated depreciation of \$1,154,843 have been reclassified during the current year from iron interest to property and equipment.

**8. RELATED PARTY TRANSACTIONS**

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

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
Management fees	165,000	165,000
Consulting fees	834,021	773,108
Directors fees	15,750	18,550
Stock based compensation	288,000	1,330,000
Salaries and benefits	686,672	565,260
	1,989,443	2,851,918
Capitalized to iron interests	-	98,579
Operating expenses	1,989,443	2,753,339

**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. Originally, the Corporation estimated that project success would be achieved in the fiscal year ending June 30, 2015 with repayment commencing in December 2015. Because of unforeseen delays it is anticipated that project success will now 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%. The change in accretion expense has been recorded as a reduction in the prior year's iron interests.

**Industrial Equipment Loan**

FSM received a loan from the State of Pennsylvania in the original amount of US\$1,600,000 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%.

At June 30, 2016, in accordance with the lending terms, the loan was deemed to be in default for late payments. Accordingly, the discounted value of the loan has been presented as a current liability on the consolidated balance sheet. Subsequent to year-end, the State of Pennsylvania confirmed to the Corporation that the loan would continue under the originally contracted terms, including payment terms. The future minimum payments reflected in the table below are based on the originally contracted payment terms.



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**9. LONG TERM DEBT (continued)**

**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 ending on the fifth trading day preceding the determination date. The determination date is 15 business days prior to the payment date. On May 1, 2016, the Corporation elected to pay the \$25,000 quarterly interest due May 1, 2016 by the issuance of 56,021 common shares of the Corporation.

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 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.

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**9. LONG TERM DEBT (continued)**

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
<b>ACOA Loan</b>		
Loan amount beginning of year	281,411	368,267
Accretion capitalized to iron interests	26,398	(86,856)
Balance end of year	307,809	281,411
<b>Convertible debenture</b>		
Amount outstanding beginning of year	1,382,100	-
Issued during year	-	2,000,000
Value attributable to conversion feature	-	(649,593)
Accretion expense for year	99,425	31,693
Balance end of year	1,481,525	1,382,100
<b>Industrial equipment loan</b>		
Loan amount beginning of year	1,184,923	1,084,765
Repayments	(120,614)	(133,514)
Accretion capitalized to iron interests	-	233,672
Accretion expense	107,242	-
Current portion	(1,171,550)	(1,184,923)
Balance end of year	-	-
<b>Total</b>	<b>1,789,334</b>	<b>1,663,511</b>

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

	US\$	C\$
2017	249,566	-
2018	159,668	-
2019	161,272	-
2020	162,892	2,100,000
2021	164,528	400,000
Thereafter	277,895	-

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**10. SHARE CAPITAL**

**COMMON STOCK OUTSTANDING**

	Number of Shares	Amount
Authorized:		
Unlimited number of common shares without par value		
Issued and outstanding June 30, 2014 and June 30, 2015	17,251,018	\$ 8,948,978
<b>Issued in payment of interest</b>	<b>56,021</b>	<b>25,000</b>
<b>Issued and outstanding June 30, 2016</b>	<b>17,307,039</b>	<b>\$ 8,973,978</b>
<b>Weighted average issued and outstanding - 17,260,049 (2015 - 17,251,018)</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 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 (2015 - 3,450,203) common shares pursuant to the stock option plan. There are 2,114,000 (2015 - 2,114,000) options to acquire common shares outstanding under the plan as at June 30, 2016. 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.

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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

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

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.

Options issued and outstanding as at June 30, 2015 and June 30, 2016:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2014	0.77	1,579,000
Granted	0.75	535,000
<b>Balance June 30, 2015</b>	<b>0.77</b>	<b>2,114,000</b>
Balance June 30, 2015	0.77	2,114,000
Granted	-	-
<b>Balance June 30, 2016</b>	<b>0.77</b>	<b>2,114,000</b>

The following table summarizes information about the options outstanding and exercisable at June 30, 2015 and June 30, 2016:

June 30, 2015 and June 30, 2016 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	30-Nov-2022	0.65	450,000
985,000	6-Dec-2023	0.85	985,000
535,000	8-Dec-2024	0.75	535,000
<b>2,114,000</b>			<b>2,114,000</b>

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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 common shares pursuant to the stock option plan. There are 2,116,000 options to acquire common shares outstanding under the plan as at June 30, 2016. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

On December 8, 2014, GRI granted 494,000 options to directors, officers, employees and consultants of GRI under the stock purchase plan at an exercise price of \$2.10. These options vested immediately and expire in 5 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 yield of nil; volatility factor of 157.51%; share prices of \$2.10; and a weighted average expected life of the option of 5 years.

On May 27, 2016, GRI granted 150,000 options to directors, officers, employees and consultants of GRI under the stock purchase plan at an exercise price of \$2.50. These options vested immediately and expire in 5 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 0.78%; dividend yields of nil; volatility factor of 164.02%; share prices of \$2.07; and a weighted average expected life of the option of 5 years.

Options issued and outstanding as at June 30, 2015:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2014	1.47	1,862,000
Issued	2.10	494,000
<b>Balance June 30, 2015</b>	<b>1.60</b>	<b>2,356,000</b>

Options issued and outstanding as at June 30, 2016:

	Weighted average Exercise price	Issued
	\$	
Balance June 30, 2015	1.60	2,356,000
Expired	1.25	(390,000)
Issued	2.50	150,000
<b>Balance June 30, 2016</b>	<b>1.73</b>	<b>2,116,000</b>

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

The following table summarizes information about the options outstanding and exercisable at June 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	30-Sep-2016	1.25	415,000
495,000	30-Jun-2017	1.25	495,000
87,000	15-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

The following table summarizes information about the options outstanding and exercisable at June 30, 2016:

Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of Options exercisable
415,000	30-Sep-2016	1.25	415,000
495,000	30-Jun-2017	1.25	495,000
87,000	15-Nov-2017	1.25	87,000
475,000	6-Dec-2018	2.10	475,000
494,000	8-Dec-2019	2.10	494,000
150,000	27-May-2021	2.50	150,000
2,116,000			2,116,000

**Stock based compensation**

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
Valuation options granted by Corporation	-	371,000
Valuation options granted by subsidiary	288,000	959,000
	288,000	1,330,000

**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 year. The Company has a loss in both the current and prior year and the options effect is anti-dilutive.

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**13. EXPENSES BY NATURE**

	years ended	
	30-Jun-16	30-Jun-15
<b>Operating expenses:</b>		
Advertising and promotion	4,143	1,627
Utilities	112,181	131,757
Consulting	244,348	2,816
Dues and fees	23,761	29,877
Exploration costs	1,264	923,022
Project feasibility costs	46,220	-
Foreign exchange losses	(83,205)	175,832
General and administrative	182,875	205,779
Insurance	100,422	92,738
Management fees	1,145,270	947,118
Professional fees	31,450	45,750
Rental	1,058,984	912,839
Travel	494,542	718,606
Stock based compensation	288,000	1,330,000
Salaries and wages	547,063	476,221
	<b>4,197,318</b>	<b>5,993,982</b>

**14. INCOME TAXES**

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

	year ended	
	30-Jun-16	30-Jun-15
	\$	\$
Income (loss) before income taxes	(4,524,179)	(6,227,217)
Combined Federal and Provincial tax rate	31%	31%
Expected recovery at statutory rates	(1,402,495)	(1,930,435)
Unrecognized tax assets	353,474	-
Non-deductible stock based compensation	89,280	412,300
Subsidiary rate differential	17,968	40,132
Other	(130,016)	(5,607)
Deferred tax recovery	(1,071,789)	(1,483,610)

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**14. INCOME TAXES (continued)**

Deferred tax liability consists of:

	30-Jun-16	30-Jun-15
	\$	\$
Non-capital losses	4,345,215	3,096,002
Iron interests	(11,471,552)	(11,937,550)
Intangible asset	(651,000)	-
Property and equipment	6,060	(935)
Investment	(1,532)	(8,628)
Share issue costs	38,878	45,391
	<u>(7,733,931)</u>	<u>(8,805,720)</u>

As at June 30, 2016 the Corporation and its subsidiaries had approximately \$15,405,638 on 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	285,264
2030	68,825
2031	331,346
2032	534,563
2033	1,740,499
2034	2,448,464
2035	2,467,806
2036	7,506,052
	<u>15,405,638</u>

**15. 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



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(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.

**15. 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 was divided into three phases with payments of US\$4.5M, US\$6.0M and US\$8.0M for phases 3a, 3b and 3c respectively each with various milestones.

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.

Phase 3c(5) was exercised on February 10, 2016 with a capital injection of \$2,793,608 (US\$2,000,000), by Petmin in exchange for 29 common shares, increasing its interest to 40.0% of the issued and outstanding capital. This investment fulfils Petmin's investment obligation from the original 2010 agreement.

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Petmin has the option (the “Grand River Option”) to acquire, from GRI, 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.

**15. COMMITMENTS (continued)**

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 completed in the current year and the balance of 1.5% upon completion of a satisfactory bank feasibility study.

As at December 31, 2015 the Board of Directors of NAIC agreed to reserve for issuance 3.75% of its issued and outstanding shares to be issued to GRI, releasable in increments of 1.5% upon completion of a satisfactory preliminary economic assessment and the balance of 2.25% upon completion of a satisfactory bank feasibility study.

On March 12, 2016 under the terms of the management services agreement noted above and the directions of the Board of Directors, NAIC issued 12 additional shares to GRI (1.5%) and 8 additional shares to Petmin (1%) in consideration for management services rendered.

Forks is committed to a lease expiring December 31, 2018 on a commercial building in Easton, PA at a cost of US\$48,999 per month until October 31, 2016 and thereafter at US\$52,768 until December 31, 2018.

**16. 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 try to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders. See Note 1

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	30-Jun-16	30-Jun-15
	\$	\$
Long term debt	1,789,334	1,663,511
Share capital	8,973,978	8,948,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	2,531,000	2,243,000
Accumulated other comprehensive income	154,225	117,670
Retained earnings	10,136,031	7,758,986
Non-controlling interest	28,210,641	29,002,515
	52,444,803	50,384,253

**16. MANAGEMENT OF CAPITAL (continued)**

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, 2015.

**17. FINANCIAL INSTRUMENTS**

The carrying amounts reported on the financial statements for cash, restricted cash, accounts receivable and trade and other payable all approximate their fair values due to their immediate or short-term nature. Management believes the carrying amounts of long-term debt also approximate their fair values, as they believe the effective interest rates used by management in determining the carrying values of long-term debt continue to be appropriate.

**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**

Trade and other payables are due in the next 12 months. 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

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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. See Note 9 for details of contractual payments of long-term debt. See note 1.

**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.

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**18. SUBSEQUENT EVENT**

On August 2, 2016, the Corporation issued 25,518 common shares in payment of \$25,000 interest due August 1, 2016 on the convertible debenture described in Note 9.

On August 25, 2016 GRI borrowed \$250,000 from an unrelated party for 90 days with interest at 6% per annum calculated monthly plus 50,000 three year warrants at an exercise price of \$0.01 per shares

On September 29, 2016 GRI borrowed \$250,000 from Forest Lane Holdings Limited, a related party, for 90 days with interest at 6% per annum calculated monthly plus 50,000 three year warrants at an exercise price of \$0.01 per shares

On September 30, 2016, Directors and Officers exercised options to purchase 205,000 shares GRI at an exercise price of \$1.25 per share for aggregate proceeds of \$256,250. This issuance of GRI shares decreased the Corporation's ownership of GRI from 44.3% to 43.9%.

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**19. SEGMENTED INFORMATION**

As at June 30, 2016 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-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - external customers	-	-	-	-	-	-	-	-	-	-	-	-
Revenue - intersegment	-	-	579,511	217,946	-	-	1,962,048	1,901,357	(2,541,559)	(2,119,303)	-	-
	-	-	579,511	217,946	-	-	1,962,048	1,901,357	(2,541,559)	(2,119,303)	-	-
Operating expenses	216,587	633,237	2,215,903	1,653,412	6,283,697	1,980,191	1,936,952	1,945,088	(6,455,821)	(217,947)	4,197,318	5,993,981
EBITDA	(216,587)	(633,237)	(1,636,392)	(1,435,466)	(6,283,697)	(1,980,191)	25,095	(43,731)	3,914,262	(1,901,356)	(4,197,318)	(5,993,981)
Depreciation and Amortization	-	-	(2,579)	(4,342)	(19,869)	(25,107)	(511,142)	(7,282)	-	-	(533,589)	(36,731)
Interest and bank charges	(180,309)	(32,749)	(19,423)	(5,519)	(39,550)	(1,325)	(93,558)	(20,233)	38,166	-	(294,675)	(59,826)
Expense recovery	-	-	494,979	-	-	-	-	-	-	-	494,979	-
Loss on sale of property & equipment	-	-	(853)	-	-	-	-	-	-	-	(853)	-
Realized loss on investments	-	-	(234,046)	(146,293)	-	-	-	-	-	-	(234,046)	(146,293)
Unrealized gain on investments	-	-	241,323	9,615	-	-	-	-	-	-	241,323	9,615
	(180,309)	(32,749)	479,402	(146,539)	(59,419)	(26,432)	(604,700)	(27,515)	38,166	-	(326,861)	(233,235)
Segment income (loss) before taxes	(396,896)	(665,986)	(1,156,990)	(1,582,006)	(6,343,115)	(2,006,623)	(579,605)	(71,246)	3,952,428	(1,901,356)	(4,524,179)	(6,227,216)
Total assets	5,615,118	5,297,574	4,033,382	6,165,660	57,680,912	61,068,304	2,810,914	3,257,578	(7,684,981)	(12,461,401)	62,455,345	63,327,715
Total liabilities	9,264,322	10,247,977	76,923	1,038,618	2,625,072	780,609	3,390,052	3,339,619	(3,556,494)	(799,851)	11,799,875	14,606,973

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").

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**19. 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.

Non-current assets:

	30-Jun-16	30-Jun-15
	\$	\$
Canada	59,270,250	57,933,172
United States of America	2,016,263	2,605,211
Total non-current assets	61,286,513	60,538,382