



**METALO MANUFACTURING INC.**

**Interim Condensed Consolidated Financial Statements**

**For the three months and six months ended December 31, 2016  
and December 31, 2015**

**(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 interim condensed consolidated financial statements for the three months and six months ended December 31, 2016 and December 31, 2015**

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

The interim 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 Metalo Manufacturing Inc. (the "Corporation") and have been approved by the Board of Directors.

The interim 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. 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 interim 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 interim 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 interim 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

February 27, 2017

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**Metalo Manufacturing Inc.**

Financial Information



December 31, 2016

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**Metalto Manufacturing Inc.**  
**Consolidated Balance Sheets**  
(Amounts presented in Canadian Dollars)



	31-Dec 2016 \$	30-Jun 2016 \$
<b>Assets</b>		
<b>Current assets:</b>		
Cash	157,932	591,665
Other receivable	143,246	114,337
Prepaid and other deposits	325,926	446,448
Investments (Note 4)	44,464	16,381
	<b>671,569</b>	<b>1,168,831</b>
<b>Non-current assets:</b>		
Iron interests (Note 5)	57,113,396	57,109,885
Project development costs (Note 6)	2,883,228	2,074,815
Property and equipment (Note 7)	1,948,676	2,101,813
	<b>61,945,300</b>	<b>61,286,513</b>
	<b>62,616,868</b>	<b>62,455,344</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade and other payables	2,142,045	1,105,061
Short term loans (Note 8)	859,857	-
Current portion long-term debt (Note 9)	1,209,194	1,171,550
	<b>4,211,096</b>	<b>2,276,611</b>
<b>Non-current liabilities:</b>		
Long-term debt (Note 9)	1,858,147	1,789,334
Deferred taxes (Note 15)	7,117,847	7,733,931
	<b>8,975,994</b>	<b>9,523,265</b>
	<b>13,187,090</b>	<b>11,799,876</b>
<b>Shareholders' equity</b>		
Share capital (Note 10)	9,023,978	8,973,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	2,531,000	2,531,000
Retained earnings	9,590,145	10,136,031
Accumulated other comprehensive income	174,324	154,225
Equity attributable to shareholders	<b>21,969,040</b>	<b>22,444,827</b>
Non-controlling interests	<b>27,460,738</b>	<b>28,210,641</b>
	<b>49,429,778</b>	<b>50,655,468</b>
	<b>62,616,868</b>	<b>62,455,344</b>

*Note 1 - Nature of operations and going concern*

*Note 16 - Commitments*

*Note 19 - 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

February 27, 2017

**Metalto Manufacturing Inc.**
**Consolidated Statements of Loss and Comprehensive Loss**

For the three months and six months ended December 31, 2016 and December 31, 2015



(Amounts presented in Canadian Dollars)

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
General and administrative expenses (Note 12)	(995,713)	(994,758)	(1,878,567)	(1,538,004)
Expense recovery re Porcupine Strand (Note 5)	-	-	-	167,370
Depreciation	(111,879)	(134,578)	(217,923)	(264,765)
Interest and bank charges	(69,961)	(75,673)	(125,377)	(148,433)
Loss on sale of property & equipment	-	(853)	-	(853)
Realized loss on investments (Note 4)	-	(207,121)	-	(234,046)
Change in unrealized loss on investments (Note 4)	2,340	193,635	28,082	241,323
Net loss before taxes	(1,175,213)	(1,219,348)	(2,193,785)	(1,777,407)
Income tax recovery (Note 15)	344,911	370,018	616,084	530,737
Net loss	(830,302)	(849,330)	(1,577,701)	(1,246,670)
<b>Net loss attributable to:</b>				
Shareholders of the Corporation	(255,406)	(231,275)	(533,998)	(515,444)
Non-controlling interest	(574,896)	(618,056)	(1,043,704)	(731,229)
Net loss	(830,302)	(849,330)	(1,577,701)	(1,246,673)
Net loss per share (Note 14)	(\$0.01)	(\$0.01)	(\$0.03)	(\$0.03)
Weighted average number of shares outstanding (Note 10)	17,356,295	17,251,018	17,339,849	17,251,018
Net loss	(830,302)	(849,330)	(1,577,701)	(1,246,673)
Other comprehensive income				
<i>Items that may be subsequently reclassified to loss</i>				
Cumulative translation adjustments	34,417	78,561	45,760	227,164
Comprehensive loss	(795,885)	(770,769)	(1,531,941)	(1,019,509)
<b>Comprehensive loss attributable to:</b>				
Shareholders of the Corporation	(240,332)	(196,469)	(513,899)	(415,942)
Non-controlling interest	(555,553)	(574,301)	(1,018,042)	(603,567)
Comprehensive loss	(795,885)	(770,770)	(1,531,941)	(1,019,509)

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

**Metalto Manufacturing Inc.**

**Consolidated Statement of Changes in Equity**

For the six months ended December 31, 2016 and December 31, 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, 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 period	-	-	-	-	(515,444)	-	(515,444)	(731,229)	(1,246,673)
Other comprehensive income for the period	-	-	-	-	-	64,696	64,696	83,907	148,603
Comprehensive income (loss) for the period	-	-	-	-	(515,444)	64,696	(450,748)	(647,322)	(1,098,069)
Gain on divestiture of investment in subsidiary (Note 3)	-	-	-	-	1,053,190	-	1,053,190	1,494,810	2,548,000
Gain on acquisition of shares in subsidiary (Note 3)	-	-	-	-	1,093,714	-	1,093,714	(1,443,714)	(350,000)
<b>Balance December 31, 2015</b>	17,251,018	8,948,978	649,593	2,243,000	9,390,446	182,366	21,414,382	28,406,289	49,820,672
<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
Net loss and comprehensive loss for the period	-	-	-	-	(533,998)	-	(533,998)	(1,043,704)	(1,577,702)
Other comprehensive income for the period	-	-	-	-	-	20,099	20,099	25,661	45,760
Comprehensive income (loss) for the period	-	-	-	-	(533,998)	20,099	(513,899)	(1,018,042)	(1,531,941)
Shares issued in payment of interest	61,916	50,000	-	-	-	-	50,000	-	50,000
Change in non-controlling interest on exercise of options in subsidiary (Note 3)	-	-	-	-	(11,889)	-	(11,889)	268,139	256,250
<b>Balance December 31, 2016</b>	17,368,955	9,023,978	649,593	2,531,000	9,590,145	174,324	21,969,040	27,460,738	49,429,777

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

**Metalo Manufacturing Inc.**
**Condensed Consolidated Statements of Cash Flows**
**December 31, 2015**
**(Amounts presented in Canadian Dollars)**


	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
<b>Cash flows generated from operating activities:</b>				
Net loss	(830,302)	(849,330)	(1,577,701)	(1,246,670)
Items not involving cash:				
Depreciation	111,879	134,578	217,923	264,765
Loss on sale of investments	-	207,121	-	234,046
Unrealized gain on investments	(2,340)	(193,635)	(28,082)	(241,323)
Interest paid by issuance of shares	25,000	-	50,000	-
Interest accretion	27,826	19,499	54,699	38,998
Expense recovery Porcupine Strand	-	-	-	(167,370)
Deferred taxes	(344,911)	(370,018)	(616,084)	(530,737)
Changes in non-cash operating working capital				
Other receivables	112,772	-	(28,910)	(38,581)
Prepaid and other deposits	78,654	-	120,522	(223,975)
Trade and other payables	668,107	-	1,066,205	(1,515,144)
	<b>(153,315)</b>	<b>(1,051,785)</b>	<b>(741,427)</b>	<b>(3,425,992)</b>
<b>Cash flow generated from financing activities:</b>				
Proceeds of short term borrowings	359,857	-	859,857	-
Repayment of long term debt	-	-	-	(51,021)
	<b>359,857</b>	<b>-</b>	<b>859,857</b>	<b>(51,021)</b>
<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
Proceeds exercise of options	-	-	256,250	-
Acquisition of shares in subsidiary	-	-	-	(350,000)
Investment in property development	(603,376)	-	(808,413)	-
Investment in iron interests	-	-	-	451,589
	<b>(603,376)</b>	<b>-</b>	<b>(552,163)</b>	<b>3,337,729</b>
Decrease in cash during the period	(396,834)	(1,051,785)	(433,733)	(139,284)
Cash, beginning of period	554,766	2,287,532	591,665	1,375,031
Cash, end of period	<b>157,932</b>	<b>1,235,747</b>	<b>157,932</b>	<b>1,235,747</b>

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

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



### 1. NATURE OF OPERATIONS

Metalo Manufacturing Inc. 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.

These unaudited interim condensed consolidated financial statements (the "interim 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

These interim 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.

These interim 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 interim financial statements have been authorized for issuance by the Board of Directors on February 27, 2017.

These interim financial statements are in compliance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 2 of



# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

the Corporation's annual consolidated financial statements for the year ended June 30, 2016. These interim financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended June 30, 2016.

### (b) Basis of Consolidation

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

- 43.9% (2015 – 44.3%) 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 – 62.2%) 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; 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.

# METALO MANUFACTURING INC.

Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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. Depreciation will commence once the project is completed.

### (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.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 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.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Foreign Currency (continued)

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 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

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 interim 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.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



## 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 interim 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 December 31, 2017. Those pronouncements that could be applicable or could have a significant impact to the Corporation are discussed in detail in Note 2(r) to the June 30, 2016 audited financial statements.



# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



### 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 then 77.5% owned subsidiary NAIC.

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.

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:

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
Non-controlling interest acquired	-	-	-	1,443,714
Cost of shares acquired	-	-	-	350,000
Attributed to the equity of the Corporation	-	-	-	1,093,714

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%.

The transaction has been recorded as follows:

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
Exercise of options in subsidiary	-	-	256,250	-
Change in non-controlling interest	-	-	268,139	-
Attributed to the equity of the Corporation	-	-	(11,889)	-

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 divestiture***

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).

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



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

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 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 15 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 indirect interest in NAIC as follows:

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Proceeds from sale	\$ -	\$ -	\$ -	\$ 2,548,000
Proceeds have been allocated between the Corporation and the non-controlling interest of GRI				
Non-controlling interest	-	-	-	1,494,810
Controlling interest	-	-	-	1,053,190
Total	-	-	-	2,548,000



# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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(Amounts presented in Canadian Dollars)



### 4. INVESTMENT

The Corporation has the following holdings and disposition of investments:

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
234,020 Common shares (2015 - 234,020)	44,464	16,381	44,464	16,381
Change in unrealized gain or loss during the	2,340	193,635	28,082	241,323
	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
<b>Shares</b>			\$	\$
Proceeds sale of nil shares (2015 - 850,000)	-	-	-	78,140
Cost of shares sold	-	-	-	105,065
Realized loss on investments	-	-	-	(26,925)
<b>Warrants</b>				
warrants	-	-	-	-
Original book value warrants	-	205,901	-	205,901
	-	(205,901)	-	(205,901)
Realized loss on investments	-	(205,901)	-	(232,826)

### 5. IRON INTERESTS

The Labrador Mineral Sands relates to licenses held by NAIC, which include Churchill River, Mud Lake, Muskrat Lake, Goose Bay, and Hamilton River. At December 31, 2016, mineral licenses comprise 321 claims in 3 claim blocks with a total area of approximately 45 square kilometres with no associated mineral claim deposits outstanding.

The Porcupine Strand property was acquired from a former director of the GRI for \$NIL cash consideration other than reimbursement of staking costs. The property consisted of four mineral licenses covering approximately 3.5 square kilometres in Labrador. The Corporation received notice that the federal government intended 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. As discussed below, the Corporation has now received compensation sufficient to recover the investment it had made in these claims.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



### 5. IRON INTERESTS (continued)

	December 31, 2015			
	Balance	Additions	Reductions	Balance
	30-Jun-15			31-Dec-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

  

	December 31, 2016			
	Balance	Additions	Reductions	Balance
	30-Jun-16			31-Dec-16
	\$	\$	\$	\$
Labrador Mineral Sands	57,109,885	3,511	-	57,113,396

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 was recorded as follows:

	\$
Expense recovery on disposition of Porcupine Strand	494,979
Porcupine Strand cost recovery	115,021
	610,000

### 6. PROJECT DEVELOPMENT COSTS

The Corporation is planning the development of a low cost North American producer of foundry grade pig iron. The plant is being designed to provide a new standard for environmental emissions and stewardship as well as to be strategically located to provide competitive advantage in both access to raw materials as well as access to markets.

A Bankable Feasibility Study is currently in draft form and costs incurred to date are shown in the table below:

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
Balance beginning of period	2,279,852	344,117	2,074,815	-
Costs incurred during period	603,376	-	808,413	344,117
Balance end of period	2,883,228	344,117	2,883,228	344,117

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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(Amounts presented in Canadian Dollars)



### 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 period ended December 31, 2015</b>					
Opening net book value	6,641	3,085	100,575	31,507	141,808
Additions (Disposals)	-	(2,853)	-	-	(2,853)
Depreciation	(995)	(232)	(10,057)	(5,456)	(16,740)
Foreign exchange differences	-	-	-	5,355	5,355
Net Book Value	5,646	-	90,518	31,406	127,570
<b>As at December 31, 2015</b>					
Cost	15,138	-	196,430	42,658	257,668
Accumulated depreciation	(9,492)	-	(105,912)	(23,936)	(142,781)
Foreign exchange differences	-	-	-	12,684	12,683
Net Book Value	5,646	-	90,518	31,406	127,570
<b>For the period ended December 31, 2016</b>					
Opening net book value	4,650	-	2,070,895	26,268	2,101,813
Depreciation	(810)	-	(214,403)	(2,710)	(217,923)
Foreign exchange differences	-	-	63,956	830	64,786
Net Book Value	3,839	-	1,920,448	24,388	1,948,675
<b>As at December 31, 2016</b>					
Cost	15,138	-	2,580,056	42,658	2,637,852
Accumulated depreciation	(11,299)	-	(834,932)	(27,881)	(874,111)
Foreign exchange differences	-	-	175,324	9,611	184,935
Net Book Value	3,839	-	1,920,448	24,388	1,948,675

### 8. SHORT TERM LIABILITIES

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 share

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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(Amounts presented in Canadian Dollars)



### 8. SHORT TERM LIABILITIES (continued)

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
Short term loan from unrelated party interest at 6% due February 25, 2017	5,194	-	255,194	-
Short term loan from related party interest at 6% due March 29, 2017	354,664	-	604,664	-
	359,857	-	859,857	-

### 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 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 ending on the fifth trading day preceding the determination date. The determination date is 15 business days prior to the payment date.

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.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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(Amounts presented in Canadian Dollars)



### 9. LONG TERM DEBT (continued)

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.

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
<b>ACOA Loan</b>				
Loan amount beginning of period	314,787	287,790	307,809	281,411
Accretion capitalized to iron interests	7,136	6,524	14,114	12,903
Balance end of period	321,923	294,314	321,923	294,314
<b>Convertible debenture</b>				
Amount outstanding beginning of period	1,508,399	1,406,293	1,481,525	1,382,100
Accretion expense for period	27,826	24,210	54,699	48,402
Balance end of period	1,536,224	1,430,503	1,536,224	1,430,503
<b>Industrial equipment loan</b>				
Loan amount beginning of period	1,181,276	-	1,184,923	1,084,765
Repayments	-	-	-	(133,514)
Accretion capitalized to iron interests	-	-	-	233,672
Accretion expense	27,918	-	24,271	-
Current portion	(1,209,194)	-	(1,209,194)	(1,184,923)
Balance end of period	-	-	-	-
Total	1,858,147	1,724,817	1,858,147	1,724,817

### 10. SHARE CAPITAL

On May 1, 2016, the Corporation issued 56,021 common shares to Forest Lane Holdings Limited ("FLHP"), a company controlled by an insider of the Corporation. This issuance represents interest due May 1, 2016 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.44626 per share, which is the volume-weighted trading price for the 20 trading days ending April 1, 2016. The securities are subject to a four-month hold period following the date of issuance.

On August 2, 2016, the Corporation issued 25,518 common shares to FLH. This issuance represents interest due August 1, 2016 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.9797 per share, which is the volume-weighted trading price for the 20 trading days ending July 1, 2016. The securities are subject to a four-month hold period following the date of issuance.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

For the three months and six months ended December 31, 2016 and December 31, 2015

(Amounts presented in Canadian Dollars)



### 10. SHARE CAPITAL (continued)

On November 1, 2016, the Corporation issued 36,398 common shares to FLH. This issuance represents interest due November 1, 2016 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.68685 per share, which is the volume-weighted trading price for the 20 trading days ending October 3, 2016. The securities are subject to a four month hold period following the date of issuance.

COMMON STOCK OUTSTANDING	Number of	
	Shares	Amount
Authorized:		
Unlimited number of common shares without par value		
Issued and outstanding June 30, 2015	17,251,018	\$ 8,948,978
Issued in payment of interest	-	-
Issued and outstanding December 31, 2015	17,251,018	\$ 8,948,978
Issued and outstanding June 30, 2016	17,307,039	\$ 8,973,978
Issued in payment of interest	61,916	50,000
Issued and outstanding December 31, 2016	17,368,955	\$ 9,023,978

**Weighted average issued and outstanding - 17,339,849 (2015 - 17,251,018)**

### 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 2,114,000 options to acquire common shares outstanding under the plan as at December 31, 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.

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

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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### 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 December 31, 2015 and December 31, 2016:

	Weighted average exercise price \$	Issued
Balance June 30, 2015	0.77	2,114,000
Granted	-	-
Balance Dec 31, 2015	0.77	2,114,000
Balance June 30, 2016	0.77	2,114,000
Granted	-	-
Balance Dec 31, 2016	0.77	2,114,000

The following table summarizes information about the options outstanding and exercisable at December 31, 2015 and December 31, 2016:

Dec 31, 2015 and Dec 31, 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
2,114,000			2,114,000

### 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



# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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

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 1,966,000 options to acquire common shares outstanding under the plan as at December 31, 2016. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding as at December 31, 2015:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2015	1.60	2,356,000
Issued	-	-
Balance Dec 31, 2015	1.60	2,356,000

The following table summarizes information about the options outstanding and exercisable at December 31, 2015:

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

Options issued and outstanding as at December 31, 2016

	Weighted average Exercise price	Issued
	\$	
Balance June 30, 2016	1.60	2,116,000
Exercised	1.25	(205,000)
Expired	1.25	(210,000)
Balance Dec 31, 2016	1.84	1,701,000

The following table summarizes information about the options outstanding and exercisable at December 31, 2016:



# METALO MANUFACTURING INC.

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

Number of options outstanding	Expiry Date	Exercise Price \$	Number of Options exercisable
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
<b>1,701,000</b>			<b>1,701,000</b>

### 12. GENERAL AND ADMINISTRATIVE EXPENSES

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
<b>General and administrative expenses</b>				
Advertising and promotion	(3,714)	-	1,083	-
Utilities	21,673	25,556	31,493	45,177
Consulting	-	104,007	-	176,737
Dues and fees	5,923	16,020	8,353	19,015
Exploration costs	13,179	-	13,179	-
Project feasibility costs	5,186	-	10,124	-
Foreign exchange losses (gains)	33,779	(13,233)	64,774	(229,544)
General and administrative	14,762	18,393	29,601	95,097
Insurance	24,820	27,057	50,079	53,682
Management fees	337,099	264,020	604,348	508,953
Professional fees	19,034	16,450	39,839	16,450
Rental	272,058	261,162	533,341	524,071
Travel	113,739	140,497	204,547	61,029
Salaries and wages	138,175	134,829	287,806	267,337
	<b>995,713</b>	<b>994,758</b>	<b>1,878,567</b>	<b>1,538,004</b>

### 13. RELATED PARTY TRANSACTIONS

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

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
Management fees	41,250	41,250	82,500	82,500
Consulting fees	209,530	211,652	415,843	420,405
Directors fees	9,800	10,150	9,800	10,150
Salaries and benefits	167,430	156,400	336,644	311,735
	428,010	419,452	844,787	824,790
Capitalized to iron interests	-	20,604	-	48,501
Operating expenses	428,010	398,849	844,787	776,290

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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### 14. 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.

### 15. INCOME TAXES

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

	3 months ended		6 months ended	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$
Income (loss) before income taxes	(1,175,213)	(1,219,348)	(2,193,785)	(1,777,407)
Combined Federal and Provincial tax rate	31%	31%	31%	31%
Expected recovery at statutory rates	364,316	377,997	680,073	550,995
Unrecognized tax assets	-	-	(63,561)	-
Subsidiary rate differential	(19,405)	-	(33,436)	(12,279)
Other	-	(7,979)	33,008	(7,979)
Deferred tax recovery	344,911	370,018	616,084	530,737

Deferred tax liability consists of:

	31-Dec-16	31-Dec-15
	\$	\$
Non-capital losses	4,991,852	3,596,074
Iron interests	(11,471,552)	(11,965,044)
Intangible asset	(651,000)	-
Property and equipment	6,060	(935)
Investment	(1,532)	(8,628)
Share issue costs	8,325	12,492
	(7,117,847)	(8,366,041)

### 16. 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.

# METALO MANUFACTURING INC.

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### 16. 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. 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.

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.

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.

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

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## Notes to Consolidated Financial Statements

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### 16. COMMITMENTS (continued)

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 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.

### 17. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its long-term debt, share capital, equity component convertible debenture, 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.

	31-Dec-16	31-Dec-15
	\$	\$
Long term debt	1,858,147	1,789,334
Share capital	9,023,978	8,973,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	2,531,000	2,531,000
Accumulated other comprehensive income	174,324	154,225
Retained earnings	9,590,145	10,136,031
Non-controlling interest	27,460,738	28,210,641
	51,287,924	52,444,803

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, 2016.

### 18. FINANCIAL INSTRUMENTS

As at December 31, 2016, 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.

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## 18. FINANCIAL INSTRUMENTS (continued)

### 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 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.

## 19. SUBSEQUENT EVENT

On January 30, 2017 GRI received an additional \$250,000 from Forest Lane Holdings Limited, a related party, as an advance on a line of credit bearing interest at 6% per annum calculated monthly.

On February 1, 2017, the Corporation issued 48,685 common shares to Forest Lane Holdings Limited, a company controlled by an insider of the Corporation. This issuance represents interest due February 1, 2017 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.5135 per share, which is the volume-weighted trading price for the 20 trading days ending January 4, 2017. The securities are subject to a four month hold period following the date of issuance.

A short term loan to GRI from a non-related party which came due on February 25, 2017 has been extended for a further 90 days. The loan bears interest at 6% per annum calculated monthly.

On February 27, 2017 GRI received an additional \$300,000 from Forest Lane Holdings Limited, a related party, as an advance on a line of credit bearing interest at 6% per annum calculated monthly.

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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### 20. SEGMENTED INFORMATION

As at December 31, 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	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - external customers	-	-	-	-	-	-	-	-	-	-	-	-
Revenue - intersegment	-	-	33,214	535,726	-	-	898,841	989,887	(932,056)	(1,525,612)	-	-
	-	-	33,214	535,726	-	-	898,841	989,887	(932,056)	(1,525,612)	-	-
Operating expenses	110,488	118,554	158,010	(139,714)	1,662,174	1,007,116	939,382	1,113,497	(991,486)	(561,448)	1,878,567	1,538,004
EBITDA	(110,488)	(118,554)	(124,796)	675,440	(1,662,174)	(1,007,116)	(40,540)	(123,610)	59,430	(964,164)	(1,878,567)	(1,538,004)
Depreciation and Amortization	-	-	(915)	(1,405)	(8,904)	(5,345)	(208,105)	(258,015)	-	-	(217,924)	(264,765)
Interest and bank charges	(91,426)	(88,452)	(24,911)	(8,924)	(715)	(561)	(8,325)	(50,496)	-	-	(125,377)	(148,433)
Expense recovery	-	-	-	167,370	-	-	-	-	-	-	-	167,370
Loss on sale of property & equipment	-	-	-	(853)	-	-	-	-	-	-	-	(853)
Realized loss on investments	-	-	-	(234,046)	-	-	-	-	-	-	-	(234,046)
Unrealized gain on investments	-	-	28,082	241,323	-	-	-	-	-	-	28,082	241,323
	(91,426)	(88,452)	2,256	163,466	(9,619)	(5,906)	(216,430)	(308,510)	-	-	(315,220)	(239,404)
Segment income (loss) before taxes	(201,914)	(207,006)	(122,539)	838,905	(1,671,793)	(1,013,021)	(256,970)	(432,121)	59,430	(964,164)	(2,193,787)	(1,777,408)
Total assets	5,529,289	5,136,657	5,060,177	6,082,377	60,537,485	62,158,254	2,782,535	3,530,015	(11,292,618)	(12,544,978)	62,616,869	64,362,325
Total liabilities	8,714,324	9,863,516	970,008	90,413	5,075,111	1,549,472	3,572,882	3,533,395	(5,145,235)	(3,018,153)	13,187,090	12,018,643

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").

# METALO MANUFACTURING INC.

## Notes to Consolidated Financial Statements

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### 20. 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.

Revenue from external customers for the period ending December 31, 2016 was \$ nil (December 31, 2015 \$nil)

Non-current assets:

	31-Dec-16	31-Dec-15
	\$	\$
Canada	60,072,356	58,276,672
United States of America	1,872,944	3,004,414
Total non-current assets	61,945,300	61,281,086