



**METALO MANUFACTURING INC.**

**Interim Condensed Consolidated Financial Statements**

**For the three months and nine months ended**

**March 31, 2018 and March 31, 2017**

**(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 nine months ended March 31, 2018 and March 31, 2017**

## **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

*"C. H. (Bert) Loveless"*

C. H. (Bert) Loveless  
Acting Chief Financial Officer

May 25, 2018

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**Metalo Manufacturing Inc.**

Financial Information



March 31, 2018

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**Metalo Manufacturing Inc.**  
**Consolidated Statements of Financial Position**



(Amounts presented in Canadian Dollars)

	31-Mar 2018 \$	30-Jun 2017 \$
<b>Assets</b>		
<b>Current assets:</b>		
Cash	203,088	169,039
Other receivable	10,698	64,006
Prepaid and other deposits	54,288	351,019
Investments (Note 4)	4,240	20,478
	<b>272,313</b>	<b>604,542</b>
<b>Non-current assets:</b>		
Resource properties (Note 5)	57,162,366	57,138,760
Project development costs (Note 6)	2,924,644	2,924,994
Property and equipment (Note 7)	57,537	88,586
	<b>60,144,546</b>	<b>60,152,340</b>
	<b>60,416,860</b>	<b>60,756,882</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade and other payables	282,640	2,670,498
Short term loans (Note 8)	4,786,946	2,664,504
Current portion long-term debt (Note 9)	-	1,560,467
	<b>5,069,586</b>	<b>6,895,469</b>
<b>Non-current liabilities:</b>		
Long-term debt (Note 9)	2,050,952	1,931,549
Deferred taxes (Note 15)	6,088,812	5,557,933
	<b>8,139,764</b>	<b>7,489,482</b>
	<b>13,209,350</b>	<b>14,384,951</b>
<b>Shareholders' equity</b>		
Share capital (Note 10)	9,148,978	9,073,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	1,284,000	1,284,000
Retained earnings	9,610,637	9,014,646
Accumulated other comprehensive income	-	175,365
Equity attributable to shareholders	<b>20,693,208</b>	<b>20,197,582</b>
Non-controlling interests	<b>26,514,302</b>	<b>26,174,349</b>
	<b>47,207,510</b>	<b>46,371,931</b>
	<b>60,416,860</b>	<b>60,756,882</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

May 25, 2018

**Metalto Manufacturing Inc.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the three months and nine months ended**  
**March 31, 2018 and March 31, 2017**  
**(Amounts presented in Canadian Dollars)**



	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
Operating expenses (Note 12)	(368,022)	(1,159,159)	(972,812)	(3,037,726)
Depreciation	(3,480)	(107,166)	(10,440)	(325,089)
Interest and bank charges	(126,564)	(93,261)	(367,263)	(218,638)
Interest accretion	(33,114)	-	(95,982)	-
Gain on deconsolidation subsidiary debt	1,627,996	-	3,182,700	-
Impairment of property & equipment (Note 7)	-	-	(20,609)	-
Realized gain (loss) on investments (Note 4)	(3,803)	-	(4,123)	-
Unrealized gain (loss) on investments (Note 4)	5,243	(12,871)	1,040	15,211
Net loss before taxes	1,098,256	(1,372,457)	1,712,511	(3,566,242)
Income tax expense (Note 15)	(330,229)	425,748	(530,878)	1,041,832
Net loss	768,027	(946,709)	1,181,633	(2,524,410)
<b>Net loss attributable to:</b>				
Shareholders of the Corporation	414,985	(460,081)	595,992	(994,078)
Non-controlling interest	353,042	(486,628)	585,641	(1,530,332)
Net income (loss)	768,027	(946,709)	1,181,633	(2,524,410)
Net income (loss) per share (Note 14)	\$0.02	(\$0.03)	\$0.03	(\$0.06)
Weighted average number of shares outstanding (Note 10)	17,596,988	17,400,330	17,554,289	17,359,715
Net loss	768,027	(946,709)	1,181,633	(2,524,410)
Other comprehensive income				
<i>Items that may be subsequently reclassified to loss</i>				
Cumulative translation adjustments	245,688	18,060	(175,365)	63,820
Comprehensive loss	1,013,715	(928,649)	1,006,268	(2,460,590)
<b>Comprehensive loss attributable to:</b>				
Shareholders of the Corporation	414,985	(452,148)	420,627	(966,047)
Non-controlling interest	598,730	(476,501)	585,641	(1,494,543)
Comprehensive loss	1,013,714	(928,649)	1,006,268	(2,460,590)

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

**Metalo Manufacturing Inc.**

**Consolidated Statement of Changes in Equity**

**For the nine months ended March 31, 2018 and March 31, 2017**

**(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, 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	-	-	-	-	(994,078)	-	(994,078)	(1,530,332)	(2,524,410)
Other comprehensive income for the period	-	-	-	-	-	28,031	28,031	35,789	63,820
Comprehensive income (loss) for the period	-	-	-	-	(994,078)	28,031	(966,047)	(1,494,543)	(2,460,590)
Shares issued in payment of interest	110,601	75,000	-	-	-	-	75,000	-	75,000
Change in non-controlling interest on exercise of options in subsidiary (Note 3)	-	-	-	-	(11,889)	-	(11,889)	268,139	256,250
<b>Balance March 31, 2017</b>	17,417,640	9,048,978	649,593	2,531,000	9,130,064	182,256	21,541,891	26,984,237	48,526,128
<b>Balance June 30, 2017</b>	17,481,402	9,073,978	649,593	1,284,000	9,014,646	175,365	20,197,582	26,174,349	46,371,931
Net income and comprehensive income for the period	-	-	-	-	595,992	-	595,992	585,641	1,181,633
Other comprehensive income (loss) for the period	-	-	-	-	-	(175,365)	(175,365)	(245,688)	(421,053)
Comprehensive income (loss) for the period	-	-	-	-	595,992	-	420,627	339,953	760,580
Shares issued in payment of interest (Note 10)	153,661	75,000	-	-	-	-	75,000	-	75,000
<b>Balance March 31, 2018</b>	17,635,063	9,148,978	649,593	1,284,000	9,610,637	-	20,693,209	26,514,302	47,207,511

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

**Metalo Manufacturing Inc.**
**Consolidated Statements of Cash Flows**
**For the three months and nine months ended March 31, 2018 and March 31, 2017**
**(Amounts presented in Canadian Dollars)**


	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
<b>Cash flows generated from operating activities:</b>				
Net income loss	768,027	(946,709)	1,181,633	(2,524,410)
Items not involving cash:				
Depreciation	3,480	107,166	10,440	325,089
Gain on deconsolidation subsidiary debt	(1,627,996)	-	(3,182,700)	-
Impairment of property & equipment	-	-	20,609	-
Loss (gain) on sale of investments	3,803	-	(4,123)	-
Unrealized gain on investments	(5,243)	12,871	1,040	(15,211)
Interest paid by issuance of shares	25,000	25,000	75,000	75,000
Interest accretion	38,877	28,811	95,982	83,510
Deferred taxes	330,230	(425,748)	530,879	(1,041,832)
Changes in non-cash operating working capital				
Other receivables	2,189	80,799	53,310	51,889
Prepaid and other deposits	(19,744)	(59,808)	296,731	60,714
Trade and other payables (Note 6)	(362,034)	388,588	(2,405,720)	1,454,793
	<b>(843,412)</b>	<b>(789,031)</b>	<b>(3,326,920)</b>	<b>(1,530,458)</b>
<b>Cash flow generated from financing activities:</b>				
Proceeds (repayments) of short term borrowings	(378,071)	992,036	3,345,081	1,851,893
	<b>(378,071)</b>	<b>992,036</b>	<b>3,345,081</b>	<b>1,851,893</b>
<b>Cash flows (provided) generated from investing activities:</b>				
Proceed on sale of investments	3,083	-	16,238	-
Proceeds on exercise of options in subsidiary	-	-	-	256,250
Investment in project development	-	(36,884)	(350)	(845,297)
	<b>3,083</b>	<b>(36,884)</b>	<b>15,887</b>	<b>(589,047)</b>
Decrease in cash during the period	(1,218,400)	166,121	34,049	(267,612)
Cash, beginning of period	1,421,488	157,932	169,039	591,665
Cash, end of period	<b>203,088</b>	<b>324,053</b>	<b>203,088</b>	<b>324,053</b>

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



# METALO MANUFACTURING INC.

Notes to Interim Condensed Consolidated Financial Statements  
For the nine months ended March 31, 2018 and March 31, 2017  
(Amounts presented in Canadian Dollars)

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## 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 Pure Fonte Ltee (8593302 Canada Inc.) principal place of business is Quebec and the subsidiary Forks Specialty Metals Inc. principal place of business was 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 cash on hand of \$ 203,088 (2017 \$324,053) and has a working capital deficiency of \$4,866,498 (June 30, 2017 - \$6,288,927). 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 interim condensed 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

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 May 25, 2018.



# METALO MANUFACTURING INC.

Notes to Interim Condensed Consolidated Financial Statements  
For the nine months ended March 31, 2018 and March 31, 2017  
(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the Corporation's annual consolidated financial statements for the year ended June 30, 2017. These interim financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended June 30, 2017.

### (b) Basis of Consolidation

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

- 43.9% (2017 – 43.9%) Grand River Ironsands Incorporated ("GRI")

A company incorporated in Nova Scotia engaged in the exploration and development of mineral deposits which owns;

- 0% (2017 – 100%) Forks Specialty Metals Inc. ("FSM")

A company incorporated in Pennsylvania engaged in iron ore smelting that filed for bankruptcy under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court, Eastern District of Pennsylvania.

- 90% (2017 – 60%) North Atlantic Iron Corporation ("NAIC")

A corporation incorporated in Newfoundland and Labrador engaged in the exploration and development of mineral deposits.

- 100% (2017 - 0%) Pure Fonte Ltee (8593302 Canada Inc.)

A corporation incorporated in Canada expected to be engaged in steel manufacturing

In March, 2018 a major restructuring occur between Petmin and GRI resulting in significant changes in ownership. Refer to Note 16 for additional explanations.

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;

# METALO MANUFACTURING INC.

Notes to Interim Condensed Consolidated Financial Statements  
For the nine months ended March 31, 2018 and March 31, 2017  
(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- 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.

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) Mineral properties

Mineral property 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

### (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

Resource properties that are not subject to amortization, 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. Project development costs, that are not yet available for use, 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

# METALO MANUFACTURING INC.

Notes to Interim Condensed Consolidated Financial Statements  
For the nine months ended March 31, 2018 and March 31, 2017  
(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Impairment of Non-Financial Assets (continued)

carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

Impairment losses may be reversed, except for goodwill, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized.

### (i) Share Issuance Costs

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

### (j) Foreign Currency

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

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

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.

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

# METALO MANUFACTURING INC.

Notes to Interim Condensed Consolidated Financial Statements  
For the nine months ended March 31, 2018 and March 31, 2017  
(Amounts presented in Canadian Dollars)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Income Taxes (continued)

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 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.

### (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 ("FVTPL"). 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.

# METALO MANUFACTURING INC.

Notes to Interim Condensed Consolidated Financial Statements  
For the nine months ended March 31, 2018 and March 31, 2017  
(Amounts presented in Canadian Dollars)



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

<u>Asset/Liability</u>	<u>Classification</u>
Cash	Loans and receivables
Investments	FVTPL
Trade and other payables	Other financial liabilities
Short term loans	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 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.

### (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) 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:

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- 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 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 interim condensed 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 interim condensed 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 Resource Properties

At the end of each reporting year, the Corporation assesses each of its resource properties 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 similar market assets and where available, industry benchmarks. Actual results may differ materially from these estimates.



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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Other non-financial assets

Management assesses impairment of non-financial assets such as intangible assets and property and equipment. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit (“CGU”) based on expected future cash flows. When measuring expected future cash flows, management makes assumptions about future growth of profits which relate to future events and circumstances. Actual results could vary from these estimated future cash flows. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate.

### 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 interim condensed consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the year of changes.

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.

### (p) 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.

### (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 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.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 interim condensed 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 interim condensed 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 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.

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## 3. INVESTMENT IN SUBSIDIARY COMPANIES

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		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
Exercise of options in subsidiary	-	-	-	256,250
Change in non-controlling interest	-	-	-	268,139
Attributed to the equity of the Corporation	-	-	-	(11,889)

## 4. INVESTMENTS

The Corporation has the following holdings and disposition of investments:

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
Market value investment end of period	4,240	44,464	4,240	44,464
Cost of investments beginning of period	20,425	28,926	20,425	28,926
Additions	-	-	-	-
Disposals	(13,475)	(16,238)	(13,475)	-
Cost of investment end of period	6,950	12,688	6,950	28,926
Unrealized gain (loss) end of period	(4,150)	31,776	(4,150)	15,538
Unrealized gain (loss) beginning of period	53	13,198	53	(12,544)
Change in unrealized gain (loss) during the period	(4,203)	18,578	(4,203)	28,082

### Dispositions

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
Proceeds on disposal	13,155	-	13,155	-
Cost of shares sold	13,475	-	13,475	-
Realized gain (loss) on investments	(320)	-	(320)	-

# METALO MANUFACTURING INC.

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## 5. RESOURCE PROPERTIES

Resource properties

	March 31, 2017			
	Balance	Interest	Reductions &	Balance
	30-Jun-16	Accretions	Reclassifications	31-Mar-17
	\$	\$	\$	\$
Labrador Mineral Sands	57,109,885	21,411	-	57,131,296

	March 31, 2018			
	Balance	Interest	Reductions &	Balance
	30-Jun-17	Accretions	Reclassifications	31-Mar-18
	\$	\$	\$	\$
Labrador Mineral Sands	57,138,760	23,606		57,162,366

The Labrador Mineral Sands relates to licenses held by NAIC, which include Churchill River, Mud Lake, Muskrat Lake, Goose Bay, and Hamilton River. Additions to resource properties includes accretion in the amount of \$23,606 (2017 - \$21,412) on the ACOA loan (Note 9).

Commencing in 2015, NAIC began pursuing the evaluation of accessory minerals associated with the Labrador Mineral Sands properties. These minerals primarily include feldspar and silica quartz. In 2017, NAIC made the decision to abandon further evaluation of the resource properties with the objective to pursue the accessory minerals only. NAIC expects to commission a market feasibility study in the near term to further understand the development potential associated with the accessory minerals in the properties. In determining the recoverable amount of the resource properties, NAIC has made estimates regarding the quantity of accessory minerals to be extracted, the accessory mineral prices expected to be in place at the time of extraction, the direct costs associated with mining these minerals and total project capital expenditures. Based on this analysis, NAIC believes the carrying amount to be recoverable. Given the uncertainty associated with each of the above assumptions, it is reasonably possible that outcomes which differ from these assumptions could require material adjustment to the carrying amount of the resource properties in the future.

## 6. PROJECT DEVELOPMENT COSTS

The Corporation is planning the development of a low cost North American producer of foundry grade pig iron. The costs incurred to date relate primarily to a Bankable Feasibility Study. Costs incurred to date are shown in the following table:

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-18	31-Mar-18	31-Mar-18
	\$	\$	\$	\$
Balance beginning of period	2,924,994	2,279,852	2,924,994	2,074,815
Costs incurred during period	(350)	640,260	(350)	845,297
Balance end of period	2,924,644	2,920,112	2,924,644	2,920,112

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## 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Computer equipment \$	Industrial equipment \$	Office furniture and equipment \$	Total \$
<b>For the period ended March 31, 2017</b>				
Opening net book value	4,650	2,070,895	26,268	2,101,813
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	(1,308)	(319,741)	(4,039)	(325,089)
Foreign exchange differences	-	47,890	621	48,512
Net Book Value	3,341	1,799,044	22,851	1,825,236
<b>As at March 31, 2017</b>				
Cost	15,138	2,580,056	42,658	2,637,852
Accumulated depreciation	(11,797)	(940,270)	(29,210)	(981,277)
Foreign exchange differences	-	159,258	9,402	168,661
Net Book Value	3,341	1,799,044	22,851	1,825,236
<b>for the period ended March 31, 2018</b>				
Opening net book value	3,255	64,369	20,963	88,587
Impairment of equipment	-	-	(20,609)	(20,609)
Depreciation	(733)	(9,653)	(55)	(10,440)
Foreign exchange differences	-	-	-	-
Net Book Value	2,522	54,716	299	57,537
<b>As at March 31, 2018</b>				
Cost	15,138	196,430	1,078	212,646
Accumulated depreciation	(12,617)	(141,714)	(779)	(155,109)
Net Book Value	2,522	54,717	299	57,537

On or about October 18, 2017, SK 3700 Glover Road Owner LLC served a notice on Forks Specialty Metals Inc. indicating that a Confession of Judgment for Money (the "Judgment") was granted against Forks by the Court of Common Pleas Northampton County in Pennsylvania, USA. The Judgment was in the amount of US\$1,189,563 for rental arrears, accelerated rent and attorney's fees. Forks retained local legal counsel and on December 28, 2017, FSM filed for bankruptcy under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court, Eastern District of Pennsylvania. A meeting of creditors is scheduled for July 25, 2018. The trustee in bankruptcy is reviewing materials provided to her and so the proceedings are ongoing until then. GRI believes the bankruptcy will take a normal course and has written all assets and liabilities associated with FORKS.

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## 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, accruing monthly, plus 50,000 common share purchase warrants exercisable on or before August 25, 2019 at an exercise price of \$0.01 per share. The maturity date of the loan is currently under negotiations.

On September 29, 2016 GRI borrowed \$250,000 from Forest Lane Holdings Limited “FLH”, a Company controlled by an insider of the Corporation, for 90 days with interest at 6% per annum, accruing monthly, plus 50,000 common share purchase warrants exercisable on or before September 29, 2019 at an exercise price of \$0.01 per share. FLH also extended a line of credit facility bearing interest at 6% per annum, accruing monthly, to GRI of which GRI has drawn down \$2,105,000 as at September 30, 2017. The loan and line of credit have been combined into a demand note, with no fixed terms of repayment, for \$2,355,000 with interest at 6% per annum accruing monthly.

On August 31, 2017, GRI received from David J. Hennigar, Chairman of the Corporation, a loan of \$2,000,000 bearing interest at 12% per annum payable monthly. The principal is repayable, without penalty, on or before August 31, 2018.

The loan balances in the table below include interest accrued to March 31, 2018

	9 months ended	
	31-Mar-18	31-Mar-17
	\$	\$
Short term loan from unrelated party interest at 6% due December 31, 2017	274,962	250,000
Short term loan from related party interest at 6% due on demand	2,511,985	250,000
Short term loan from related party interest at 12% due on August 31, 2018	2,000,000	2,000,000
Balance end of period	4,786,946	2,500,000

On August 25, 2017, NAIC received a shareholder loan, with no fixed terms of repayment, in the amount of US\$1,259,654 from Petmin. This loan represents Petmin’s proportionate share of the NAIC’s projected cash requirements. GRI has also advanced their proportionate share of those projected requirements to NAIC. This loan has been fully extinguished pursuant to a major restructuring agreement with Petmin that was executed in March, 2018. Refer to Note 16

## 9. LONG TERM DEBT

### ACOA Loan

In fiscal 2012 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

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## 9. LONG TERM DEBT (continued)

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

During fiscal 2013, 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 was discounted using an effective interest rate of 9% but due to the uncertainty of the FSM operation this liability has now been recorded at the undiscounted amount of the loan and the accretion has been recorded as an expense in the statement of loss. See note 7. At December 31, 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 interim condensed consolidated balance sheet. As a result of the bankruptcy proceedings related to FORKS the loan has now been written off. Refer to Note 7.

### 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 with FLH.

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. See Note 10.

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)

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
<b>ACOA Loan</b>				
Loan amount beginning of period	352,122	321,923	336,684	307,809
Accretion capitalized to resource properties	7,982	7,298	23,420	21,411
Balance end of period	360,104	329,221	360,104	329,221
<b>Convertible debenture</b>				
Amount outstanding beginning of period	1,657,735	1,536,224	1,594,866	1,481,525
Accretion expense for period	33,114	28,811	95,982	83,510
Balance end of period	1,690,849	1,565,035	1,690,848	1,565,035
<b>Industrial equipment loan</b>				
Loan amount beginning of period	-	1,209,194	1,560,467	1,184,923
Repayments/write downs	-	-	(1,554,704)	-
Accretion capitalized to iron interests	-	-	-	-
Change in foreign exchange for period	-	(9,456)	(5,763)	14,815
Current portion	-	(1,199,738)	-	(1,199,738)
Balance end of period	1	-	-	-
Total	2,050,954	1,894,256	2,050,952	1,894,256

The future minimum payments associated with the above debt instruments are as follows:

	US\$	C\$
2018	-	-
2019	-	-
2020	-	2,100,000
2021	-	100,000
2022	-	100,000
Thereafter	-	200,000

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## 10. SHARE CAPITAL

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.

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 \$0.6869 per share, which is the volume-weighted trading price for the 20 trading days ending October 3, 2016.

On February 1, 2017, the Corporation issued 48,685 common shares to FLH. 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.

On May 1, 2017, the Corporation issued 63,762 common shares to FLH. This issuance represents interest due May 1, 2017 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.3921 per share, which is the volume-weighted trading price for the 20 trading days ending March 31, 2017.

On August 1, 2017, the Corporation issued 41,667 common shares to FLH. This represents interest due August 1, 2017 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.60 per share, which is the volume-weighted trading price for the 20 trading days ending July 4, 2017.

On November 1, 2017, the Corporation issued 53,914 common shares to FLH. This represents interest due November 1, 2017 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.4637 per share, which is the volume-weighted trading price for the 20 trading days ending October 3, 2017.

On February 1, 2018, the Corporation issued 58,080 common shares to FLH. This represents interest due February 1, 2018 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.4304 per share, which is the volume-weighted trading price for the 20 trading days ending January 4, 2018. 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, 2016	17,307,039	\$ 8,973,978
Issued in payment of interest	110,601	75,000
Issued and outstanding March 31, 2017	17,417,640	\$ 9,048,978
Issued and outstanding June 30, 2017	17,481,402	\$ 9,073,978
Issued in payment of interest	153,661	75,000
Issued and outstanding March 31, 2018	17,635,063	\$ 9,148,978
<b>Weighted average issued and outstanding - 17,554,289 (2017 - 17,351,745)</b>		

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## 11. STOCK BASED COMPENSATION PLAN

The Board of Directors has established a stock option plan under which options to purchase common shares are granted to directors, officers, and key employees of the Corporation. Options to acquire common shares are granted at option prices which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant.

The Corporation has reserved 3,450,203 (2016 – 3,450,203) common shares pursuant to the stock option plan. There are 2,114,000 (2016 - 2,114,000) options to acquire common shares outstanding under the plan as at March 31, 2018. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding as at March 31, 2017 and March 31, 2018:

	Weighted average exercise price	Issued
	\$	
Balance June 30, 2016	0.77	2,114,000
Granted	-	-
Balance March 31, 2017	0.77	2,114,000
Balance June 30, 2017	0.77	2,114,000
Granted	-	-
Balance March 31, 2018	0.77	2,114,000

The following table summarizes information about the options outstanding and exercisable:

March 31, 2017 and March 31, 2018 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 shares are granted at prices as determined by the Board of Directors. Options expire five years from the date of the grant.

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## 11. STOCK BASED COMPENSATION PLAN (continued)

GRI has reserved 2,376,933 (2016 - 2,356,433) common shares pursuant to the stock option plan. There are 1,119,000 (2016 - 1,206,000) options to acquire common shares outstanding under the plan as at March 31, 2018. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding and exercisable as at March 31, 2017:

	Weighted average Exercise price	
	\$	Issued
Balance June 30, 2016	1.73	2,116,000
Exercised	1.25	(205,000)
Expired	1.25	(705,000)
Balance March 31, 2017	2.09	1,206,000

Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
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
1,206,000			1,206,000

Options issued and outstanding and exercisable as at March 31, 2018:

	Weighted average exercise price	
	\$	Issued
Balance June 30, 2017	2.09	1,206,000
Expired	1.25	87,000
Issued	-	-
Balance March 31, 2018	2.15	1,119,000

Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
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
1,119,000			1,119,000

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## 12. EXPENSES BY NATURE

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
Operating expenses				
Advertising and promotion	(1,396)	9,222	-	10,305
Utilities	499	44,660	11,141	76,153
Consulting	-	-	-	-
Dues and fees	4,232	3,113	14,607	11,466
Exploration costs	-	-	-	13,179
Facility costs	(14,032)	7,505	(13,043)	17,629
Foreign exchange loss (gain)	28,205	22,469	(486,687)	87,243
General and administrative	1,534	1,886	12,216	31,487
Insurance	875	23,770	48,644	73,849
Management and consulting fees	2,970	322,120	479,950	926,468
Professional fees	49,745	48,446	124,659	88,285
Rental	10,350	267,101	354,252	800,442
Travel	228,405	265,087	255,677	469,634
Stock based compensation	-	-	-	-
Salaries and wages	56,635	143,780	171,396	431,586
	368,022	1,159,159	972,812	3,037,726

The gain on foreign exchange includes \$421,053 previously recognized as other comprehensive income related to the US subsidiary.

## 13. RELATED PARTY TRANSACTIONS

In addition to the related party loans described in Notes 8 and 9 the Corporation has the following related party transactions. The compensation expense associated with key management, directors and employees for services is as follows:

### Related party - Management fees

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
Management fees	41,250	41,250	121,250	123,750
Consulting fees	(147,420)	142,388	195,125	558,230
Directors fees	-	2,100	8,400	11,900
Salaries and benefits	44,494	173,566	225,300	510,210
Operating expenses	(61,676)	359,304	550,075	1,204,090

The Corporation has issued shares in lieu of payment of interest on a related party loan as described in Note 9, see Note 10 for details. The Corporation paid office rent in the amount of \$23,850 to Torvan Capital Group, a division of Ashley Park Enterprises Inc., a company controlled by a director of the Corporation. The Petmin restructuring resulted in the write off of previous billed consulting fees in the amount of \$126,000 which were reflected as a recovery in the current quarter.

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

## 15. INCOME TAXES

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

	3 months ended		9 months ended	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$
Income (loss) before income taxes	1,098,256	(1,372,457)	1,712,511	(3,566,242)
Combined Federal and Provincial tax rate	31%	31%	31%	31%
Expected recovery at statutory rates	(340,458)	425,462	(530,878)	1,105,535
Unrecognized tax assets	-	-	(63,561)	(63,561)
Subsidiary rate differential	10,230	286	-	(33,150)
Other	-	-	63,561	33,008
Deferred tax recovery	(330,228)	425,748	(530,878)	1,041,832

Deferred tax liability consists of:

Deferred tax liability	31-Mar-18	31-Mar-17
	\$	\$
Non-capital losses	5,661,606	5,417,600
Iron interests	(11,261,210)	(11,471,552)
Intangible asset	(877,499)	(651,000)
Property and equipment	1,044	6,060
Loans receivable	194,352	(1,532)
Long-term Debt	170,535	8,325
Investment	(1,915)	(1,532)
Share issue costs	24,275	8,325
	(6,088,812)	(6,685,306)

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## 16. COMMITMENTS

In March, 2018 GRI and Petmin agreed to complete a major restructuring summarized as follows, most of which has been completed;

- NAIC returned a portion of moneys lent to it by Petmin in full and final settlement of all monies owed by the Corporation to Petmin.
- NAIC assigned the right to the use of the “Tenova Process” that permits either party to construct a pig iron facility in specified locations, OHIO, US for Petmin and Quebec, Canada for GRI. These exclusive rights will expire in the event either parties have not commenced the construction of a pig iron facility within three years of the date of the agreement.
- NAIC transferred 100% its investment and ownership position in the proposed pig iron facility in Quebec (Pure Fonte Ltée. (8593302 Canada Inc.) in consideration of reduction of a portion of its debt to GRI and GRI purchased additional shares in Pure Fonte
- NAIC will retain 100% ownership of the mineral resources at Goose Bay, with GRI holding 90% of its shares and Petmin holding a 10% dilutable ownership position in NAIC.
- GRI shall provide Petmin all documents and related rights and correspondence pertaining to the Corporation’s Tenova Process; and all bankable feasibility study documents, notes and models pertaining to the development, processing and construction of a pig iron facility.
- Both parties have agreed to exchange shares in their respective pig iron facilities to provide a 10% dilutable ownership position based on the capital position which remains outstanding.

## 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. See note 1.

<u>Management of Capital</u>	<u>31-Mar-18</u>	<u>31-Mar-17</u>
	<u>\$</u>	<u>\$</u>
Long term debt	2,050,952	1,931,549
Share capital	9,148,978	9,073,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	1,284,000	1,284,000
Accumulated other comprehensive income	-	175,365
Retained earnings	9,532,361	9,014,646
Non-controlling interest	26,414,353	26,174,349
	<u>49,080,237</u>	<u>48,303,480</u>



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## 17. 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, 2017.

## 18. FINANCIAL INSTRUMENTS

The carrying amounts reported on the financial statements for cash, accounts receivable, trade and other payables and short term loans 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 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 contracted payments of long term debt. See note 1.

### **Foreign Currency Risk**

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 EVENTS

On May 1, 2018, the Corporation issued 62,574 common shares to FLH. This represents interest due May 1, 2018 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.3995 per share, which is the volume-weighted trading price for the 20 trading days ending April 10, 2018.

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## 20. SEGMENTED INFORMATION

As at March 31 2018 the Corporation had a corporate head office and two active 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 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 and the development of a foundry grade pig iron manufacturing plant. It is a majority owned subsidiary of GRI.
3. FSM, a private corporation, incorporated under the laws of Pennsylvania, contains industrial equipment purchased with the objective to develop a smelting plant in Forks Township, Pennsylvania, ceased operations in December 2017..

	Corporate		GRI		NAIC		FSM		Eliminations		Consolidated	
	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17	31-Mar-18	31-Mar-17
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - intersegment	-	-	33,155	55,107	-	-	126,948	1,168,106	(160,103)	(1,223,212)	-	1
Operating expenses	108,998	157,403	305,215	1,123,545	(1,096,832)	1,642,574	(54,344)	1,381,916	(235,847)	(1,267,712)	(972,810)	3,037,725
EBITDA	(108,998)	(157,403)	(272,059)	(1,068,438)	1,096,832	(1,642,574)	181,292	(213,811)	75,744	44,500	(972,810)	(3,037,724)
Depreciation and Amortization	-	-	(1,073)	(1,502)	(9,368)	(13,871)	-	(309,717)	-	-	(10,440)	(325,090)
Interest and bank charges	(58,580)	(138,825)	(281,862)	(49,264)	(12,275)	(1,031)	(14,546)	(29,516)	-	-	(367,263)	(218,636)
Interest accretion	(95,982)	-	-	-	-	-	-	-	-	-	(95,982)	-
Gain (loss) on subsidiary debt	-	-	1,828,736	-	1,653,595	-	(557,929)	-	-	-	2,924,403	-
Impairment of property & equipment	-	-	-	-	-	-	(20,609)	-	-	-	(20,609)	-
Loss on sale of property & equipment	-	-	-	-	-	-	-	-	-	-	-	-
Realized gain (loss) on investments	-	-	(4,123)	-	-	-	-	-	-	-	(4,123)	-
Unrealized gain on investments	-	-	1,040	15,211	-	-	-	-	-	-	1,040	15,211
	(154,562)	(138,825)	1,542,719	(35,555)	1,631,953	(14,902)	(593,084)	(339,233)	-	-	2,427,025	(528,516)
Segment income (loss) before taxes	(263,560)	(296,228)	1,270,660	(1,103,993)	2,728,784	(1,657,476)	(411,792)	(553,044)	75,744	44,500	1,454,214	(3,566,240)
Total assets	5,288,588	5,501,274	5,901,991	5,103,912	57,503,552	58,411,602	-	2,497,166	(8,277,271)	(8,808,481)	60,416,860	62,705,473
Total liabilities	8,006,825	8,329,875	4,987,470	1,995,195	566,385	2,917,012	-	3,565,527	(218,778)	(2,628,265)	13,341,903	14,179,344

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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## 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 nine months ending March 31, 2018 and March 31 2017 was \$ nil

Non-current assets:

	31-Mar-18	31-Mar-17
	\$	\$
Canada	60,144,546	60,121,586
United States of America	-	1,755,058
Total non-current assets	60,144,546	61,876,644