



METALO MANUFACTURING INC.

Interim Condensed Consolidated Financial Statements

For the three and six months ended December 31, 2018

(expressed in Canadian dollars)

(UNAUDITED)

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 Officer

"C. H. Bert Loveless"

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

February 22, 2019

Metalo Manufacturing Inc.



Financial Information

December 31, 2018

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Metalo Manufacturing Inc.
Consolidated Statements of Financial Position
(Amounts presented in Canadian Dollars)



	31-Dec 2018 \$	30-Jun 2018 \$ Restated (Note 12)
Assets		
Current assets:		
Cash	23,054	28,148
Other receivable	18,776	13,511
Prepaid and other deposits	56,095	51,457
Investments (Note 4)	2,800	3,200
	<u>100,725</u>	<u>96,316</u>
Non-current assets:		
Resource properties (Note 5)	57,187,220	57,170,334
Project development costs (Note 6)	1,462,322	1,462,322
Property and equipment (Note 7)	19,066	21,311
	<u>58,668,608</u>	<u>58,653,967</u>
	<u>58,769,333</u>	<u>58,750,283</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	523,499	403,369
Short term loans (Note 8)	4,996,712	4,828,844
	<u>5,520,211</u>	<u>5,232,213</u>
Non-current liabilities:		
Long-term debt (Note 9)	2,818,857	2,093,401
Deferred taxes (Note 16)	5,367,562	5,658,778
	<u>8,186,419</u>	<u>7,752,179</u>
	<u>13,706,630</u>	<u>12,984,392</u>
Shareholders' equity		
Share capital (Note 10)	9,223,978	9,173,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	1,284,000	1,284,000
Retained earnings	6,732,278	7,152,898
Equity attributable to shareholders	17,889,849	18,260,469
Non-controlling interests	27,172,854	27,505,422
	<u>45,062,703</u>	<u>45,765,891</u>
	<u>58,769,333</u>	<u>58,750,283</u>

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 22, 2019

Metalo Manufacturing Inc.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
2017
(Amounts presented in Canadian Dollars)



	3 months ended		year -to -date	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	\$	\$	\$	\$
Operating expenses (Note 13)	(430,421)	159,681	(690,592)	(604,790)
Depreciation	(1,122)	(2,489)	(2,245)	(6,960)
Interest and bank charges	(138,844)	(136,788)	(278,909)	(240,699)
Interest accretion	(36,757)	(31,981)	(72,257)	(62,868)
Gain on deconsolidation of subsidiary debt (Note 9)	-	1,554,704	-	1,554,704
Impairment of property & equipment (Note 7)	-	(20,609)	-	(20,609)
Gain on disposition of equipment	-	-	-	-
Realized gain (loss) on sale of investments (Note 4)	-	(320)	-	(320)
Unrealized gain (loss) on investments (Note 4)	(480)	922	(400)	(4,203)
Net income (loss) before taxes	(607,624)	1,523,121	(1,044,404)	614,255
Income tax expense (Note 16)	169,200	(492,590)	291,216	(200,649)
Net income (loss)	(438,424)	1,030,531	(753,188)	413,606
Net income (loss) attributable to:				
Shareholders of the Corporation	(243,699)	387,568	(420,620)	181,007
Non-controlling interest	(194,725)	642,963	(332,568)	232,599
Net income (loss)	(438,424)	1,030,531	(753,188)	413,606
Net income (loss) per share (Note 15)	(\$0.01)	\$0.02	(\$0.02)	\$0.01
Weighted average number of shares outstanding (Note 10)	17,809,894	17,558,230	17,680,197	17,533,403
Net income (loss)	(438,424)	1,030,531	(753,188)	413,606
Other comprehensive income				
Cumulative translation adjustments	-	(470,952)	-	(421,053)
Comprehensive income (loss)	(438,424)	559,579	(753,188)	5,642
Comprehensive income (loss) attributable to:				
Shareholders of the Corporation	(243,699)	190,287	(420,620)	5,642
Non-controlling interest	(194,725)	369,292	(332,568)	(13,089)
Comprehensive income (loss)	(438,424)	559,579	(753,188)	(7,447)

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

Metalco Manufacturing Inc.
Consolidated Statement of Changes in Equity
For the six months ended December 31, 2018
(Amounts presented in Canadian Dollars)



	Number of Shares Issued	Share Capital	Equity Component Convertible Debenture	Stock based payment reserve	Retained Earnings Restated (Note 12)	Accumulated Other Comprehensive Income	Total Shareholders Equity Restated (Note 12)	Non-controlling interest Restated (Note 12)	Total Equity
		\$		\$	\$	\$	\$		
Balance June 30, 2017	17,481,402	9,073,978	649,593	1,284,000	3,332,273	175,365	14,515,210	31,856,722	46,371,931
Net loss and comprehensive loss for the period	-	-	-	-	391,878	-	391,878	1,359,044	1,750,922
Other comprehensive income for the period	-	-	-	-	-	(175,365)	(175,365)	(223,192)	(398,557)
Comprehensive income (loss) for the period	-	-	-	-	391,878	(175,365)	216,513	1,135,852	1,352,365
Shares issued in payment of interest	216,235	100,000	-	-	-	-	100,000	-	100,000
Change in non-controlling interest on restructuring of subsidiary (Note 3)	-	-	-	-	3,428,747	-	3,428,747	(5,487,152)	(2,058,405)
Balance June 30, 2018	17,697,637	9,173,978	649,593	1,284,000	7,152,898	-	18,260,470	27,505,422	45,765,891
Net income (loss) for the period	-	-	-	-	(420,620)	-	(420,620)	(332,568)	(753,188)
Shares issued in payment of interest (Note 10)	135,140	50,000	-	-	-	-	50,000	-	50,000
Balance December 31, 2018	17,832,777	9,223,978	649,593	1,284,000	6,732,278	-	17,889,850	27,172,854	45,062,703

Note 12 Comparative figures

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

Metalto Manufacturing Inc.
Consolidated Statements of Cash Flows
For the three and six months ended December 31, 2018
(Amounts presented in Canadian Dollars)



	3 months ended		6 months ended	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	\$	\$	\$	\$
Cash flows generated from operating activities:				
Net income (loss)	(438,424)	1,030,531	(753,188)	413,606
Items not involving cash:				
Depreciation	1,122	2,489	2,245	6,960
Gain on deconsolidation subsidiary debt	-	(1,554,704)	-	(1,554,704)
Impairment of property & equipment	-	20,609	-	20,609
Interest capitalized on term note	7,825	320	15,312	320
Unrealized gain on investments	480	(923)	400	4,203
Interest paid by issuance of shares	25,000	25,000	50,000	50,000
Interest accretion	36,757	57,591	72,257	57,105
Deferred taxes	(169,200)	492,590	(291,216)	200,649
Changes in non-cash operating working capital	-			
Other receivables	3,530	38,904	(5,264)	51,121
Prepaid and other deposits	11,567	281,151	(4,638)	276,987
Trade and other payables	283,109	(691,816)	120,130	(1,095,184)
	(238,234)	(298,258)	(793,962)	(1,568,330)
Cash flow generated from financing activities:				
Proceeds (repayments) of short term borrowings	105,355	125,090	167,868	4,361,743
Proceeds from term note	-	-	621,000	-
	105,355	125,090	788,868	4,361,743
Cash flows (provided) generated from investing activities:				
Proceeds from sale of equipment	-	13,155	-	13,155
Capital Investment	-	-	-	(1,679,209)
	-	13,155	-	(1,666,054)
Increase (Decrease) in cash during the period	(132,880)	(160,014)	(5,095)	1,252,449
Cash, beginning of period	155,933	1,581,502	28,148	169,039
Cash, end of period	23,053	1,421,488	23,053	1,421,488

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

METALO MANUFACTURING INC.

Notes to Consolidated Financial Statements

For the three and six months ended December 31, 2018

(Amounts presented in Canadian Dollars)



1. NATURE OF OPERATIONS AND GOING CONCERN

Metalo Manufacturing Inc. (“the Corporation”) was incorporated on October 4, 2000 under the laws of the Province of Alberta pursuant to the provisions of the Business Corporations Act. Through its direct and indirect subsidiaries, it is involved in the mining and exploration sector and the manufacturing sector. The Corporation’s Head Office is located at 1400 – 141 Adelaide Street West, Toronto, ON M5H 3L5.

The Corporation’s partially owned subsidiary, Grand River Ironsands Incorporated (“GRI”), has its principal place of business in Newfoundland and Labrador. GRI’s majority owned subsidiary, North Atlantic Iron Corporation, has its principal place of business in Newfoundland and Labrador and GRI’s subsidiary, Pure Fonte Lteé, has its principal place of business in Quebec.

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

The Corporation and its subsidiaries have not yet determined whether the properties contain mineral 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 \$23,054 (June 30, 2018 - \$28,148), and has a working capital deficiency of \$5,419,586 (June 30, 2018 - \$5,135,897). The Corporation has had recurring negative cash flows from operations and will require additional financing to fund its continuing exploration efforts. These uncertainties cast significant doubt upon the Corporation’s ability to continue as a going concern. Management plans to raise additional debt and/or equity financing in order to continue operations. Although the Corporation has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Corporation. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used, that would be necessary if the Corporation was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations, and such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Statement of Compliance

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

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the Chartered Professional Accountants of Canada Handbook—Accounting – Part 1 (“CPA Canada Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and were approved and authorized for issue by the board of directors on February 22, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of Consolidation

These 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;

- 100% (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. (Note 3)

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

A corporation incorporated in Newfoundland and Labrador engaged in the exploration and development of mineral deposits. (Note 3)

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

A corporation incorporated in Canada expected to be engaged in nodular pig iron manufacturing (Note 3)

In March, 2018 a restructuring transaction occurred between Petmin and GRI resulting in significant changes in ownership of NAIC. Refer to Investment in Subsidiaries -Note 3 - for additional explanation.

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

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

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

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

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

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 and six months ended December 31, 2018

(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) 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.

(e) Intangible assets

Intangible assets are comprised of the project development costs 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and Equipment (continued)

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

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

(h) Impairment of 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 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

METALO MANUFACTURING INC.

Notes to Consolidated Financial Statements

For the three and six months ended December 31, 2018

(Amounts presented in Canadian Dollars)



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial Assets and Liabilities (continued)

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 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 consolidated statements of loss and comprehensive loss.

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

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

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

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

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

METALO MANUFACTURING INC.

Notes to Consolidated Financial Statements

For the three and six months ended December 31, 2018

(Amounts presented in Canadian Dollars)



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of Financial Assets

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

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

Impairment losses on financial assets carried at amortized cost and available-for-sale financial assets are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available for-sale equity instruments are not reversed.

(o) Critical Accounting Estimates and Judgments

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

Recoverability of 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 to 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 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 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.

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 consolidated financial statements. Accordingly, the Company expects to adopt these standards as set forth below.

i) IFRS 9, Financial Instruments

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

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

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

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

ii) IFRS 16, Leases

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

In March, 2018 GRI, NAIC, Pure Fonte and Petmin Limited “Petmin” agreed to complete a restructuring transaction summarized as follows, most of which has been completed. Prior to the restructuring, Petmin Limited was a 40% shareholder of NAIC and it is now a 10% shareholder of NAIC with an option to purchase a 10% interest in Pure Fonte.

Petmin purchased from NAIC the right to the use of the “Tenova Process” which was classified as an Intangible Asset. At the time of the restructuring Petmin had loans and accumulated management fees and expenses outstanding in the amount of \$2,472,324. Petmin was paid \$693,181CDN and the balance of \$1,779,143 was offset against current year expenses, with the remaining balance in the amount of \$1,653,310 reflected as a transaction with an owner and accordingly has been charged directly to equity. The agreement 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 of the 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.- a wholly-owned subsidiary of GRI) in consideration of reduction of a portion of its debt owing to GRI. 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. This change of ownership resulted in an increase in controlling interest and a corresponding increase in consolidated retained earnings in the amount of \$3,428,747 at June 30, 2018 with offsetting reduction in non-controlling interest in the amount of (\$5,487,152) and total shareholders equity being reduced by (\$2,058,405).

On or about October 18, 2017, SK 3700 Glover Road Owner LLC, the landlord, served a notice on FSM 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. 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. The proceedings are ongoing at the time of preparation of these consolidated financial statements. See latest update in subsequent events. During 2018 cumulative translation adjustments of \$398,557 have been reclassified to the statement of income from equity. See further details, Note 21.

4. INVESTMENTS

The Corporation has the following holdings and disposition of investments:

	Period Ended			
	31-Dec-18	30-Jun-18	31-Dec-18	31-Dec-17
	\$	\$	\$	\$
Market value investment end of period	2,800	3,200	2,800	44,464
Cost of investments beginning of period	5,708	20,426	20,425	28,926
Additions	-	-	-	-
Disposals	-	(14,718)	-	-
Cost of investment end of period	5,708	5,708	20,425	28,926
Unrealized gain (loss) end of period	(2,908)	(2,508)	(4,150)	15,538
Unrealized gain (loss) beginning of period	(2,508)	52	53	(12,544)
Change in unrealized gain (loss) during the period	(400)	(2,560)	(4,203)	28,082

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5. RESOURCE PROPERTIES

Resource Properties - Labrador Mineral Sands	Three Months Ended	
	31-Dec-18	31-Dec-17
	\$	\$
Balance beginning of period	57,170,334	57,138,760
Interest Accretion	8,348	7,629
Balance end of period	57,178,682	57,146,389

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 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 iron ore 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. As part of the restructuring transaction described in Note 3, the Company transferred elements of the Bankable Feasibility Study to Petmin for cash consideration of US \$2,900,000, resulting in a gain of \$2,249,678 which has been recorded in the consolidated statement of income and comprehensive income.

Costs incurred and disposals to date are as follows:

Project development costs	Three Months Ended	
	31-Dec-18	31-Dec-17
	\$	\$
Balance beginning of period	1,462,322	2,074,815
Costs incurred (disposals)	-	850,179
Balance end of period	1,462,322	2,924,994

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7. PROPERTY AND EQUIPMENT

As result of the action of the landlord in Forks and due to the uncertainty with the expected future use of these assets, the Corporation has recognized an impairment of industrial equipment in the amount of \$1,990,435 in 2017 and an impairment of office furniture and equipment in in the amount of \$20,609 in 2018. See note 3 and Note 21.

	Computer equipment \$	Industrial equipment \$	Office furniture and equipment \$	Total \$
For the year ended June 30, 2018				
Opening net book value	3,255	64,369	20,963	88,586
Sale of Equipment	-	(33,873)	-	(33,873)
Impairment of equipment	-	-	(20,609)	(20,609)
Depreciation	(976)	(11,746)	(71)	(12,793)
Net Book Value	2,278	18,750	282	21,311
As at June 30, 2018				
Cost	19,476	97,773	2,923	120,172
Accumulated depreciation	(17,197)	(79,023)	(2,640)	(98,861)
Net Book Value	2,278	18,750	282	21,311
For the period ended December 31, 2018				
Opening net book value	2,278	18,750	282	21,311
Depreciation	(342)	(1,875)	(28)	(2,245)
Net Book Value	1,937	16,875	254	19,066
As at December 31, 2018				
Cost	19,476	97,773	2,923	120,172
Accumulated depreciation	(17,539)	(80,898)	(2,668)	(101,105)
Net Book Value	1,937	16,875	254	19,066

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. Including accrued interest the balance outstanding at December 31, 2018 totaled \$287,644.

On September 29, 2016, GRI borrowed \$250,000 from Forest Lane Holdings Limited "FLH", a Company controlled by a Director 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 in the amount of \$2,105,000. 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. Including accrued interest the balance outstanding at December 31, 2018 totaled \$2,627,682.

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8. SHORT TERM LIABILITIES (continued)

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. Subsequent to year end, a loan extension was signed extending the payment of principal, without penalty, on or before August 31, 2019, and the holder has the option to convert the principal of the loan and the interest accrued on the loan to common shares at a conversion rate of \$2.10 per share. Including accrued interest the balance outstanding at December 31, 2018 totaled \$2,081,386.

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

	31-Dec-18	30-Jun-18
	\$	\$
Short term loan from unrelated party interest at 6% due December 31, 2019	287,644	279,095
Short term loan from related party interest at 6% due on demand	2,627,682	2,549,749
Short term loan from related party interest at 12% due on August 31, 2019	2,081,386	2,000,000
Balance end of period	4,996,712	4,828,844

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 related to resource properties. 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, 2020 and repayments will commence in December 2020. 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 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. 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. See Note 10.

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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.

Term Note

On July 5, 2018 an unsecured loan in the amount of \$621,000 was provided to Pure Fonte Ltée by a non-related party. The loan bears interest at a rate of 5% per annum and matures three years from the date of receipt. The interest shall accrue and will be capitalized to the end of term. The principal and accumulated interest can be converted into shares at the option of the holder.

	Period Ended	
	31-Dec-18	30-Jun-18
	\$	\$
ACOA Loan		
Loan amount beginning of year	368,267	336,684
Accretion capitalized to resource properties	16,886	31,583
Balance end of period	385,153	368,267
Convertible debenture		
Amount outstanding beginning of year	1,725,134	1,594,866
Accretion expense for period	72,257	130,268
Balance end of period	1,797,391	1,725,134
Term Loan		
Principal amount	621,000	-
Accrued interest capitalized	15,312	-
	636,312	-
Total	2,818,857	2,093,401

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

	C\$
2018	-
2019	-
2020	2,100,000
2021	736,312
Thereafter	200,000

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10. SHARE CAPITAL

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.

On May 1, 2018, the Corporation issued 62,574 common shares to FLH. This issuance 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 March 31, 2018.

On August 1, 2018, the Corporation issued 69,351 common shares to FLH. This represents interest due August 1, 2018 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.3605 per share, which is the volume-weighted trading price for the 20 trading days ending July 4, 2018.

On November 1, 2018, the Corporation issued 65,789 common shares to FLH. This represents interest due November 1, 2018 in the aggregate amount of \$25,000 on the convertible debenture and was made at a deemed price of \$0.38 per share, which is the volume-weighted trading price for the 20 trading days ending October 3, 2018.

All the securities issued are subject to a four month hold period following the date of issuance.

COMMON STOCK OUTSTANDING

Authorized: Unlimited number of common shares without par value	Dec. 31, 2018		June 30, 2018	
	Number of Shares	Amount	Number of Shares	Amount
Issued and outstanding beginning of period	17,697,637	\$ 9,173,978	17,481,402	\$ 9,073,978
Issued in payment of interest	135,140	50,000	216,235	100,000
Issued and outstanding end of period	17,832,777	\$ 9,223,978	17,697,637	\$ 9,173,978

Weighted average issued and outstanding - 17,809,894 (2017 - 17,533,403)

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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 (2017 – 3,450,203) common shares pursuant to the stock option plan. There are 2,114,000 (2017 - 2,114,000) options to acquire common shares outstanding under the plan as at September 30, 2018. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

Options issued and outstanding as at December 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		0.77	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.

GRI has reserved 2,376,933 (2017 - 2,376,933) common shares pursuant to the stock option plan. There are 1,048,000 (2017 – 1,206,000) options to acquire common shares outstanding under the plan as at June 30, 2018. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

On May 27, 2016, GRI granted 150,000 options to directors, officers, employees and consultants of GRI under the stock purchase plan at an exercise price of \$2.50. These options vested immediately and expire in 5 years. The fair value of these option was estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions; risk free interest rates of 0.78%; dividend yields of nil; volatility factor of 164.02%; share prices of \$2.07; and a weighted average expected life of the option of 5 years.

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11. STOCK BASED COMPENSATION PLAN (continued)

Options issued and outstanding as at December 31, 2018:

Continuity of Stock Options Issued and Outstanding				
	December 31, 2018		June 30, 2018	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Beginning Balance	1,048,000	\$2.15	1,206,000	\$1.60
Expired	(450,000)	\$2.10	(87,000)	\$1.25
Cancelled	-	\$0.00	(71,000)	\$0.00
Ending Balance	598,000	\$2.20	1,048,000	\$2.15

Grant Date	Expiry Date	Exercise Price	Issued	Exercisable
			December 31, 2018	
Dec. 08, 2014	Dec. 08, 2019	\$2.10	448,000	448,000
May 27, 2016	May 27, 2021	\$2.50	150,000	150,000
Total		\$2.20	598,000	598,000

12. COMPARATIVE NUMBERS

An adjustment resulting in a decrease in retained earnings and an increase in non-controlling interest in the amount of \$5,682,373 as at July 1, 2016 was made to the June 30, 2017 consolidated statement of changes in equity in order to realign the treatment of historical injections of capital by Petmin in NAIC and their effect on the allocation of the Group's equity between the shareholders and the non-controlling interests.

13. EXPENSES BY NATURE

	3 months ended		year -to -date	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Operating expenses				
Advertising and promotion	-	1,396	-	1,396
Utilities	1,574	(12,411)	1,778	10,642
Dues and fees	8,925	7,957	12,086	10,375
Facility costs	-	(4,733)	-	989
Foreign exchange gain	(110)	(444,322)	4,217	(514,892)
General and administrative	11,591	5,020	16,814	10,682
Insurance	875	25,696	1,750	47,769
Management and consulting fees	198,746	196,024	392,826	476,980
Professional fees	19,750	(10,086)	36,750	74,914
Rental	14,341	85,171	22,823	343,902
Travel	106,904	12,327	115,064	27,272
Stock based compensation	-	-	-	-
Salaries and wages	67,824	(21,720)	86,485	114,761
	430,421	(159,681)	690,592	604,790

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14. 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:

	3 months ended		Period Ending	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	\$	\$	\$	\$
Management fees	87,150	38,750	155,900	80,000
Consulting fees	46,500	200,158	111,500	342,545
Directors fees	8,400	6,300	8,400	8,400
Salaries and benefits	67,824	7,240	86,485	180,806
Operating expenses	209,874	252,448	362,285	611,751

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 or accrued \$16,706 to Torvan Capital Group, a division of Ashley Park Enterprises Inc., a company controlled by a director of the Corporation, for services and facilities related to provision of the Corporation's head office.

15. 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 an income in the current year and a loss in prior years and the options effect is anti-dilutive.

16. INCOME TAXES

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

	three months ended		six months ended	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	\$	\$	\$	\$
Income (loss) before income taxes	(607,624)	1,523,121	(1,044,404)	614,255
Combined Federal and Provincial tax rate	31%	31%	31%	31%
Expected expense (recovery) at statutory rates	188,363	(472,168)	323,765	(190,419)
Unrecognized tax assets	-	-	-	-
Subsidiary rate differential	(8,390)	(3,175)	(10,774)	(10,230)
Non-taxable items related to restructuring	-	-	-	-
Other	(11,001)	(217,897)	(21,774)	(200,649)
Deferred tax recovery	168,972	(693,240)	291,217	(401,297)

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16. INCOME TAXES (continued)

Deferred tax liability consists of:

	31-Dec-18	30-Jun-18
	\$	\$
Non-capital losses	5,827,750	5,498,660
Iron interests	(11,279,660)	(11,279,660)
Intangible asset	-	-
Property and equipment	1,234	1,234
Loans receivable	-	-
Long-term Debt	121,980	121,980
Investment	(992)	(992)
Share issue costs	-	-
	<u>(5,329,688)</u>	<u>(5,658,778)</u>

	2018	2017
Expiry of Non-Capital Losses	\$	\$
2028	22,819	22,819
2029	285,264	285,264
2030	68,825	68,825
2031	145,349	331,346
2032	110,470	534,563
2033	646,454	1,740,499
2034	1,260,627	2,448,464
2035	1,289,976	2,467,806
2036	8,003,481	8,003,481
2037	7,483,943	7,018,053
2037	1,638,931	-
	<u>20,956,139</u>	<u>22,921,120</u>

17. COMMITMENTS

In March 2018 GRI, NAIC, Pure Fonte and Petmin agreed to complete a restructuring transaction summarized as follows, most of which has been completed. The only term that has not be finalized is Petmin's option to purchase a 10% interest in Pure Fonte in exchange for a 10% interest in Petmin's Ohio facility.

18. 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.

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18. MANAGEMENT OF CAPITAL (continued)

Management of Capital	31-Dec-18	30-Jun-18
	\$	\$
Long term debt	2,818,857	2,093,401
Share capital	9,223,978	9,173,978
Equity component convertible debenture	649,593	649,593
Stock based payment reserve	1,284,000	1,284,000
Retained earnings	6,732,278	7,152,898
Non-controlling interest	27,172,854	27,505,422
	47,881,560	47,859,292

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, 2018.

19. 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.

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19. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk

The Corporation limited US dollar exposure, however, maintains some US denominated bank accounts to settle 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.

21. SUBSEQUENT EVENTS

The Corporation was advised that on February 8, 2019, the trustee for the estate of Forks has filed an adversary complaint in the United States Bankruptcy Court for the Eastern District of Pennsylvania against the Corporation, Grand River Ironsands Incorporated, North Atlantic Iron Corporation and Francis MacKenzie (collectively, the “Defendants”). The Defendants have not been formally served. The trustee is alleging that the Defendants are responsible for the debts of Forks. The Defendants maintain that the suit has no merit and once it is formally served, they intend to vigorously defend themselves. The Defendants have shortlisted three legal experts in the relevant jurisdiction to defend their position.”

On February 1, 2019, the Corporation issued 87,719 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 \$0.2850 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.

22. SEGMENTED INFORMATION

As at December 31, 2018 the Corporation had a corporate head office and three operating 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. PURE FONTE a federally incorporated private entity created under the *Canada Business Corporations Act* and registered extra-provincially in Quebec to be engaged in the production of pig iron.
4. FSM, a private corporation, incorporated under the laws of Pennsylvania which discontinued operation in December 2017.

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22. SEGMENTED INFORMATION (continued)

	Corporate		GRI		NAIC		FSM		Pure Fonte		Eliminations		Consolidated	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - intersegment	-	-	-	21,871	-	-	-	126,948	-	-	-	(148,819)	-	-
Operating expenses	72,433	108,996	399,969	230,739	(3,404)	493,192	-	(54,344)	221,594	-	-	(173,793)	690,592	604,790
EBITDA	(72,433)	(108,996)	(399,969)	(208,868)	3,404	(493,192)	-	181,292	(221,594)	-	-	24,974	(690,592)	(604,790)
Depreciation and Amortization	-	-	(560)	(715)	(1,685)	(6,245)	-	-	-	-	-	-	(2,245)	(6,960)
Interest and bank charges	(77,098)	(38,504)	(219,750)	(175,596)	(397)	(12,050)	-	(14,546)	(18,422)	-	-	-	(315,666)	(240,696)
Interest accretion	(35,500)	(62,868)	-	-	-	-	-	-	-	-	-	-	(35,500)	(62,869)
Gain (loss) on subsidiary debt	-	-	-	(2,484,298)	-	-	-	4,039,002	-	-	-	-	-	1,554,704
Gain on sale of intangible asset	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of property & equipment	-	-	-	-	-	-	-	(20,609)	-	-	-	-	-	(20,609)
Loss on sale of property & equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Realized gain (loss) on investments	-	-	-	(320)	-	-	-	-	-	-	-	-	-	(321)
Unrealized gain on investments	-	-	(400)	(4,203)	-	-	-	-	-	-	-	-	(400)	(4,204)
	(112,598)	(101,372)	(220,710)	(2,665,132)	(2,082)	(18,295)	-	4,003,847	(18,422)	-	-	-	(353,812)	1,219,045
Segment income (loss) before taxes	(185,031)	(210,368)	(620,679)	(2,874,000)	1,323	(511,487)	-	4,185,139	(240,016)	-	-	24,974	(1,044,404)	614,255
Total assets	5,278,801	5,381,993	6,054,707	4,601,114	57,003,290	57,994,278	-	-	2,975,683	-	(12,543,147)	(6,325,976)	58,769,333	61,651,409
Total liabilities	7,293,781	7,522,595	5,933,202	4,843,859	544,199	3,054,994	-	-	3,398,727	-	(3,463,280)	(184,524)	13,706,630	15,236,924

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").

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 year ending December 31, 2018 was \$ nil. (2017 \$ nil)

	31-Dec-18	31-Dec-17
	\$	\$
Canada	58,769,333	61,651,409
United States of America	-	-
Total non-current assets	58,769,333	61,651,409