



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

(Stated in Canadian Dollars)  
First Quarter Ended September 30, 2022  
(Unaudited)

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



	30-Sep 2022 \$	30-Jun 2022 \$	30-Jun 2021 \$
<b>Assets</b>			
<b>Current assets:</b>			
Cash	21,002	56,874	47,705
Other receivables	14,740	19,177	4,842
Investments	-	-	806
	<u>35,742</u>	<u>76,051</u>	<u>53,353</u>
<b>Non-current assets:</b>			
Project development costs (note 3)	1,462,322	1,462,322	1,462,322
Property and equipment (note 4)	5,595	6,549	10,368
	<u>1,467,917</u>	<u>1,468,871</u>	<u>1,472,690</u>
	<u>1,503,659</u>	<u>1,544,922</u>	<u>1,526,043</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Trade and other payables	1,135,958	1,038,282	961,822
Short-term loans (note 5)	9,454,712	9,228,303	6,812,819
	<u>10,590,670</u>	<u>10,266,585</u>	<u>7,774,641</u>
<b>Non-current liabilities:</b>			
Long-term debt (note 6)	2,063,197	1,995,326	3,671,246
	<u>12,653,867</u>	<u>12,261,911</u>	<u>11,445,887</u>
<b>Shareholders' deficiency</b>			
Share capital (note 7)	9,612,978	9,587,978	9,487,978
Equity component convertible debentures	31,500	31,500	649,593
Contributed surplus	2,428,593	2,428,593	1,284,000
Deficit	(16,556,873)	(16,229,637)	(15,240,205)
Deficiency attributable to shareholders	<u>(4,483,802)</u>	<u>(4,181,566)</u>	<u>(3,818,634)</u>
Non-controlling interests	(6,666,406)	(6,535,423)	(6,101,210)
	<u>(11,150,208)</u>	<u>(10,716,989)</u>	<u>(9,919,844)</u>
	<u>1,503,659</u>	<u>1,544,922</u>	<u>1,526,043</u>

*Note 1 - Nature of operations and going concern*

*Note 13 - Commitments and contingencies*

*Note 16 - 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

November 25, 2022

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



	Three Months ended	
	30-Sep-22	30-Sep-21
	\$	\$
Operating expenses (note 10)	(119,402)	(109,049)
Depreciation (note 4)	(954)	(955)
Interest and bank charges	(268,202)	(196,193)
Interest accretion	(69,661)	(53,520)
Realized loss on investments	-	(161)
<b>Net loss and comprehensive loss for the quarter</b>	<b>(458,219)</b>	<b>(359,878)</b>
<b>Net loss and comprehensive loss attributable to:</b>		
Shareholders of the Corporation	(327,236)	(249,028)
Non-controlling interest	(130,983)	(110,850)
Net loss and comprehensive loss	(458,219)	(359,878)
Basic and diluted loss per share	(\$0.02)	(\$0.01)
Weighted average number of shares outstanding	19,944,579	19,416,561

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

**Metalo Manufacturing Inc.**  
**Consolidated Statement of Changes in Equity (Deficiency)**  
**(Amounts presented in Canadian Dollars)**



	Number of Shares Issued	Share Capital	Equity Component Convertible Debenture	Stock based payment reserve	Retained Earnings	Total Shareholders Equity	Non- controlling interest	Total Equity
		\$	\$	\$	\$	\$	\$	\$
<b>Balance June 30, 2021</b>	19,524,026	9,487,978	649,593	1,284,000	(15,240,205)	(3,818,634)	(6,101,210)	(9,919,844)
Net loss and comprehensive loss for the period	-	-	-	-	(249,028)	(249,028)	(110,850)	(359,878)
Shares issued in payment of interest (note 7)	163,342	25,000	-	-	-	25,000	-	25,000
<b>Balance September 30, 2021</b>	19,687,368	9,512,978	649,593	1,284,000	(15,489,233)	(4,042,662)	(6,212,060)	(10,254,722)
<b>Balance June 30, 2022</b>	20,050,426	9,587,978	31,500	2,428,593	(16,229,637)	(4,181,566)	(6,535,423)	(10,716,989)
Net loss and comprehensive loss for the period	-	-	-	-	(327,236)	(327,236)	(130,983)	(458,219)
Shares issued in payment of interest (note 7)	171,875	25,000	-	-	-	25,000	-	25,000
<b>Balance September 30, 2022</b>	20,222,301	9,612,978	31,500	2,428,593	(16,556,873)	(4,483,802)	(6,666,406)	(11,150,208)

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

**Metalo Manufacturing Inc.**  
**Consolidated Statements of Cash Flows**  
**For the three months ended September 30, 2022**  
(Amounts presented in Canadian Dollars)



	<u>30-Sep-22</u>	<u>30-Sep-21</u>
	\$	\$
<b>Cash flows used in operating activities:</b>		
Net loss	(458,219)	(359,878)
Items not involving cash:		
Depreciation	954	955
Interest capitalized on short-term loans and long-term debt	201,620	146,122
Realized loss on investments	-	161
Interest paid by issuance of shares	25,000	25,000
Interest accretion	69,661	53,520
Changes in non-cash operating working capital		
Other receivables	4,437	83
Trade and other payables	97,676	50,116
	<u>(58,872)</u>	<u>(83,921)</u>
<b>Cash flows generated from financing activities:</b>		
Proceeds from short-term and long term debt	23,000	45,000
	<u>23,000</u>	<u>45,000</u>
Change in cash during the period	(35,872)	(38,921)
Cash, beginning of period	<u>56,874</u>	<u>47,705</u>
Cash, end of period	<u>21,002</u>	<u>8,784</u>

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

**METALO MANUFACTURING INC.**  
**Notes to Consolidated Financial Statements**  
**For the three months ended September 30, 2022**  
**(Amounts presented in Canadian Dollars)**

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**NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated financial statements for the first quarter ended September 30, 2022 of Metalo Manufacturing Inc. (the “**Company**”) have been prepared by and are the responsibility of the Corporation’s management.

The Corporation’s independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

The condensed consolidated interim financial statements, the notes thereto and other financial information contained in the management’s discussion and analysis are the responsibility of management of the Corporation and have been approved by the Board of Directors.

The condensed consolidated interim 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 a majority of 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”*

President and Chief Executive Officer

November 25, 2022

## 1. CORPORATE INFORMATION

Metalo Manufacturing Inc. (the Corporation “**Corporation**”) was incorporated on October 4, 2000, under the laws of Alberta. 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 120 Adelaide Street West, Suite 2500, Unit 112, Toronto, Ontario M5H 1T1.

The Corporation owns 43.9% of Grand River Ironsands Incorporated (“**GRI**”), a company incorporated in Nova Scotia. GRI owns 90% of Labrador Sands Inc. (“**LSI**”), a company incorporated in Newfoundland and Labrador and is engaged in the exploration and development of mineral deposits. GRI’s wholly owned subsidiary, Pure Fonte Ltée (“**PFL**”), is a company federally incorporated with its place of business in Quebec. PFL is expected to engage in nodular pig iron manufacturing. Forks Specialty Metals Inc. (“**FSM**”) was a wholly owned subsidiary of GRI, incorporated in Pennsylvania, which filed for bankruptcy under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court, Eastern District of Pennsylvania

The consolidated 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 partially owned 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 \$21,002 (June 30, 2022 - \$56,874) and has a working capital deficiency of \$10,554,928 (June 30, 2022 - \$10,190,534). 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 interim 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 unaudited interim condensed consolidated financial statements are prepared in accordance with IAS 34 Interim Financial Reporting (“IAS34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) in effect for the period ended September 30, 2022. They do not include all financial information required for full annual financial statements and should be read in conjunction with the audited annual financial statements of the Corporation for the year ended June 30, 2022.

These first quarter unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 25, 2022.

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

These unaudited interim condensed 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.

### (b) Basis of Consolidation

These financial statements include the accounts of the Corporation, GRI, LSI, and PFL. All inter-company transactions and balances have been eliminated on consolidation.

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

The Corporation applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition dates. Acquisition related costs are expensed as incurred.

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.



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Resource properties

As at September 30, 2022, the Corporation holds licenses of 181 mineral claim deposits in Newfoundland and Labrador.

Exploration and evaluation expenditures relating to the acquisition of rights to explore, geological studies, exploratory drilling, and other activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource are recognized as incurred in the consolidated statement of loss and comprehensive loss. Once technical feasibility and commercial viability has been reached, subsequent exploration costs will be capitalized to the consolidated statement of financial position.

(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 are 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%

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Property and equipment and other non-current assets with definite useful lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. 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 Cost

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

### (j) Foreign Currency

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. As at the statements of financial position 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 re-measurement of monetary items at year-end exchange rates are recognized in the statement of loss and comprehensive loss.

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.

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

(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 compensation**

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial Instruments

(i) Financial Assets and Liabilities

The Corporation classifies its financial instruments in the following measurement categories: fair value through profit and loss (“FVTPL”); fair value through other comprehensive income (“FVOCI”); or amortized cost. Management determines the classification of its financial instruments at initial recognition.

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. Transaction costs that are directly attributable to the acquisition or issue of financial instruments, other than financial instruments at FVTPL are added to or deducted from the fair value of the financial instrument, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial instruments at FVTPL are recognized immediately in net income (loss).

Financial asset is subsequently measured at:

- Amortized cost if it is held for the purposes of collecting contractual cash flows with such cash flows solely comprising payments of principal and interest on the principal amount outstanding;
- FVOCI if it is: held for the purposes of collecting contractual cash flows and selling financial assets with such cash flows solely comprising payments of principal and interest on the principal amount outstanding; or irrevocably designated as such upon initial recognition; and
- FVTPL if it is: neither classified as subsequently measured at amortized cost nor FVOCI; or irrevocably designated as such upon initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

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 amortized cost are subsequently measured at amortized cost using the effective interest rate method.

The Corporation’s financial assets include cash investments and other receivables. 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	Amortized cost
Investments	FVTPL
Other Receivables	Amortized cost
Trade and other payables	Amortized cost
Short-term loans	Amortized cost
<u>Long-term debt</u>	<u>Amortized cost</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, 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

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

(m) **Financial Instruments (continued)**

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

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.

(ii) **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.
- FVTPL 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 loss and comprehensive loss.

Impairment losses on financial assets carried at amortized costs 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 FVTPL equity instruments are not reversed

**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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Financial Instruments (continued)

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

##### Loss per share

Basic earnings per share amounts are calculated by dividing net income (loss) for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive ordinary shares into common shares. For the years ended June 30, 2022 and 2021, all dilutive instruments are anti-dilutive. As a result, basic and diluted earnings are the same.

### (n) Amendments to accounting standards not yet adopted by the Corporation

The IASB issued the following standard that has relevance to the Corporation. It has not been applied in preparing these consolidated financial statements as its effective date falls within a period beginning subsequent to the current reporting period. The Corporation is currently assessing the financial reporting impact of this amendment.

On January 23, 2020, the IASB issued an amendment to IAS1, Presentation of Financial Statements, providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023 and are applied retrospectively, with early adoption permitted.

### (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.

### (p) Control of subsidiaries

The determination of control of subsidiaries involves significant judgment. *De facto* control exists in circumstances when an entity owns less than 50% voting rights in another entity but has control for reason other than voting rights or contractual and other statutory means. The consolidated financial statements include the results of GRI and its subsidiaries as management has determined that the Corporation has *de facto* control over GRI and its subsidiaries. The Corporation has the practical ability to direct the relevant activities of GRI and its subsidiaries. The Corporation directly owns 43.9% of GRI, with the remaining shareholders being widely dispersed, each holding less than 3%.

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

(q) **Recoverability of project development costs**

Project development costs that are not yet available for use are subject to an annual impairment assessment. The recoverable amount is estimated at the greater of an asset's (CGU) value-in-use or fair value less costs to sell and the excess of the carrying amount over the recoverable amount is recorded as an impairment charge in the period.

Value-in-use is based on the expected future cash flows of an asset or CGU, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU. Management has prepared a discounted cash flow model, based on detailed forecasts of expected revenue, expenses and capital requirements, using the bankable feasibility study obtained in 2016 as the basis for the inputs mode and updated to reflect current market conditions.

Key areas of estimation uncertainty include management's forecast and the discount rate. Actual results could vary from these estimates which may cause significant adjustment to the Corporation's project development costs carrying amount in subsequent periods.

3. **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 are as follows:

	30/Sep/22	30/Sep/21
	\$	\$
Balance, beginning and end of period	1,462,322	1,462,322

4. **PROPERTY AND EQUIPMENT**

	Computer equipment	Industrial equipment	Office equipment	Total
	\$	\$	\$	\$
<b>For the period ended September 30, 2022</b>				
Opening net book value	459	6,000	90	6,549
Depreciation	(193)	(750)	(11)	(954)
Net Book Value	266	5,250	79	5,595
<b>As at September 30, 2022</b>				
Cost	3,250	18,751	282	22,283
Accumulated depreciation	(2,984)	(13,501)	(203)	(16,688)
Net Book Value	266	5,250	79	5,595



## 5. SHORT -TERM LOANS

The loan balances in the following table include accrued interest:

	30-Sep-22	30-Jun-22
	\$	\$
(i) Short term loan from a third party interest at 12% due October 16, 2022	1,000,000	1,000,000
(ii) Promissory note from a related party at 10% interest rate, due on demand	3,416,391	3,316,817
(iii) Promissory note from a related party at 10% interest rate, due on demand	151,574	139,966
(iv) Promissory note from a related party at 12% interest rate, due on demand	3,257,236	3,160,669
(v) Term loan from a third party at 6% interest rate, due on December 31, 2022	360,036	354,646
(vi) Short term loan from a third party at 8% interest rate, due on October 28, 2022	107,421	105,421
(vii) Convertible debenture from a related party at 12% interest rate, due on November 2, 2022	395,164	393,375
(viii) Convertible term loan from a third party at 5% interest rate, due on July 5, 2022	766,890	757,409
<b>Balance, end of quarter</b>	<b>9,454,712</b>	<b>9,228,303</b>

- (i) On April 16, 2020, the Corporation received from a third party, a one-year loan of \$1,000,000 bearing interest at 10% per annum payable monthly with interest payments of \$8,333. The loan agreement included the issuance of 100,000 warrants (note 8), which expired on April 16, 2022. On April 16, 2021, the loan maturity date was extended to October 16, 2021. In consideration of the extension, the Corporation issued to the lender 50,000 share purchase warrants entitling the holder to purchase one common share for each warrant exercised at an exercise price of \$0.15 per share for a period of two years. On December 22, 2021, the loan maturity date was further extended to April 16, 2022. In consideration of this extension, the Corporation increased the interest rate from 10% to 12% and also issued an additional 50,000 share purchase warrants entitling the holder to purchase one common share for each warrant exercised at an exercise price of \$0.175 per share for a period of 2 years. On May 18, 2022, the loan maturity date was further extended to October 16, 2022. In consideration of this extension, the Corporation issued to the lender 50,000 share purchase warrants entitling the holder to purchase one common share for each warrant exercised at an exercise price of \$0.16 per share for a period of two years. The terms of an additional extension are in negotiations.
- (ii) GRI had entered into a loan agreement on September 29, 2016 (as amended) with a related party and borrowed in aggregate \$2,369,000 with an interest rate of 6% per annum accruing monthly. On June 29, 2022, the loan was increased by \$60,000. On June 30, 2022, the loan agreement was terminated and replaced by a promissory note in the amount of \$2,429,000. The new promissory note included a fixed interest rate of 10%, with the promissory note being due on demand. On July 28, 2022, an additional \$15,000 was advanced. Including accrued interest, the balance outstanding as at September 30, 2022 totaled \$3,416,391.
- (iii) During the years ended June 30, 2021 and 2022, LSI received short-term loans from a related party bearing interest at 10% per annum, with interest accruing monthly. On June 30, 2022, these loans were terminated, and a new replacement promissory note in the amount of \$139,966 was issued. The promissory note carries a 10% fixed interest rate and is due on demand. On September 7, 2022, LSI received another loan advance of \$8,000. Including accrued interest, the balance outstanding as at September 30, 2022 totaled \$151,574.

**5. SHORT TERM LOANS (continued)**

- (iv) On August 31, 2017, GRI received from a related party, a loan of \$2,000,000 bearing interest at 12% per annum. On June 30, 2022, the agreement was terminated and replaced by a promissory note, including accrued interest, in the amount of \$3,160,669. The promissory note carries a 12% fixed interest rate and is due on demand. Including accrued interest, the balance outstanding at September 30, 2022 totaled \$3,257,236.
- (v) On August 25, 2016, GRI borrowed \$250,000 from a third party bearing interest at 6% per annum, accruing monthly. GRI also issued 50,000 common share purchase warrants (note 8) at an exercise price of \$0.01 per share. During the year ended June 30, 2021, the repayment date in the original loan agreement was extended to December 31, 2022, and the warrant expiry date was extended to December 31, 2022. Including accrued interest, the balance outstanding at September 30, 2022 totaled \$360,036.
- (vi) On October 28, 2021, GRI received from a third party a one-year term loan of \$100,000 bearing interest at 8% per annum, with interest accruing monthly. The maturity date is October 28, 2022. Including accrued interest, the balance outstanding at September 30, 2022 totaled \$107,421.
- (vii) On November 2, 2021, the Corporation completed a non-brokered private placement of an unsecured convertible debenture for \$400,000 with a related party. The maturity date of the debenture is November 2, 2022, and it bears interest at a rate of 12% per annum payable monthly. 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 \$0.55 per common share. In addition, warrants to purchase 40,000 shares of the Issuer were granted at an exercise price of \$0.55 per share with an expiry date of November 2, 2023 (note 8). On initial recognition, an equity component was of \$26,500 was recognized as at June 30, 2022. The liability component is being accreted to the face value over time.
- (viii) On July 5, 2018, an unsecured loan in the amount of \$621,000 was provided to PFL by a third party. The loan bears interest at a rate of 5% per annum and matures three years from the date of receipt. During the year ended June 30, 2022, the maturity date was extended to July 5, 2022. The interest shall accrue and will be capitalized to the end of the term. The principal and accumulated interest can be converted into shares at the option of the holder discounted by 25%. The loan can be paid in advance; however, it is subject to a 15% penalty. Including accrued interest, the balance outstanding at September 30, 2022 totaled \$766,890. The Corporation is currently in negotiation with the lender to further extend the maturity date of this loan.

## 6. LONG -TERM DEBT

	30-Sep-22	30-Jun-22
	\$	\$
ACOA loan (i)	344,316	336,267
Convertible debenture from an unrelated party at 5%, due August 2024 (ii)	1,553,788	1,500,000
CEBA loans (iii)	165,093	159,059
Balance, end of period	2,063,197	1,995,326

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

	C\$
2025	2,100,000
2026	340,000
2027	100,000
Thereafter	200,000

- (i) In fiscal 2012, LSI 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, 2024 and repayments will commence in December 2024. During the year ended June 30, 2022, a gain, due to modification of the timing of future cash flows, of \$32,000 was recognized.
- (ii) On May 1, 2015, the Corporation completed a non-brokered private placement of an unsecured convertible debenture for proceeds of \$2,000,000 with a related party. The debenture maturity date was subsequently extended to August 31, 2021 and bore interest at 5% per annum payable quarterly. On June 30, 2022, the convertible debenture was subsequently amended to extend the maturity date to August 1, 2024 (the “**Amended Debenture**”). The Amended Debenture is convertible at \$1.00 per common share, at the option of the holder, into common shares of the Corporation on or prior to 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. Given the original convertible debenture had reached maturity, the Amended Debenture is considered a new instrument. During the year ended June 30, 2022, the Corporation, on initial recognition, recognized a discount of \$495,000 within equity given the terms of the Amended Debenture was considered below market terms. In addition, an equity component of \$5,000 was recognized directly within equity. This is the residual value of the convertible debenture instrument after the recognition of the liability component at fair value. The liability component is being accreted to the face value over time.
- (iii) During the years ended June 30, 2022 and 2021, GRI, MMI, PFL, and LSI received respective interest-free loans of \$60,000 each, pursuant to the terms of the Canada Emergency Business Account (CEBA). These loans were created by the federal government to assist businesses during the COVID-19 pandemic. \$20,000 of the individual loans are forgivable if the loan is repaid on or before December 31, 2023. If the loan is not repaid by that date, the loan can be converted to a two-year term loan bearing interest of 5% per annum. During the years ended June 30, 2022 and 2021, a government assistance benefit of \$57,525 (2021-\$47,536) was recognized.

## 7. SHARE CAPITAL

During the year ended June 30, 2022, the Corporation issued 526,400 common shares (2021-693,211) to a related party, representing the quarterly interest payments in full of \$25,000 as outlined in note 6(ii). These securities are subject to a four-month hold period following the date of issuance.

On August 2, 2022, the Corporation issued 171,875 common shares to a related party. This represents interest due August 1, 2022 in the aggregate amount of \$25,000 on a convertible debenture and was made at a deemed price of \$0.14545 per share, which is the volume-weighted trading price for the 20 trading days ending July 4, 2022.

<b>COMMON STOCK OUTSTANDING</b>	Number of Shares	Amount
Authorized: Unlimited number of common shares without par value	#	\$
Issued and outstanding June 30, 2021	19,524,026	9,487,978
Issued in payment of interest	526,400	100,000
Issued and outstanding June 30, 2022	20,050,426	9,587,978
Issued in payment of interest	171,875	25,000
Issued and outstanding September 30, 2022	20,222,301	9,612,978

## 8. WARRANTS

All of the outstanding warrants were issued in conjunction with debt instruments. On initial measurement, no proceeds were assigned to the warrants that are outstanding as at September 30, 2022.

	<b>Outstanding and exercisable as at September 30, 2022</b>			
	Number	Exercise price	Expiry date	Issuance date
	#	\$		
MMI warrants (note 5(i))	50,000	0.15	April 16, 2023	April 16, 2021
MMI warrants (note 5(i))	50,000	0.175	October 16, 2023	May 18, 2022
MMI warrants (note 5(i))	50,000	0.16	April 16, 2024	December 22, 2021
MMI warrants (note 5(vi))	<u>40,000</u>	0.55	November 2, 2023	November 2, 2021
	<u>190,000</u>			
GRI warrants (note 5(v))	<u>50,000</u>	0.01	December 31, 2022	August 25, 2016

## 9. 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 3,504,614 (2021 – 3,504,614) common shares pursuant to the stock option plan. There are 1,610,000 (2021 – 1,682,000) options to acquire common shares outstanding under the plan as at September 30, 2022. Any unexercised options that expire or are forfeited become available again for issuance under the plan.

The Corporation used the Black-Scholes model to value its stock options on initial issuance. During the year ended June 30, 2022, 40,000 options were issued at an exercise price of \$0.16. The options vested on issuance and expire on May 18, 2027. The fair value of these options is \$nil.

Options Outstanding and Exercisable			
Number of options outstanding	Expiry Date	Exercise Price \$	Number of options exercisable
350,000	30-Nov-2022	0.65	350,000
815,000	6-Dec-2023	0.85	815,000
405,000	8-Dec-2024	0.75	405,000
40,000	18-May-2027	0.16	40,000
<b>1,610,000</b>		<b>0.6025</b>	<b>1,610,000</b>

### 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 (2021-2,376,933) common shares pursuant to the stock option plan. There are Nil (2021-150,000) options to acquire common shares outstanding under the plan as at September 30, 2022. Any unexercised options that expire or are forfeited become available again for issuance under the plan. There were no GRI stock options issued during the period.

10. EXPENSES BY NATURE

	Three Months ended	
	30-Sep-22	30-Sep-21
Operating expenses		
Utilities	1,234	1,017
Dues and fees	5,306	3,584
Feasibility Study	-	-
Foreign exchange gain	10,822	3,171
General and administrative	736	739
Management and consulting fees	50,250	52,750
Professional fees	13,600	18,387
Rental	1,000	960
Travel	2,254	1,285
Salaries and wages	34,200	27,156
	<u>119,402</u>	<u>109,049</u>

11. RELATED PARTY TRANSACTIONS

In addition to the related party loans described in Notes 6 and 7, the Corporation has the following related party transactions. The compensation expense associated with key management, directors and employees for services is as follows:

	Three months ended	
	30-Sep-22	30-Sep-21
	\$	\$
Management fees	50,250	50,250
Consulting fees	-	-
Directors' fees	-	2,500
Salaries and benefits	34,200	27,156
Operating expenses	84,450	79,906

The Corporation has issued shares in lieu of payment of interest on a related party loan as described in note 6 .

## 12. INCOME TAXES

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

	Three months ended	
	30-Sep-22	30-Sep-21
	\$	\$
Income (loss) before income taxes	(458,219)	(359,878)
Combined Federal and Provincial tax rate	31%	31%
Expected expense (recovery) at statutory rates	(142,048)	(111,562)
Subsidiary rate differential	918	1,448
Non-deductible expenses	-	1,311
Unrecognized tax assets	141,130	108,803
Deferred tax recovery expense	-	-

The Corporation has non-capital losses of approximately \$26.75 million to be carried forward and applied against future taxable income. The non-capital losses start to expire in 2028.

## 13. COMMITMENTS AND CONTINGENCIES

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 trustee is alleging that the Defendants are responsible for the debts of Forks. The Defendants maintain that the suit has no merit and have retained local counsel to defend its position. Several motions have been filed and the matter is ongoing.

## 14. MANAGEMENT OF CAPITAL

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

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, 2022.

## 15. 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. Refer to note 1 for further details on the Corporation's liquidity risk.

### **Foreign Currency Risk**

The Corporation has 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**

All of the Corporation's debt instruments have a fixed interest rate. The Corporation is exposed to interest rate risk on the renewal of its debt coming due.



## 16. SUBSEQUENT EVENTS

On October 27, 2022, GRI received an additional advance of \$7,500 from a related party. This advance carries a fixed rate of 10% per annum.

On November 1, 2022, the Corporation issued 277,778 common shares to a related party. This represents interest due November 1, 2022 in the aggregate amount of \$25,000 on a convertible debenture and was made at a deemed price of \$ 0.09 per share, which is the volume-weighted trading price for the 20 trading days ending October 3, 2022. The securities are subject to a four-month hold period following the date of issuance.

## 17. SEGMENTED INFORMATION

As at September 30, 2022 the Corporation has two operating business segments;

1. LSI, 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. It is a majority owned subsidiary of GRI.
2. PFL, 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.

	Corporate		Labrador Sands		Pure Fonte		Total	
	30/Sep/22	30/Sep/21	30/Sep/22	30/Sep/21	30/Sep/22	30/Sep/21	30/Sep/22	30/Sep/21
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue - intersegment	-	-	-	-	-	-	-	-
Operating expenses	(104,764)	(54,663)	(4,351)	(34,738)	(10,287)	(19,648)	(119,402)	(109,049)
Depreciation and Amortization	(266)	(266)	(688)	(689)	-	-	(954)	(955)
Interest and bank charges	(253,505)	(185,311)	(5,897)	(4,324)	(8,800)	(6,558)	(268,202)	(196,193)
Interest accretion	(58,620)	(40,820)	(9,546)	(10,071)	(1,497)	(2,629)	(69,661)	(53,520)
Government assistance benefit	-	-	-	-	-	-	-	-
Gain on modification of debt	-	-	-	-	-	-	-	-
Loss on investments	-	(161)	-	-	-	-	-	(161)
	(417,155)	(281,221)	(20,482)	(49,822)	(20,583)	(28,835)	(458,219)	(359,878)
Segment income (loss) before taxes	(417,155)	(281,221)	(20,482)	(49,822)	(20,583)	(28,835)	(458,219)	(359,878)

The Corporation's Board of Directors will evaluate in due course the performance of these segments and allocate 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")