

**Inter-Rock Minerals Inc.**  
**Consolidated Financial Statements**

Expressed in United States dollars

Years ended December 31, 2017 and 2016

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Inter-Rock Minerals Inc.

We have audited the accompanying consolidated financial statements of Inter-Rock Minerals Inc. and its subsidiaries which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inter-Rock Minerals Inc. and its subsidiaries, as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants  
Licensed Public Accountants  
April 18, 2018  
Toronto, Ontario

# Inter-Rock Minerals Inc.

## Consolidated Balance Sheets

As at December 31<sup>st</sup>

(Expressed in thousands of United States Dollars)

	Note	2017	2016
		\$	\$
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		2,106	1,123
Accounts receivable		3,893	3,699
Inventories	7	1,395	771
Prepaid expenses and other assets		258	199
<b>Total Current Assets</b>		<b>7,652</b>	<b>5,792</b>
Non-current assets			
Properties, plant and equipment	8	5,004	6,102
Mineral exploration properties and deferred exploration costs	9	-	268
Deferred income tax asset	16	-	100
Intangible assets	5,10	2,675	3,003
Goodwill	5,10	1,809	1,809
<b>Total Assets</b>		<b>17,140</b>	<b>17,074</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		3,150	2,946
Current portion of long term debt	11	1,021	1,088
Current portion equipment purchase financing	11	321	177
Current portion of promissory notes to related parties	11,17	-	250
<b>Total Current Liabilities</b>		<b>4,492</b>	<b>4,461</b>
Non-current liabilities			
Accrued interest payable	17	62	44
Long term debt	11	1,194	1,631
Equipment purchase financing	11	992	1,770
Promissory notes to related parties	11,17	3,555	4,454
Deferred income tax liability	16	330	-
Asset retirement obligation	12	75	75
Series A preferred shares	13	3,417	3,417
<b>Total Liabilities</b>		<b>14,117</b>	<b>15,852</b>
Equity			
Share capital	14	5,864	5,864
Contributed surplus		315	315
Deficit		(3,156)	(4,957)
<b>Total Equity</b>		<b>3,023</b>	<b>1,222</b>
<b>Total Liabilities and Equity</b>		<b>17,140</b>	<b>17,074</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Inter-Rock Minerals Inc.

## Consolidated Statements of Income and Comprehensive Income For the years ended December 31<sup>st</sup>

(Expressed in thousands of United States Dollars)

	Note	2017	2016
		\$	\$
<b>REVENUE</b>	6,18	<b>51,890</b>	30,087
<b>COST OF SALES</b>			
Operating costs	6	42,479	23,883
Amortization and depletion, mining	8	589	627
Impairment charges	9	604	-
		<b>43,672</b>	24,510
<b>GROSS PROFIT</b>		<b>8,218</b>	5,577
<b>OPERATING EXPENSES</b>			
Selling, general and administrative	6	5,204	4,314
Amortization of intangible assets	10	328	247
<b>INCOME BEFORE FINANCING COSTS</b>		<b>2,686</b>	1,016
<b>FINANCING COSTS</b>			
Interest on long term debt	11	455	366
		<b>2,231</b>	650
<b>DEFERRED INCOME TAX (EXPENSE) RECOVERY</b>	16	<b>(430)</b>	100
<b>NET INCOME AND COMPREHENSIVE INCOME</b>		<b>1,801</b>	750
<b>Basic income per share</b>	15	<b>0.08</b>	0.03
<b>Diluted income per share</b>	15	<b>0.05</b>	0.02
<b>Weighted average number of shares outstanding</b>			
Basic		22,617,811	22,617,811
Diluted		39,754,791	39,754,791

The accompanying notes are an integral part of these consolidated financial statements.

## Inter-Rock Minerals Inc.

Consolidated Statements of Changes in Equity  
As at and for the years ended December 31<sup>st</sup>

*(Expressed in thousands of United States Dollars)*

	Share Capital (Note 14)	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$
Balance January 1, 2016	5,864	315	(5,707)	472
Total income and comprehensive income	-	-	750	750
Balance, December 31, 2016	5,864	315	(4,957)	1,222
Total income and comprehensive income	-	-	1,801	1,801
<b>Balance, December 31, 2017</b>	<b>5,864</b>	<b>315</b>	<b>(3,156)</b>	<b>3,023</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Inter-Rock Minerals Inc.**  
Consolidated Statements of Cash Flows  
For the years ended December 31<sup>st</sup>

(Expressed in thousands of United States Dollars)

	2017	2016
	\$	\$
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATIONS</b>		
Net income	1,801	750
Items not effecting cash		
Amortization and depletion, mining	589	627
Amortization of intangible assets	328	247
Impairment charge	604	-
Interest expense	455	366
Deferred income tax expense	430	(100)
Gain on disposal of properties, plant and equipment	(55)	(103)
Asset retirement obligation	-	(27)
	<b>4,152</b>	<b>1,760</b>
Net changes in non-cash working capital		
Accounts receivable	(194)	(2,406)
Inventories	(624)	45
Prepaid expenses	(59)	(39)
Accounts payable and accrued liabilities	204	1,506
Accrued interest payable	18	44
Deferred income tax asset	-	100
<b>Cash generated by operating activities</b>	<b>3,497</b>	<b>1,010</b>
<b>INVESTING</b>		
Purchase of mineral exploration properties and deferred exploration costs	-	(7)
Acquisition of equipment capitalized in prior year but paid for in the current year	(1,340)	-
Purchase of properties, plant and equipment	(180)	(1,019)
Proceeds on disposal of properties, plant and equipment	398	114
Acquisition of Papillon, net of cash acquired (Note 5)	-	(4,984)
<b>Cash used in investing activities</b>	<b>(1,122)</b>	<b>(5,896)</b>
<b>FINANCING</b>		
Interest paid	(437)	(322)
Proceeds from long term debt	18	2,922
Repayment of long term debt	(522)	(1,636)
Proceeds from equipment purchase financings	1,264	515
Repayment of equipment purchase financings	(566)	(253)
Repayment of related party loans	(1,149)	4,454
<b>Cash provided by (used in) financing activities</b>	<b>(1,392)</b>	<b>5,680</b>
<b>Net change in cash and cash equivalents</b>	<b>983</b>	<b>794</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,123</b>	<b>329</b>
<b>Cash and cash equivalents, end of year</b>	<b>2,106</b>	<b>1,123</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

*(Expressed in thousands of United States Dollars)*

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## **1. CORPORATE INFORMATION**

Inter-Rock Minerals Inc. ("Inter-Rock" or the "Company") is domiciled in Canada and is continued under the Business Corporations Act (Ontario). The Company's office is located at 2 Toronto Street, Suite 500 Toronto, Ontario, M5C 2B6, Canada. The Company's shares are traded on the TSX Venture Exchange under the symbol "IRO".

Inter-Rock owns three operating businesses: Papillon Agricultural LLC ("Papillon"), MIN-AD, Inc. ("MIN-AD") and Mill Creek Dolomite LLC ("Mill Creek"). Papillon is a US based marketer and distributor of toll manufactured premium dairy feed nutritional supplements, including MIN-AD's products. MIN-AD and Mill Creek are engaged in the production and marketing of high purity dolomite, primarily to the animal feed, glass, roofing and aglime industries in the United States.

## **2. BASIS OF PRESENTATION**

### **2.1 Statement of compliance**

These consolidated financial statements, including comparative balances for the year ended December 31, 2016, have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements were approved and authorized by the Board of Directors of the Company on April 2, 2018.

### **2.2 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.10. Certain of the comparatives for the year ended December 31, 2016 have been reclassified to conform to the presentation in the consolidated financial statements for the year ended December 31, 2017.

### **2.3 Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

<b>Entity</b>	<b>Place of Incorporation</b>	<b>Ownership</b>
Secret Pass Gold Inc.	United States	100%
MIN-AD Inc.	United States	100%
Mill Creek Dolomite LLC	United States	100%
Papillon Agricultural LLC	United States	100%
Papillon Agricultural Company Inc.	United States	100%

### **2.4 Functional Currency and Currency of Presentation**

These consolidated financial statements are presented in United States dollars, which is the functional currency of the Company and all its subsidiaries. Transactions denominated in currencies other than the functional currency are recorded in the functional currency using the spot rate on the transaction date, and revalued using the exchange rate in effect at the end of each reporting date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the reporting date. Non-monetary assets and liabilities are translated at the historical rate. Exchange gains and losses are included in the consolidated statements of income and comprehensive income for the year.

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

*(Expressed in thousands of United States Dollars)*

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## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Inventories**

Inventories comprise stockpiled crushed ore, crushed ore in-circuit and finished goods. Inventories primarily consist of dolomitic limestone. All inventories are valued at the lower of cost and net realizable value. Cost includes production costs determined principally on an average cost basis for ore produced and processed. Cost includes blasting, crushing and transportation, costs of conversion and any other costs incurred in bringing inventories to their final processed condition. Costs not attributed to bringing inventories to their final processed condition, such as transportation costs subsequent to the completion of processing, storage costs and selling costs are expensed in the period incurred.

### **3.2 Properties, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. With the exception of spare parts, items are depreciated using the straight-line method over their estimated useful lives as follows:

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Mill Equipment	3 - 10 years
Vehicles	5 - 7 years
Mill	5 - 15 years

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Where components of an asset have a different useful life and cost that is significant to the total cost of the asset, depreciation is calculated on each separate component. Spare parts are carried at cost and transferred to the cost of the asset when the part is used to extend the life of the equipment; otherwise spare parts are expensed as repairs and maintenance when used. Estimates of useful lives, residual values and methods of depreciation are reviewed annually.

The dolomite properties and land improvements are recorded at cost and depleted over the estimated economic life of the quarries on a unit of production method based on estimated recoverable tons of dolomitic limestone.

### **3.3 Leases**

The Company leases mobile equipment under arrangements classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the term of the lease.

### **3.4 Revenue recognition**

Revenue from the sale of goods is recognized when persuasive evidence of an agreement exists, significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Freight revenue is recognized based on the date of freight acceptance.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded it is acting as principal in most of its revenue arrangements, resulting in a gross presentation of revenue and cost of sales. Where the Company concluded that it is not acting as a principal it has presented revenue and cost of sales on a net basis.

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

*(Expressed in thousands of United States Dollars)*

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## **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **3.5 Income taxes**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statements of income and comprehensive income for the year, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income tax is recognized on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized for all deductible temporary differences and carry forwards of unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forwards of unused tax losses can be utilized. Deferred income tax liabilities are provided on taxable temporary differences.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **3.6 Comprehensive income per share**

The basic comprehensive income per share is computed by dividing the comprehensive income by the weighted average number of common shares outstanding during the year. The diluted income per share reflects the potential dilution of common share equivalents, such as outstanding stock options, share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

### **3.7 Asset retirement obligation**

The Company recognizes a liability for its legal obligations associated with the retirement of its dolomite properties. The fair value of the best estimate required to settle the present obligation for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset, provided a reasonable estimate of the obligation can be made. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value.

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

*(Expressed in thousands of United States Dollars)*

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## **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **3.7 Asset retirement obligation (cont'd)**

The liability may be adjusted prospectively in future periods as a result of changes in estimates relating to timing or amounts of underlying cash flows. Adjustments relating to the unwinding of the discount are recognized in the statement of income (loss). Adjustments relating to changes in the obligation are recognized in property, plant and equipment.

### **3.8 Intangible assets**

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. The Company's intangible assets comprise customer relationships, distribution rights, a non-compete agreement and the brand.

Intangible assets with finite useful lives are subsequently carried at cost less accumulated amortization and impairment losses. These assets are amortized on a straight-line basis over their estimated useful lives. Intangibles with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized. Estimated useful lives are as follows:

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Customer relationships	10 years
Distribution rights	10 years
Non-compete agreement	5 years
Brand	10 years

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Estimates of useful lives, residual values and methods of amortization are reviewed annually.

### **3.9 Goodwill**

The Company measures goodwill as the fair value of the cost of the acquisition less the fair value of the identifiable net assets acquired, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units ("CGU") that are expected to benefit from the synergies of the acquisitions. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to other assets of the CGU.

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

*(Expressed in thousands of United States Dollars)*

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## **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **3.10 Financial instruments**

#### *Financial assets*

All financial assets are initially recorded at fair value and classified upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL") as follows:

- a) Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net income.
- b) Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized through accumulated other comprehensive income except for losses in value that are considered other than temporary, which are recognized in net income.
- c) Financial assets classified as loans and receivables or held to maturity are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest expense over the relevant period.

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.

#### *Financial liabilities*

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in income. Transaction costs associated with FVTPL financial liabilities are expensed as incurred.

#### *Fair value hierarchy*

Financial instruments and other assets/liabilities require disclosure about inputs to fair value measurements within the fair value measurement hierarchy as follows:

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

(Expressed in thousands of United States Dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.10 Financial instruments (cont'd)

*Fair value hierarchy (cont'd)*

<b>Level 1</b>	Quoted prices (unadjusted) in active markets for identical assets or liabilities;
<b>Level 2</b>	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
<b>Level 3</b>	Inputs for the assets or liabilities that are not based on observable market data.

Financial instruments, by classification, comprise the following:

### 3.11 Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is any indication that the carrying value of long term assets may be impaired. If an indicator of impairment exists, the recoverable amount of the asset is calculated in order to determine if any impairment charge is required. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received in an arm's length transaction between market participants at the measurement date. Costs of disposal are incremental costs directly attributable to disposal. Value in use is equal to the present value of future cash flows expected to be derived from the asset.

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. A reversal of impairment loss is recognized in net income (loss).

	Fair value hierarchy	2017	2016
		\$	\$
<b>Financial assets</b>			
<i>Fair value through profit or loss, measured at fair value</i>			
Cash and cash equivalents	Level 1	2,106	1,123
<i>Loans and receivables, recorded at amortized cost</i>			
Accounts receivable		3,893	3,699
<b>Financial liabilities</b>			
<i>Fair value through profit or loss, measured at fair value</i>	Level 1	N/A	N/A
<i>Other financial liabilities measured at a amortized cost</i>			
Series A preferred shares	Level 2	3,417	3,417
Accounts payable and accrued liabilities		3,212	2,946
Equipment purchase financing		1,313	1,947
Promissory notes to related parties		3,555	4,704
Long-term debt - current portion		1,021	1,088
Long-term debt - non-current portion		1,194	1,631

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

(Expressed in thousands of United States Dollars)

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## **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **3.11 Impairment of non-financial assets (cont'd)**

The Company performs goodwill impairment tests on an annual basis as at December 31 each year or more frequently if there are indications that goodwill may be impaired. If the carrying value of the CGU or group of CGUs to which goodwill is assigned exceeds its recoverable amount, an impairment loss is recognized. Goodwill impairment losses are not reversed. The recoverable amount of a CGU or group of CGUs is measured as the higher of fair value less costs of disposal and value in use. 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, restricted to fair value of individual assets. Goodwill impairment loss is recognized in net income.

### **3.12 Impairment of financial assets**

A financial asset measured at amortized cost is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset measured at amortized cost is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income and reflected in an allowance account against receivables.

### **3.13 Exploration and evaluation expenditures**

Exploration and evaluation expenditures are the costs incurred in the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling, trenching and sampling; test work on metallurgy, mining and the environment, and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures and acquisition costs are expensed as incurred. See Note 3.16 for the change in policy from prior year. The exploration and evaluation phase of a project ends when the technical and economic viability of the project has been demonstrated. When it has been determined that a project will generate future economic benefit, the costs are capitalized in the property, plant and equipment line item on the balance sheet.

### **3.14 Business combinations**

The business combination that occurred during the year ended December 31, 2016 was accounted for using the acquisition method under IFRS 3 *Business Combinations*.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

# Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016

*(Expressed in thousands of United States Dollars)*

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## **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **3.14 Business combinations (cont'd)**

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities. Business combinations arising from transfers of interests in entities that are under the control of the shareholders that control the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognized at the carrying amounts previously recognized in the Company's controlling shareholder's consolidated financial statements.

### **3.15 Segment reporting**

The Company has identified three reportable segments, which are those operations whose operating and financial results are regularly reviewed by the Company's management for the purpose of assessing performance. Each of the Company's three operating businesses are considered to be a separate operating segment.

Information regarding the results of each reportable segment is included in Note 6. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Company's management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

### **3.16 Changes to significant accounting policies**

During the year ended December 31, 2017, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and deferred exploration and evaluation expenditures of mineral properties to the specific mineral properties. Under the new policy, acquisition costs and deferred exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the Company's activities. The change in accounting policy resulted in immaterial changes to the Company's consolidated financial statements.

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## **3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **3.17 Pending accounting changes**

#### *IFRS 9 - Financial Instruments: Classification and Measurement*

IFRS 9, addresses the classification and measurement of financial assets and liabilities. In July 2014, the IASB made further changes to the classification and measurement rules and introduced a new impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this new standard.

#### *IFRS 15 - Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, which replaces *IAS 18 - Revenues* and related interpretations, and covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine the impact on the financial statements.

#### *IFRS 16 - Leases*

In January 2016, the IASB issued *IFRS 16 - Leases* ("IFRS 16"), which replaces *IAS 17 - Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. The Company is assessing the potential impact of this standard.

## **4. JUDGMENTS AND ESTIMATES**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting year. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from these estimates.

The areas which require management to make significant estimates and assumptions in applying the Company's accounting policies in determining carrying values include:

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## **4. JUDGMENTS AND ESTIMATES (CONT'D)**

### *Income Taxes*

In assessing the probability of realizing deferred income taxes, the Company makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, the Company gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonable possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred taxes. The Company reassesses unrecognized income tax at each reporting period.

### *Dolomite properties*

The Company estimates of recoverable dolomite at its dolomite properties requires significant assumptions and judgments in engineering and geological interpretation. Changes in the assumptions and judgments will impact estimates of recoverable dolomite. Changes in the recoverable dolomite estimates may impact the carrying value of the dolomite properties and the depletion expense and asset retirement obligations.

### *Impairment of goodwill and long-lived assets*

Goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of property, plant and equipment is reviewed each reporting period to determine whether there is any indication of impairment. Where an indicator of impairment exists, an estimate of the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value of the asset and the value in use. If the recoverable amount of the respective non-financial asset is less than its carrying amount, it is considered to be impaired. In the process of measuring the recoverable amount, management makes assumptions about future events, such as commodity prices, future capital requirements, useful lives and future operating performance. These estimates and assumptions are subject to uncertainty. Therefore, there is a possibility that changes in circumstances will have an impact on these projections, which may impact the recoverable amount of assets or CGUs. Accordingly, it is possible that some or the entire carrying amount of the assets or CGUs may be further impaired with the impact recognized in the consolidated statements of income and comprehensive income. Fair value represents the amount that would be obtained from a sale of the asset in an arm's length transaction between willing parties. Whereas, value in use is generally determined to be the present value of estimated future cash flows arising from the continued use of the asset. Changes in any of the assumptions used in discounting the future cash flows in the value in use calculation could impact the impairment analysis.

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## **4. JUDGMENTS AND ESTIMATES (CONT'D)**

### *Inventory valuation*

Inventories are recorded at the lower of cost or net realizable value. The use of estimates is required in allocating costs to inventories of crushed ore in stockpiles at the quarry and the plant as well as in-circuit crushed ore. Actual results can vary from estimates used in the determination of the carrying value of inventories.

### *Depreciation of plant and equipment and amortization of intangible assets*

Tangible assets, such as buildings, plant equipment and other equipment are depreciated on a straight line basis over their useful lives. Similarly, intangible assets, including customer relationships, brand recognition and distribution rights are amortized on a straight line basis over their useful lives. Judgment is required in the determining of the useful life for the calculation of depreciation and amortization and the actual useful lives may differ significantly from current assumptions.

### *Business combinations*

The Company assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations ("IFRS 3"). This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business.

Purchase prices related to business combinations and asset acquisitions are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events.

The measurement of the purchase consideration and allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts the Company's reported assets and liabilities, future net earnings due to the impact on future depreciation and amortization expense and impairment tests.

## **5. BUSINESS COMBINATIONS**

On March 23, 2016, Papillon Agricultural LLC, an indirect, wholly-owned subsidiary of the Company, completed the acquisition of all the outstanding shares of Papillon Agricultural Company Inc., ("Papillon"). Immediately prior to the acquisition, Papillon was a privately owned Maryland based corporation that developed, marketed and distributed toll manufactured specialty dairy feed ingredients. The Company acquired Papillon in order to effect a vertical integration with its long-time customer.

Pursuant to the terms of the stock purchase agreement, the total purchase price was \$5,954 for the shares of Papillon. At the time of closing the transaction, the Company paid \$2,055 to the previous shareholders of Papillon, with the balance of \$3,899 due to the shareholders under the terms of promissory notes issued by the Company to the Papillon shareholders.

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### 5. BUSINESS COMBINATIONS (CONT'D)

The following table summarizes purchase consideration relating to the acquisition of Papillon

	Note	Amount
		\$
Secured promissory notes issued to original shareholders of Papillon bearing interest at 5.57%	17	3,499
Secured promissory notes issued to original shareholders of Papillon bearing interest at 7%		400
Cash	11, 17	2,055
		<b>5,954</b>

The allocation of the purchase price to the estimated fair value of the significant assets acquired and liabilities assumed is as follows:

	Note	Amount
		\$
<b>Assets</b>		
Cash		970
Accounts receivable		1,381
Inventory		214
Prepaid and other		129
Property, plant and equipment		54
Investment		10
Intangibles	10	3,250
<b>Liabilities</b>		
Accounts payable and accrued liabilities		(1,862)
		<b>4,146</b>
Goodwill	10	1,808
<b>Total net assets acquired</b>		<b>5,954</b>

The balance of goodwill is the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The goodwill recorded represents (a) cost savings and operating synergies expected to result from combining the operations of Papillon with those of the Company; and (b) intangible assets that do not qualify for separate recognition such as the assembled work force. Goodwill is deductible for tax purposes.

The Company incurred fees of \$54 which were recognized separately from the acquisition and included as business acquisition related costs on the consolidated statement of income and comprehensive income.

Revenue and net income of Papillon since the date of acquisition included in the consolidated statements of income and comprehensive income (loss) for the year ended December 31, 2016 amounted to \$21,057 and \$1,527, respectively.

Pro-forma revenue and net income of Papillon for the year ended December 31, 2016, assuming the acquisition of Papillon occurred on January 1, 2016, amounted to \$23,405 and \$3,686, respectively.

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## 6. SUBSIDIARIES AND BUSINESS SEGMENTS

Inter-Rock's business is organized into three individual operating businesses. Each operation is an operating segment for financial reporting purposes. Certain costs are managed on a consolidated basis and are therefore not reflected in segment income.

Operating segments of the Company are as follows:

Name of subsidiary	Country of incorporation	Equity ownership
Min-Ad Inc.	United States	100%
Mill Creek Inc.	United States	100%
Papillon Agricultural Company	United States	100%

The Company's management evaluates the performance of these segments and allocates resources to them based on certain performance measures, mainly cash flow from operations.

Segment earnings correspond to each business' earnings from operations. The Company'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").

Segment operating results are as follows:

Year ended	Mill				Elimi-	
December 31, 2017	MIN-AD.	Creek	Papillon	Other	nations	Total
<b>REVENUE</b>						
Internal sales	2,845	-	76	508	(3,429)	-
External sales	4,855	4,809	42,226	-	-	51,890
<b>COST OF SALES</b>						
Operating costs	5,520	3,309	36,218	-	(2,568)	42,479
Amortization & depletion, mining	246	333	-	-	10	589
Impairment charges	327	-	-	277	-	604
<b>GROSS PROFIT</b>	1,607	1,167	6,084	231	(871)	8,218
<b>OPERATING EXPENSES</b>						
Selling, general & administration	921	1,050	3,383	454	(604)	5,204
Amortization of intangible assets	-	-	328	-	-	328
<b>INCOME (LOSS) BEFORE FINANCING</b>	686	117	2,373	(223)	(267)	2,686
<b>FINANCING COSTS</b>						
Interest on long-term debt	46	113	262	34	-	455
	640	4	2,111	(257)	(267)	2,231
<b>INCOME TAX EXPENSE</b>	-	-	-	430	-	430
<b>NET COMPREHENSIVE INCOME (LOSS)</b>	640	4	2,111	(687)	(267)	1,801

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## 6. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

As at December 31, 2017	MIN-AD.	Mill Creek	Papillon	Other	Elimi- nations	Total
<b>ASSETS</b>						
Current assets	1,528	1,596	4,735	44	(251)	7,652
Non-current assets	1,548	3,458	4,482	-	-	9,488
	3,076	5,054	9,217	44	(251)	17,140
<b>LIABILITIES</b>						
Current liabilities	1,331	774	2,204	156	27	4,492
Non-current liabilities	40	1,441	3,780	4,364	-	9,625
	1,371	2,215	5,984	4,520	27	14,117

Adjustments and eliminations include: (i) inter-segment revenues are eliminated on consolidation (ii) unallocated assets related to deferred tax assets (iii) unallocated liabilities related to deferred taxes and current taxes payable. The three operating businesses are in the United States.

Segment balances for the prior year are as follows:

Year ended December 31, 2016	MIN-AD.	Mill Creek	Papillon	Other	Elimi- nations	Total
<b>REVENUE</b>						
Internal sales	1,907	-	20	320	(2,247)	-
External sales	5,053	3,997	21,037	-	-	30,087
<b>COST OF SALES</b>						
Operating costs	5,235	2,616	17,695	-	(1,663)	23,883
Amortization & depletion	364	253	-	-	10	627
<b>GROSS PROFIT</b>	1,361	1,128	3,362	320	(594)	5,577
<b>OPERATING EXPENSES</b>						
Selling, general & administration	833	1,133	2,240	434	(326)	4,314
Amortization of intangible assets	-	-	247	-	-	247
<b>INCOME (LOSS) BEFORE FINANCING</b>	528	(5)	875	(114)	(268)	1,016
<b>FINANCING COSTS</b>						
Interest on long-term debt	37	54	231	44	-	366
	491	(59)	644	(158)	(268)	650
<b>INCOME TAX RECOVERY</b>	-	-	-	100	-	100
<b>NET COMPREHENSIVE INCOME (LOSS)</b>	491	(59)	644	(58)	(268)	750

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## 6. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

As at December 31, 2016	Mill			Other	Elimi- nations	Total
	MIN-AD.	Creek	Papillon			
<b>ASSETS</b>						
Current assets	1,424	1,186	3,443	20	(281)	5,792
Non-current assets	1,587	4,029	4,810	5,290	(4,434)	11,282
	3,011	5,215	8,253	5,310	(4,715)	17,074
<b>LIABILITIES</b>						
Current liabilities	1,341	740	2,156	9	215	4,461
Non-current liabilities	57	2,403	4,915	4,016	-	11,391
	1,398	3,143	7,071	4,025	215	15,852

## 7. INVENTORIES

Inventories comprise the following:

	2017	2016
	\$	\$
Raw materials and consumables	760	443
Finished goods	635	328
Total inventories, at lower of cost and net realizable value	1,395	771

Inventory recognized in cost of sales during the year amounted to \$3,978 (2016 - \$4,021).

## 8. PROPERTIES, PLANT AND EQUIPMENT

Costs of properties, plant and equipment comprise the following:

	Balance, December 31, 2016	Additions during the year	Disposals during the year	Balance, December 31, 2017
	\$	\$	\$	\$
<b>Cost</b>				
Land	535	-	-	535
Dolomite Properties	2,051	-	-	2,051
Mill Equipment	6,110	20	(565)	5,566
Mill (i.e. Capital projects)	6,835	119	-	6,954
Vehicles	496	-	(51)	445
Spare Parts (see note 9)	607	41	(327)	321
	16,634	180	(943)	15,871

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## 8. PROPERTIES, PLANT AND EQUIPMENT (CONT'D)

	Balance, December 31, 2015	Additions during the year	Disposals during the year	Balance, December 31, 2016
	\$	\$	\$	\$
<b>Cost</b>				
Land	535	-	-	535
Dolomite Properties	2,051	-	-	2,051
Mill Equipment	4,395	1,867	(152)	6,110
Mill (i.e. Capital projects)	6,460	375	-	6,835
Vehicles	418	107	(29)	496
Spare Parts	597	10	-	607
	14,456	2,359	(181)	16,634

Accumulated amortization and depletion of properties, plant and equipment comprise the following:

	Balance, December 31, 2016	Additions during the year	Disposals during the year	Balance, December 31, 2017
	\$	\$	\$	\$
<b>Accumulated amortization and depletion</b>				
Land	-	-	-	-
Dolomite Properties	(1,203)	(16)	-	(1,219)
Mill Equipment	(3,778)	(301)	-	(4,079)
Mill (i.e. Capital projects)	(5,149)	(250)	203	(5,197)
Vehicles	(402)	(21)	51	(372)
Spare Parts	-	-	-	-
	(10,532)	(589)	254	(10,867)

	Balance, December 31, 2015	Additions during the year	Disposals during the year	Balance, December 31, 2016
	\$	\$	\$	\$
<b>Accumulated amortization and depletion</b>				
Land	-	-	-	-
Dolomite Properties	(1,193)	(10)	-	(1,203)
Mill Equipment	(3,572)	(206)	-	(3,778)
Mill	(4,920)	(381)	152	(5,149)
Vehicles	(390)	(30)	18	(402)
Spare Parts	-	-	-	-
	(10,075)	(627)	170	(10,532)

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## 8. PROPERTIES, PLANT AND EQUIPMENT (CONT'D)

Net book value of properties, plant and equipment comprise the following:

	Balance, December 31, 2017	Balance, December 31, 2016
	\$	\$
<b>Net book value</b>		
Land	535	535
Dolomite Properties	832	848
Mill Equipment	1,486	2,332
Mill	1,757	1,685
Vehicles	73	95
Spare Parts	321	607
	<b>5,004</b>	<b>6,102</b>

## 9. IMPAIRMENT OF NON-CURRENT ASSETS

	2017	2016
	\$	\$
Mineral exploration properties	(277)	-
Property plant and equipment	(327)	-
<b>Balance December 31, 2017</b>	<b>(604)</b>	<b>-</b>

### Mineral exploration properties

At December 31, 2017, the Company changed its accounting policy with respect to the treatment of exploration and evaluation expenditures and acquisition costs on its mineral exploration properties. As outlined in Note 3.13, the Company will expense exploration and evaluation expenditures, including acquisition costs, as incurred. As the Company's exploration properties are at a very early stage of exploration, no future economic benefit can be determined presently and consequently, to reflect the change in accounting policy, the Company decided to write-down the entire carrying value of its mineral exploration properties at December 31, 2017. An impairment charge of \$277 was recorded against mineral exploration properties and deferred exploration costs. No opening balance sheet is provided as a result of the policy change as the mineral property write-down is not material.

	Sentinel Peak (a)	Varyville (b)	Total
	\$	\$	\$
<b>Cost</b>			
Balance December 31, 2016	247	21	268
Additions	9	-	9
Write-down	(256)	(21)	(277)
<b>Balance December 31, 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

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### 9. IMPAIRMENT OF NON-CURRENT ASSETS (CONT'D)

The Sentinel Peak gold property is located in Northern Humboldt County, Nevada approximately 80 miles northwest of Winnemucca, Nevada. The Company holds 22 claims covering 440 acres. The Varyville property is also located in northern Nevada. No work is planned on the Varyville property in 2018.

#### *Property plant and equipment*

During 2017, the Company reviewed its spare parts inventory at MIN-AD. As a result of this review, the Company determined that the recoverable value of the spare parts inventory was less than the carrying amount. Accordingly, a non-cash impairment charge of \$327 was recorded against property, plant and equipment.

### 10. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill comprise the following:

	Customer relationships (a)	Distribution rights (b)	Non-compete (c)	Brand (d)	Total Intangibles	Goodwill
Mill Creek	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1
Papillon acquisition (Note 5)	1,850	1,270	30	100	3,250	1,808
Less: amortization	(139)	(95)	(5)	(8)	(247)	-
Balance December 31, 2016	1,711	1,175	25	92	3,003	1,809
Less: amortization	(185)	(127)	(6)	(10)	(328)	-
Balance December 31, 2017	1,526	1,048	19	82	2,675	1,809

Amortization of intangible assets is presented within amortization of intangibles on the consolidated statement of loss and comprehensive loss. As at year-end, no indicators of impairment existed for the intangible assets and there were no impairment losses recognized in income.

- Customer relationships, which are long-standing relationships with many specialty feed ingredient suppliers, toll manufacturers and customers in the dairy industry.
- Distribution rights, which are exclusive rights of the Company to produce and distribute specialty feed ingredients to the dairy industry.
- Non-compete arrangements, which serve to protect the Company's sensitive and confidential information. These agreements may apply to employees as well as any person or company that interacts with the business and encounters confidential information. The agreements have to be reasonable in scope and duration in order to be upheld in court.
- Brand, where the value of a brand is determined by the consumers' perception of the brand. Positive brand equity is achieved when consumers are willing to pay more for a product with a recognizable brand name than they would pay for a generic version of the product.

Goodwill is measured as the fair value of consideration paid less the fair value of the net assets acquired and liabilities assumed on the acquisition date. Goodwill is tested at least annually for impairment or more frequently when impairment indicators are identified. In accordance with IAS 36, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

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### **10. INTANGIBLE ASSETS AND GOODWILL (CONT'D)**

The goodwill impairment analysis performed by the Company concluded there was no impairment to goodwill as at December 31, 2017 as the fair value of its CGUs exceeded its carrying value.

The CGU recoverable amount was determined based on its value using a 5 year discounted cash flow model. Key assumptions used in the discounted cash flows are: (a) projected gross profit used in the forecast was estimated considering current and historical results with a growth rate of 4% and a terminal 2% growth to reflect the inflationary growth, (b) projected earnings before interest, taxes, depreciation and amortization used in the forecast were estimated using current and historical results as a percentage of revenue with consideration to variable costs. Fixed costs were estimated to remain fairly constant (c) working capital and capital expenditures were estimated considering historical requirements. The discount rate applied in the discounted cash flow models range from 25% and 30%.

### **11. DEBT**

Long term bank debt, equipment purchase financings, and promissory notes due to related parties comprise the following:

	2017	2016
	\$	\$
<u>Aggregate debt facilities</u>		
Revolving Credit Facility	583	672
Mill Creek Term Loan	616	750
Papillon Term Loan	1,016	1,297
Equipment Financings	1,313	1,947
Related Party Notes	3,555	4,704
	<u>7,083</u>	<u>9,370</u>
<u>Less: current portions of</u>		
Long term debt	(1,021)	(1,088)
Less: current portion equipment purchase financing	(321)	(177)
Less: current portion of promissory notes to related parties	-	(250)
Total long term debt	<u>5,741</u>	<u>7,855</u>

#### **Bank facilities**

In December, 2016, the Company refinanced its revolving credit and term loan facilities for its MIN-AD and Mill Creek dolomite operations with Meadows Bank. Additionally, the Company arranged an equipment purchase term loan with Meadows Bank to partially finance the acquisition of crushing and screening equipment at Mill Creek.

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## **11. DEBT (CONT'D)**

The Meadows Bank facilities are summarized below:

- (i) \$1,000 Revolving Credit Facility – a one-year, secured revolving credit facility (“RC”) in the amount of the lesser of \$1,000 or 75% of accounts receivable at MIN-AD and Mill Creek, bearing interest at the U.S. bank prime rate plus 1.00% per annum. Any amounts drawn under the RC facility can be repaid any time and are due in full at maturity on December 25, 2017. On January 5, 2018, the maturity date was extended to May 25, 2018. At December 31, 2017, \$583 (2016 - \$672) was outstanding under the RC facility and was recorded as current portion of long term debt.
- (ii) \$750 Term Loan – a five year, secured term loan bearing interest of 5.50% per annum. The loan amortizes over sixty months in equal principal and interest payments of \$14 and matures on December 25, 2021. At December 31, 2017, \$142 (2016 - \$134) was recorded as current portion of long term debt and the balance of \$474 (2016 - \$616) was recorded as long term debt.
- (iii) \$1,264 Equipment Term Loan – a five and a half year, secured term loan arranged to partially finance the purchase of crushing and screening equipment for Mill Creek. For six months after closing, the loan bore interest at the U.S. bank prime rate plus 0.50% and the Company was only required to make monthly interest payments during this six month period. Thereafter, the loan bears interest at a fixed rate of 5.50% and amortizes over sixty months in equal principal and interest payments of \$24. The loan matures on June 25, 2022. At December 31, 2017, \$233 was recorded as current portion of equipment purchase financing and the balance of \$920 was recorded as equipment purchase financing.

The three Meadows Bank facilities are secured by the accounts receivables, inventory, equipment and other assets of MIN-AD and Mill Creek. The facilities are guaranteed by both the Company and its subsidiary, Secret Pass Gold Inc. The Meadows facilities contain certain covenants that limit, among other things, the ability of the Company’s subsidiaries (MIN-AD and Mill Creek) to incur new indebtedness, sell material assets and make acquisitions and investments. There is also a requirement to maintain a minimum debt service cover ratio.

In connection with the acquisition of Papillon in the first quarter of 2016, the Company arranged a \$1,500, three year secured term loan with Shore United Bank. The loan bears interest at 4.75% per annum with monthly principal and interest payments of \$28 and a final principal repayment of \$669 at maturity on March 22, 2019. The Shore loan is guaranteed by the Company and certain of the Company’s subsidiaries and is secured by Papillon’s accounts receivables. Under the terms of the Shore United loan, Papillon Agricultural LLC, (the “Borrower”) is governed by certain covenants including, requiring Shore Bank approval for distributing cash to Inter-Rock, restrictions on new indebtedness, asset dispositions and acquisitions, a requirement to maintain a minimum debt service cover ratio and a certain level of cash and accounts receivables, among other covenants.

At December 31, 2017, \$296 (2016 - \$281) was recorded as current portion of long term debt and the balance of \$720 (2016 - \$1,016) was recorded as long term debt.

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## **11. DEBT (CONT'D)**

### **Bank facilities (cont'd)**

As at December 31, 2017 and 2016 the Company was in compliance with all bank debt covenant requirements.

### **Equipment purchase financings**

In the course of operations, the Company arranges equipment finance facilities with major equipment manufacturers and financial institutions. The total amounts currently outstanding under these facilities range from \$9 to \$1,153 (2016 - \$22 to \$1,500) and the interest rate on the facilities range from 1.99% to 5.5% (2016 - 1.99% - 6.10%) per annum. At December 31, 2017, \$321 (2016 - \$177) was recorded as current portion of long term debt and the balance of \$992 (2016 - \$1,770) was recorded as long term debt.

### **Related party notes**

On March 23, 2016, in connection with the acquisition of Papillon, the Company issued notes to the original shareholders of Papillon for \$3,899 (the "Seller Notes"). In addition, the Company borrowed \$500 from the Chairman of the Company and \$55 from the Chief Executive Officer of the Company to assist in financing the purchase price of Papillon (the "Buyer Notes"). Refer to Note 17 for details of this related party debt. During 2017, the Company prepaid in full the \$400 of 7% Seller Notes and prepaid \$449 of the 5.75% Seller Notes. At December 31, 2017, \$3,000 (2016 - \$3,499) of the 5.75% Seller Notes remain outstanding and are recorded as promissory notes to related parties.

## **12. ASSET RETIREMENT OBLIGATION**

The Company is required to satisfy certain asset retirement obligations including the removal of any equipment and the restoration of the land and premises. This liability is management's estimate of the requirements for restoration and rehabilitation of the Company's MIN-AD and Mill Creek dolomite quarrying operations. The Company's liability for reclamation of the property has been discounted to its present value based on an estimate of the Company's pricing in the market to obtain debt.

## **13. SERIES A PREFERRED SHARES**

On December 5, 2008, the Company issued 17,136,980 Series A preferred shares ("Preferred Shares") to settle debt and unpaid interest owing to a shareholder in the amount of \$3,417.

Each Preferred Share is entitled to one vote, is redeemable and retractable on demand at a value of \$0.20, pays a non-cumulative quarterly dividend at a rate equivalent to the US prime interest rate, and is convertible into one common share.

There is no certainty of retraction of the Preferred Shares as there is no fixed or determinable date for their retraction nor are any future events defined that would trigger retraction. The shareholder has agreed to waive its right to retract the Preferred Shares for the year ending December 31, 2018, so the liability has been presented in these financial statements as long-term.

For the years ended December 31, 2017 and 2016 the Company did not pay any preferred share dividends and, accordingly, did not record any amount in interest expense for dividends. The fair value of Series A preferred shares is approximately \$3,239 (2016 - \$3,239) based on a market rate of interest.

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## **14. SHARE CAPITAL**

The Company is authorized to issue an unlimited amount of common shares. The amount of common shares issued and outstanding is as follows:

	Number	Amount
<b>Balance, December 31, 2017 and 2016</b>	22,617,811	5,864

## **15. INCOME PER SHARE**

Basic and diluted income per share have been calculated as follows:

	2017	2016
<b>Basic income per share</b>		
Income available to common shares	1,801	750
Weighted average common shares (in thousands)	22,618	22,618
	0.08	0.03
<b>Diluted income per share</b>		
Income available to common shares	1,801	750
Income available to common shares, assuming dilution	1,801	750
Weighted average common shares outstanding	22,618	22,618
Preferred shares converted to common shares	17,137	17,137
Adjusted weighted average common shares outstanding	39,755	39,755
	0.05	0.02

Each Preferred Share (Note 13) is convertible into one common share of the Company, the dilutive effect of the conversion of Preferred Shares is 17,136,980 additional common shares.

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### 16. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate as follows:

	2017	2016
	\$	\$
Income before income taxes per financial statements	2,231	650
Income incurred outside of the United States, no tax effect	(260)	154
Adjusted income	1,971	804
United States statutory tax rate	40%	40%
Expected income tax expense	788	322
Change in estimate in future income tax recovery	(430)	100
Application of loss carryforward balances and other	(28)	(322)
Income tax expense	330	100

Deferred income tax (liabilities) assets have been calculated as follows:

	2017	2016
	\$	\$
Carrying value of mineral properties, plant and equipment for accounting purposes in excess of carrying value for tax purposes	(1,716)	(3,705)
Carrying value of intangibles and goodwill for tax purposes in excess of carrying value	29	(84)
Carrying value of finance lease for tax purposes in excess of carrying value	-	1,340
United States tax losses	862	2,696
Less: tax losses not recognized	-	-
Approximate tax rate	40%	40%
Deferred income tax (liability) asset	(330)	100

The Company has net operating losses for income tax purposes of \$862 (2016 – \$2,696) which can be carried forward and applied against future taxable income. The potential benefit of these losses has been recognized in these financial statements as deferred income tax assets to the extent that management expects them to be utilized. The right to use these losses expires as follows:

Incurred	Expires	Amount
		\$
2012	2032	232
2013	2033	193
2014	2034	437
		862

## Inter-Rock Minerals Inc.

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### **17. RELATED PARTY TRANSACTIONS**

#### **(a) Promissory notes related to the acquisition of Papillion Agricultural Company Inc.**

On March 23, 2016, in connection with the acquisition of Papillon, the Company issued notes to the original shareholders of Papillon totaling \$3,899 (the "Seller Notes"). The Papillon noteholders are related parties as they continue to work for, or are directors of Papillon. In addition, the Company borrowed \$500 from the Chairman of the Company and \$55 from the Chief Executive Officer of the Company to assist in financing the purchase price of Papillon (the "Buyer Notes"). At December 31, 2017, the Company had the following promissory notes outstanding:

- (i) **Seller Notes:** On March 23, 2016, the Company issued promissory notes to the shareholders of Papillon. The Seller Notes comprise two tranches: a \$3,499 tranche bearing interest at 5.75% per annum and a \$400 tranche bearing interest at 7% per annum. Interest is paid quarterly and the principal is due at maturity on March 23, 2019. The Seller Notes are guaranteed by Inter-Rock and Papillon and are secured by a pledge of the shares of Papillon. During 2017, the Company fully prepaid the \$400 7% Seller Notes and prepaid \$499 of the 5.75% Seller Notes. At December 31, 2017, \$3,000 (2016 - \$3,499) of the 5.75% Seller Notes remain outstanding.

The Seller Notes are subordinate to the Shore United Bank facility. The Company can make optional principal prepayments of the Notes at the end of each year with the consent of the Shore United Bank. The Seller Notes are subject to the terms of the note indentures and The Stock Purchase Agreement (the agreement that governs the acquisition of Papillion Agricultural Company Inc. by Papillion Agricultural LLC), which limit the distribution of cash from Papillon Agricultural Company Inc. to the Company while any amount of the Seller Notes remain outstanding.

- (ii) **Buyer Notes:** in connection with the acquisition of Papillon, on March 23, 2016, the Company issued a \$500 promissory note to the Chairman of Inter-Rock and a \$55 promissory note to the Chief Executive Officer of Inter-Rock. The Notes are unsecured and bear interest at 6% per annum. The principal and accrued interest is due in full on December 31, 2019 and is recorded as long term debt. At December 31, 2017, accrued interest totaled \$62, (2016 - \$29).

#### **(b) Other related party notes**

The Company issued a \$250, 6% note to the Chairman of the Company on December 18, 2015. The loan proceeds were used to partially fund an engineering study for upgrading the plant at Mill Creek. The note and accrued interest was due on December 31, 2016. On January 26, 2017 the \$250 note and accrued interest of \$16 was fully repaid.

# Inter-Rock Minerals Inc.

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## **17. RELATED PARTY TRANSACTIONS (CONT'D)**

### **(c) Key management remuneration**

The Company's related parties as defined by IAS 24, Related Party Disclosures, include the Company's subsidiaries and its key management. Key management includes directors (executive and non-executive), the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO"), the Vice-President of Operations and the President of Papillon.

The compensation paid to key management for services is shown below:

	<u>2017</u>	<u>2016</u>
	\$	\$
Short term benefits including salaries, consulting and director fees	<u>713</u>	<u>701</u>

## **18. REVENUE SUPPLEMENTAL INFORMATION**

The Company's revenue by type is broken down as follows in the consolidated statements of operations and comprehensive loss:

	<u>2017</u>	<u>2016</u>
	\$	\$
<u>MIN-AD. and Mill Creek</u>		
Dolomite sales	7,245	6,240
Freight charges	2,124	3,466
Fuel charges	295	221
Other revenue	-	(4)
	<u>9,664</u>	<u>9,923</u>
<u>Papillon</u>		
Animal feed sales	39,578	18,987
Other revenue	879	507
Freight charges	1,769	670
	<u>51,890</u>	<u>30,087</u>

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## **19. FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a number of financial risks including, (i) credit risk; (ii) market risk (including interest rate risk and foreign exchange risk) and (iii) liquidity risk. The objective of the Company's risk management policy is to properly identify financial risks and minimize adverse effects by ensuring that the Company maintains adequate capital in relation to the risks. Management designs and implements strategies for managing financial risks, as summarized below:

### **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss to the Company. The Company is exposed to credit risk primarily from trade receivables and from its financing activities, including deposits with banks.

For cash and accounts receivables, credit risk exposure equals the carrying amount on the balance sheet. The Company's historical accounts receivables defaults have been negligible, resulting in a low level of credit risk. The Company mitigates accounts receivable credit risk by dealing with creditworthy counterparties and limiting concentration risk. The Company has adopted a credit policy under which each new customer is analyzed individually for credit worthiness before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. All of the Company's customers are located in either Canada or the United States. When available, the Company reviews credit bureau ratings, bank accounts and financial information for each new customer.

Credit risk from deposits with banks is managed by maintaining cash balances at three banks in North America.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient cash to meet its financial obligations as they come due. The Company manages liquidity risk by continuously monitoring forecasted and actual cash flows, cash balances and liabilities to ensure adequate cash is available to meet its liabilities. The Company is growing and in order to meet its longer-term working capital requirements, the Company will attempt, if necessary, to secure further financing. See Note 21.

### **Market rate risk**

Market risk is the risk that changes in market factors, such as interest rates or foreign exchange rates, will affect the value of the Company's financial instruments. The Company can either accept market risk or attempt to mitigate it using derivatives or other hedging strategies. The Company is exposed to interest rate risk related to its Preferred Shares, if dividends are declared and, to the extent that it uses it, the revolving credit facility since the interest rate or dividend payment on these instruments fluctuates with the general level of interest rates. The majority of the Company's debt is fixed rate. Of the financial instruments held at year-end, a one percent change in interest rates would affect the profitability of the Company by an immaterial amount.

The majority of the Company's revenues, expenses, cash holdings and debt instruments are denominated in U.S. dollars, accordingly, foreign exchange risk is minimal. The Company has relatively small amounts of cash, executive compensation, accounts payable and accrued liabilities denominated in Canadian dollars. Changes in the exchange rate between the United States and Canadian dollars would not have a material impact on the Company's earnings.

## Inter-Rock Minerals Inc.

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### **20. MANAGEMENT OF CAPITAL**

The Company considers its capital structure at December 31, 2017 to include shareholders' equity which totalled \$3,023 (2016 - \$1,507); Preferred Shares of \$3,417 (2016 - \$3,417) and long term debt of \$7,083 (2016 - \$9,370). (Note 11)

The Company manages capital through an annual budgeting process and regular reviews of working capital requirements. The Company's objective when managing capital is to ensure adequate liquidity to continue operations, including funding of future growth opportunities and the pursuit of acquisitions. The Company seeks to ensure that cash from operations is sufficient to meet all operating expenses, sustaining capital expenditures, and debt service obligations. Funds for significant capital improvements are primarily secured through long-term debt. There is no assurance that bank debt is available. There were no changes in capital management in the year.

The Company's long-term capital is subject to external restrictions including continued listing requirements of the TSX Venture Exchange and certain debt covenants as described in Note 11.

### **21. COMMITMENTS**

The Company is committed to \$7,989 for obligations and financial commitments in the normal course of operations and financing activities. At December 31, 2017, the Company had the following financial commitments:

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	<b>Total</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Bank Principal Repayments	2,215	1,021	869	158	167	-
Equipment Financing	1,313	321	282	275	290	145
Operating Lease	906	268	268	268	102	-
Related Party Notes	3,555	-	3,555	-	-	-
<b>Total</b>	<b>7,989</b>	<b>1,610</b>	<b>4,974</b>	<b>701</b>	<b>559</b>	<b>145</b>

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In December 2015, the Company entered into a sub-lease agreement for office space for its head office in Toronto. The sub-lease has a four year term with monthly payments of \$2.