# Inter-Rock Minerals Inc.

## Consolidated Financial Statements

Expressed in United States dollars

Years ended December 31, 2018 and 2017

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Inter-Rock Minerals Inc.

*Opinion*

We have audited the consolidated financial statements of Inter-Rock Minerals Inc., (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards.

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other Information*

Management is responsible for the other information. The other information comprises Management's discussion and analysis.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Jakovcic.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 12, 2019
Toronto, Ontario

# Inter-Rock Minerals Inc.

Consolidated Balance Sheets
As at December 31st

*(Expressed in thousands of United States Dollars)*

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | **$** | $ |
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **2,463** | 2,106 |
| Accounts receivable | | **3,255** | 3,893 |
| Inventories | 6 | **1,170** | 1,395 |
| Prepaid expenses and other assets | | **335** | 258 |
| **Total Current Assets** | | **7,223** | 7,652 |
| Non-current assets | | | |
| Properties, plant and equipment | 7 | **4,861** | 5,004 |
| Intangible assets | 9 | **2,347** | 2,675 |
| Goodwill | 9 | **1,809** | 1,809 |
| **Total Assets** | | **16,240** | 17,140 |
| **LIABILITIES AND EQUITY** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **2,087** | 3,150 |
| Accrued interest payable | 10 | **95** | - |
| Current portion of long term debt | 10 | **1,735** | 1,253 |
| Current portion equipment purchase financing | 10 | **46** | 89 |
| Current portion of promissory notes to related parties | 10,16 | **555** | - |
| **Total Current Liabilities** | | **4,518** | 4,492 |
| Non-current liabilities | | | |
| Accrued interest payable | 10 | **-** | 62 |
| Long term debt | 10 | **3,668** | 2,115 |
| Equipment purchase financing | 10 | **73** | 71 |
| Promissory notes to related parties | 10,16 | **-** | 3,555 |
| Deferred income tax liability | 15 | **467** | 330 |
| Asset retirement obligation | 11 | **75** | 75 |
| Series A preferred shares | 12 | **3,417** | 3,417 |
| **Total Liabilities** | | **12,218** | 14,117 |
| Equity | | | |
| Share capital | 13 | **5,864** | 5,864 |
| Contributed surplus | | **315** | 315 |
| Deficit | | **(2,157)** | (3,156) |
| **Total Equity** | | **4,022** | 3,023 |
| **Total Liabilities and Equity** | | **16,240** | 17,140 |

*Commitments (Note 20)*

**Approved on behalf of the Board of Directors:**

| | |
|---|---|
| *"Michael B. Crombie"* | *"David R. Crombie"* |
| Director | Director |

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 31st

*(Expressed in thousands of United States Dollars)*

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | **$** | $ |
| **REVENUE** | 5,17 | **47,266** | 51,890 |
| **COST OF SALES** | | | |
| Operating costs | 5 | **38,737** | 42,479 |
| Amortization and depletion, mining | 7 | **531** | 589 |
| Impairment charges | 8 | **-** | 604 |
| | | **39,268** | 43,672 |
| **GROSS PROFIT** | | **7,998** | 8,218 |
| **OPERATING EXPENSES** | | | |
| Selling, general and administrative | 5 | **5,718** | 5,204 |
| Amortization of intangible assets | 9 | **328** | 328 |
| **INCOME BEFORE FINANCING COSTS** | | **1,952** | 2,686 |
| **FINANCING COSTS** | | | |
| Interest on Series A preferred shares | 12 | **126** | - |
| Interest on long term debt | 10 | **356** | 455 |
| **INCOME BEFORE INCOME TAXES** | | **1,470** | 2,231 |
| **INCOME TAXES** | | | |
| Current | 15 | **334** | - |
| Deferred | 15 | **137** | 430 |
| | | **471** | 430 |
| **NET INCOME AND COMPREHENSIVE INCOME** | | **999** | 1,801 |
| **Basic income per share** | 14 | **0.04** | 0.08 |
| **Diluted income per share** | 14 | **0.03** | 0.05 |

| | | | |
|---|---|---|---|
| **Weighted average number of shares outstanding** | | | |
| **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 31st

*(Expressed in thousands of United States Dollars)*

| | Share Capital (Note 13) | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance December 31, 2016 | 5,864 | 315 | (4,957) | 1,222 |
| Net income and comprehensive income | - | - | 1,801 | 1,801 |
| Balance, December 31, 2017 | 5,864 | 315 | (3,156) | 3,023 |
| Net income and comprehensive income | - | - | 999 | 999 |
| **Balance, December 31, 2018** | **5,864** | **315** | **(2,157)** | **4,022** |

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 31st

*(Expressed in thousands of United States Dollars)*

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | **$** | $ |
| **CASH PROVIDED BY (USED IN) OPERATIONS** | | | |
| Net income | | **999** | 1,801 |
| Items not affecting cash | | | |
| Amortization and depletion, mining | | **531** | 589 |
| Amortization of intangible assets | | **328** | 328 |
| Impairment charge | | **-** | 604 |
| Interest expense | | **482** | 455 |
| Deferred income tax expense | | **137** | 430 |
| Gain on disposal of properties, plant and equipment | | **-** | (55) |
| | | **2,477** | 4,152 |
| Net changes in non-cash working capital | | | |
| Accounts receivable | | **638** | (194) |
| Inventories | | **225** | (624) |
| Prepaid expenses | | **(77)** | (59) |
| Accounts payable and accrued liabilities | | **(1,096)** | 204 |
| Accrued interest payable | | **33** | 18 |
| **Cash generated by operating activities** | | **2,200** | 3,497 |
| **INVESTING** | | | |
| Acquisition of equipment capitalized in prior year but paid for in the current year | | **-** | (1,340) |
| Purchase of properties, plant and equipment | 7 | **(408)** | (180) |
| Proceeds on disposal of properties, plant and equipment | | **20** | 398 |
| **Cash used in investing activities** | | **(388)** | (1,122) |
| **FINANCING** | | | |
| Interest paid | | **(323)** | (437) |
| Interest paid on Series A preferred shares | 12 | **(126)** | - |
| Proceeds from long term debt | 10 | **4,000** | 1,282 |
| Repayment of long term debt | 10 | **(1,965)** | (633) |
| Proceeds from equipment purchase financings | | **48** | - |
| Repayment of equipment purchase financings | | **(89)** | (455) |
| Repayment of related party loans | 16 | **(3,000)** | (1,149) |
| **Cash used in financing activities** | | **(1,455)** | (1,392) |
| **Net change in cash and cash equivalents** | | **357** | 983 |
| **Cash and cash equivalents, beginning of year** | | **2,106** | 1,123 |
| **Cash and cash equivalents, end of year** | | **2,463** | 2,106 |

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

*(Expressed in thousands of United States Dollars)*

## 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, 2017, 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 10, 2019.

### 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.

### 2.3 Basis of Consolidation

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

| Entity | Place of Incorporation | Ownership |
|---|---|---|
| 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.

*(Expressed in thousands of United States Dollars)*

## 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

Properties, 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:

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

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 contracts with customers for the year ended December 31, 2018***

The Company adopted *IFRS 15, Revenue from Contracts with Customers* (“IFRS 15”) effective January 1, 2018. IFRS 15 supersedes *IAS 18 – Revenue* (“IAS 18”). IFRS 15 details principles that an entity shall apply to report useful information to readers of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Company has applied IFRS 15 on a modified retrospective basis such that the cumulative effect, if any, of applying this standard is recognized as an adjustment to the opening balance sheet through equity on the date of initial application, January 1, 2018. The Company reviewed its revenue contracts with customers using the FRS 15 five-step model, which did not result in any changes to the comparative period or the opening deficit.

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

### 3.4 Revenue recognition (cont'd)

IFRS 15 is based on the principle that the timing of revenue recognition is when control of a good sold transfers to a customer and the Company has satisfied its performance obligation, (with revenue allocated to each performance obligation in the contract). Control is deemed to have passed to a customer when significant risk and reward of the product has passed to the customer, the Company has a present right to payment and physical possession of the product has been transferred to the customer. The amount of revenue recognized reflects the consideration to which the Company is entitled in exchange for transferring the good to the customer.

The Company earns revenue from its sales of dolomite products and dairy feed nutritional supplements. Revenue from the sale of products is measured at the fair value of the consideration received or receivable, based upon the transaction price agreed under the terms of a sales contract. The Company typically receives payment within fifteen to thirty days of shipment or delivery.

Sales revenue is recognized when control of the goods has been transferred to the buyer. The Company has assessed the performance obligations and other terms in its sales contracts in order to determine the timing of transfer of control. Control is generally transferred upon shipment (that is, when the goods have been loaded and have left a manufacturing facility) or upon delivery (the goods arrive at a named place of destination). Revenue is recognized once shipment or delivery has been achieved. Once shipped or delivered, depending upon the contract terms, the customer has legal title to, physical possession of, and the risks and rewards of ownership of the product.

For certain transactions, the Company arranges for transportation of the products on behalf of the customer. For each transaction, the Company assesses whether it is acting as a principal or agent with respect to arranging transportation. In cases where the Company is acting as principal (arranging for transportation and paying the freight), revenue and costs of sales are presented on a gross basis, so revenue includes the amount of freight charges recovered by the Company and the cost of sales includes the freight charges paid by the Company. In transactions where the Company is acting as principal with respect to freight, freight revenue is recognized when the Company has satisfied its performance obligation of arranging the freight, including acceptance of the freight rate by the customer. When the Company determines it is acting as an agent with respect to freight, revenue and cost of goods sold are presented on a net basis, thus there is no revenue recognition for freight. The Company has determined that, with respect to those transactions that include arranging transportation and freight, it is acting as principal in most cases.

### 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.

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

### 3.5 Income taxes (cont'd)

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.

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

### 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:

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

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.

### 3.10 Financial Instruments

The Company adopted *IFRS 9 Financial Instruments,* ("IFRS 9") effective January 1, 2018. IFRS 9 replaces *IAS 39 – Financial Instruments: Recognition and Measurement* ("IAS 39") and previous versions of IFRS 9.

IFRS 9 addresses the accounting treatment of financial instruments and considers three principal areas: (i) the classification and measurement of financial instruments, (ii) impairment and derecognition of financial instruments and (iii) hedge accounting. The objective of the standard is to establish principles for the financial reporting of financial assets and financial liabilities. IFRS 9 requires disclosure of information that enables users of its financial statements to evaluate the significance of financial instruments and their impact on the Company's financial position and performance.

*(Expressed in thousands of United States Dollars)*

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

### 3.10 Financial Instruments

IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS39.

The Company adopted IFRS 9 on a modified retrospective basis and was not required to restate prior periods. The adoption of IFRS 9 did not have an impact on the Company's consolidated financial statements. There were no impacts on the carrying value of any financial assets and financial liabilities as at January 1, 2018 and no measurement differences.

The Company's financial instruments, from which financial risk arises, are cash and cash equivalents, trade accounts receivables, accounts payable and accrued liabilities, floating and fixed rate bank loans, related party notes and the Series A preferred shares. At December 31, 2018, the Company did not have any investments in quoted or unquoted equity securities and was not a party to any derivative contracts.

The Company's financial instruments are classified and subsequently measured as follows under IFRS 9 as compared with the Company's previous policy in accordance with IAS 39:

| Asset/Liability | IAS 39 | IFRS 9 |
|---|---|---|
| Cash and cash equivalents | Fair value through profit or loss | Amortized cost |
| Accounts receivables | Loans and receivables at Amortized cost | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Debt | Amortized cost | Amortized cost |
| Series A preferred shares | Amortized cost | Amortized cost |

As a result of the adoption of IFRS 9, the Company's accounting policy for financial instruments has been updated. The requirements for initial measurement of financial instruments under IFRS 9 was carried forward from IAS 39. At initial recognition, a financial instrument is measured at fair value, including transaction costs, (unless the financial instrument is carried at fair value through profit or loss, ("FVTPL"), in which case the transaction costs are recognized in profit or loss).

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

### 3.10 Financial Instruments (cont'd)

The Company classifies its financial instruments in the following categories:

*Financial assets*

Financial assets are classified as either financial assets at amortized cost, financial assets at fair value through profit or loss, ("FVTPL"), or fair value through other comprehensive income.

i) Amortized cost: financial assets are classified at amortized cost if both the following criteria are met and the financial assets are not designated as at FTVPL: (a) the object of the Company's business model for these financial assets is to collect their contractual cash flows and (b) the asset's contractual cash flows represent "solely payments of principal and interest". The Company's cash and accounts receivables are recorded at amortized cost as they meet the required criteria.

ii) Financial assets recorded at FVTPL: financial assets are initially recorded and subsequently measured at fair value if they are acquired for the purpose of selling in the near term.

iii) Fair value through other comprehensive income: For investments in equity securities that are not held for trading, an irrevocable election can be made at initial recognition to classify the securities at fair value through other comprehensive income, with all subsequent changes in fair value being recognized in other comprehensive income.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

*Financial liabilities*

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL, (for example, liabilities held for the purpose of trading) or the Company has elected to measure them at FVTPL. The Company's accounts payable and accrued liabilities, as well as long term debt are initially recognized at fair value, net of any transaction costs and subsequently measured at amortized cost. Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled, or expired.

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company does not have any liabilities designated at FVTPL, the adoption of IFRS 9 did not impact the Company's accounting policy for financial liabilities.

Although accounts receivable and accounts payable with no stated interest rate are measured at amortized cost subsequent to initial recognition, in practice, they continue to be measured at their invoiced amount as the effect of discounting would be immaterial due to the terms of payment being between 15 - 30 days.

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

### 3.10 Financial Instruments (cont'd)

*Derivatives*

IFRS 9 also outlines requirements for accounting for hedging non-hedging derivative instruments. The Company does not utilize derivative instruments to mitigate exposures to commodity, currency, interest rate or other exposures.

*Impairment of financial assets*

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses ("ECL") which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Corporation's accounts receivable are considered collectible in one year or less; therefore, these financial assets are not considered to have a significant financing component.

The Corporation's accounts receivable are subject to the ECL model under IFRS 9. For the accounts receivable, the Corporation applies the simplified approach to providing for ECL prescribed by IFRS 9, which requires the use of the lifetime expected credit loss provision for all accounts receivable. In estimating the lifetime expected loss provision, the Corporation considers historical industry default rates as well as credit ratings of major customers. The Corporation has not recorded an ECL as management has deemed the amount to be nominal given the nature of the Corporation's accounts receivable.

### 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).

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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 3.12 Impairment of financial assets

Under IFRS 9, the impairment model for financial assets measured at amortized cost reflects expected credit losses. The Company recognizes loss allowances for expected credit losses. Trade receivables are assessed to determine if they are credit impaired at each reporting date. A provision or loss allowance is established based on the Company's credit loss experience and factors specific to the debtor and the economic environment. Loss allowances are deducted from the carrying amount of the assets. The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery .

### 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. The exploration and evaluation phase of a project ends when the technical and economic viability of the project has been demonstrated. Once 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

Business combinations are accounted for using the acquisition method under IFRS 3 *Business Combinations*, where the acquisitions of companies and assets meet the definition of a business under IFRS 3.

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.

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.

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

### 3.14 Business combinations (cont'd)

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 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 5. 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 Pending accounting changes

*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 adoption of IFRS 16 will result in changes to equipment and vehicle lease contracts which were previously classified as operating leases under IAS 17. Upon adoption, lease obligations equal to the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate will be recognized. A right of use asset, representing the Company's right to use the underlying leased asset, will be recognized. The leased asset will generally be equal to the lease obligation at adoption and subsequently depreciated. Operating lease expenses recognized in the consolidated statement of net earnings under IAS 17 will be replaced by depreciation of the right of use asset and interest expense on the lease obligation. IFRS 16 is being assessed to determine its impact on the Company's results and financial position.

## 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:

*(i) Revenue*

The Company makes judgments in determining whether a performance obligation is distinct (i.e. if a service is separately identifiable from other services provided and if the customer can benefit from it.) Performance obligations are accounted for separately if they are distinct.

Judgments are required when evaluating when a performance obligation is satisfied and revenue may be recognized. In making its judgments, management considers when a customer obtains control of the service promised in a contract and whether another entity fulfilling remaining services would need to re-perform work completed to date.

The Company makes judgments in determining whether the Company acts as principal or agent on certain sales to customers. The judgments made include determining whether the Company or a third-party controls the goods or services provided.

*(ii) 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 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 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.

*(iii) Dolomite properties*

The Company's 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.

## 4. JUDGMENTS AND ESTIMATES (CONT"D)

*(iv) 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.

*(v) Inventory valuation*

Inventories are recorded at the lower of cost and 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.

*(vi) 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.

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

*(vi) Business combinations (cont'd)*

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. SUBSIDIARIES AND BUSINESS SEGMENTS

Inter-Rock's business is organized into three 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 Dolomite LLC | United States | 100% |
| Papillon Agricultural Company Inc. | 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").

*(Expressed in thousands of United States Dollars)*

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

Segment operating results are as follows:

| **Year ended December 31, 2018** | **MIN-AD.** | **Mill Creek** | **Papillon** | **Other** | **Elimi-nations** | **Total** |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| Internal sales | 2,623 | - | 163 | 646 | (3,432) | - |
| External sales | 4,807 | 5,367 | 37,092 | - | - | **47,266** |
| **COST OF SALES** | | | | | | |
| Operating costs | 5,558 | 3,815 | 31,803 | - | (2,439) | **38,737** |
| Amortization & depletion, mining | 183 | 310 | - | 38 | - | **531** |
| **GROSS PROFIT** | 1,689 | 1,242 | 5,452 | 608 | (993) | **7,998** |
| **OPERATING EXPENSES** | | | | | | |
| Selling, general & administration | 1,054 | 1,143 | 3,831 | 650 | (960) | **5,718** |
| Amortization of intangible assets | - | - | 328 | - | - | **328** |
| **INCOME (LOSS) BEFORE FINANCING** | 635 | 99 | 1,293 | (42) | (33) | **1,952** |
| **FINANCING COSTS** | | | | | | |
| Interest on Series A preferred shares | - | - | - | 126 | | **126** |
| Interest on long-term debt | 33 | 91 | 227 | 38 | (33) | **356** |
| **INCOME (LOSS) BEFORE INCOME TAXES** | 602 | 8 | 1,066 | (206) | - | **1,470** |
| **INCOME TAXES** | | | | | | |
| Current | 5 | - | 329 | - | - | **334** |
| Deferred | - | - | - | 137 | - | **137** |
| **NET COMPREHENSIVE INCOME (LOSS)** | 597 | 8 | 737 | (343) | - | **999** |

| **As at December 31, 2018** | **MIN-AD.** | **Mill Creek** | **Papillon** | **Other** | **Elimi-nations** | **Total** |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets | 1,100 | 1,708 | 4,763 | 171 | (519) | **7,223** |
| Non-current assets | 1,397 | 3,466 | 4,154 | - | - | **9,017** |
| | 2,497 | 5,174 | 8,917 | 171 | (519) | **16,240** |
| **LIABILITIES** | | | | | | |
| Current liabilities | 1,104 | 773 | 2,838 | 134 | (331) | **4,518** |
| Non-current liabilities | 35 | 1,054 | 2,727 | 3,884 | - | **7,700** |
| | 1,139 | 1,827 | 5,565 | 4,018 | (331) | **12,218** |

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.

*(Expressed in thousands of United States Dollars)*

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

Segment balances for the prior year are as follows:

| Year ended December 31, 2017 | MIN-AD. | Mill Creek | Papillon | Other | Elimi-nations | Total |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| Internal sales | 2,845 | - | 76 | 508 | (3,429) | - |
| External sales | 4,855 | 4,809 | 42,226 | - | - | **51,890** |
| **COST OF SALES** | | | | | | |
| Operating costs | 5,520 | 3,309 | 36,218 | - | (2,568) | **42,479** |
| Amortization & depletion, mining | 246 | 333 | - | 10 | - | **589** |
| Impairment charges | 327 | - | - | 277 | - | **604** |
| **GROSS PROFIT** | 1,607 | 1,167 | 6,084 | 221 | (861) | **8,218** |
| **OPERATING EXPENSES** | | | | | | |
| Selling, general & administration | 921 | 1,050 | 3,383 | 711 | (861) | **5,204** |
| Amortization of intangible assets | - | - | 328 | - | - | **328** |
| **INCOME (LOSS) BEFORE FINANCING** | 686 | 117 | 2,373 | (490) | - | **2,686** |
| **FINANCING COSTS** | | | | | | |
| Interest on long-term debt | 46 | 113 | 262 | 34 | - | **455** |
| | 640 | 4 | 2,111 | (524) | - | **2,231** |
| Deferred income tax expense | - | - | - | 430 | - | **430** |
| **NET COMPREHENSIVE INCOME (LOSS)** | 640 | 4 | 2,111 | (954) | - | **1,801** |

| As at December 31, 2017 | MIN-AD. | Mill Creek | Papillon | Other | Elimi-nations | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| 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** |
| **LIABILITIES** | | | | | | |
| 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** |

*(Expressed in thousands of United States Dollars)*

## 6. INVENTORIES

Inventories comprise the following:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Raw materials and consumables | **562** | **760** |
| Finished goods | **608** | **635** |
| Total inventories | **1,170** | 1,395 |

Inventory recognized in cost of sales during the year amount to $7,684 (2017 - $6,647).

## 7. PROPERTIES, PLANT AND EQUIPMENT

| Cost | Land | Dolomite Properties | Mill Equipment | Mill | Vehicles | Spare Parts | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | 535 | 2,051 | 6,110 | 6,835 | 496 | 607 | 16,634 |
| Additions in the year | - | - | 20 | 119 | - | 41 | 180 |
| Disposals in the year (Note 8) | - | - | (565) | - | (51) | (327) | (943) |
| Balance, December 31, 2017 | 535 | 2,051 | 5,565 | 6,954 | 445 | 321 | 15,871 |
| Additions in the year | - | - | 168 | 184 | 49 | 7 | 408 |
| Disposals in the year | (20) | - | - | - | - | - | (20) |
| **Balance, December 31, 2018** | 515 | 2,051 | 5,733 | 7,138 | 494 | 328 | 16,259 |

| Accumulated Amortization and Depletion | Land | Dolomite Properties | Mill Equipment | Mill | Vehicles | Spare Parts | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | - | (1,203) | (3,778) | (5,149) | (402) | - | (10,532) |
| Additions in the year | - | (16) | (301) | (250) | (21) | - | (589) |
| Disposals in the year | - | - | - | 203 | 51 | - | 254 |
| Balance, December 31, 2017 | - | (1,219) | (4,079) | (5,197) | (372) | - | (10,867) |
| Additions in the year | - | (38) | (314) | (153) | (26) | - | (531) |
| Disposals in the year | - | - | - | - | - | - | - |
| **Balance, December 31, 2018** | - | (1,257) | (4,393) | (5,350) | (398) | - | (11,398) |

| Net Book Value | | | | | | | |
|---|---|---|---|---|---|---|---|
| As at December 31, 2017 | 535 | 832 | 1,486 | 1,757 | 73 | 321 | 5,004 |
| As at December 31, 2018 | 515 | 794 | 1,340 | 1,788 | 96 | 328 | 4,861 |

For the year ended December 31, 2018, there were no indicators of impairment in the carrying value of the Company's dolomite properties, plant and equipment

*(Expressed in thousands of United States Dollars)*

## 8. IMPAIRMENT OF NON-CURRENT ASSETS

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Mineral exploration properties | - | (277) |
| Properties, plant and equipment | - | (327) |
| **Total Impairment** | **-** | (604) |

*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 expenses 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.

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 at either property in 2019.

*Properties, 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.

## 9. 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 | 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** |
| Less: amortization | (184) | (124) | (8) | (12) | **(328)** | **-** |
| **Balance December 31, 2018** | 1,342 | 924 | 11 | 70 | **2,347** | **1,809** |

## 9. INTANGIBLE ASSETS AND GOODWILL (CONT'D)

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.

a) Customer relationships, which are long-standing relationships with many specialty feed ingredient suppliers, toll manufacturers and customers in the dairy industry.
b) Distribution rights, which are exclusive rights of the Company to produce and distribute specialty feed ingredients to the dairy industry.
c) 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.
d) 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.

The goodwill impairment analysis performed by the Company concluded there was no impairment of goodwill as at December 31, 2018 as the fair value of its CGUs exceeded its carrying value.

The CGU recoverable amount was determined based on using a 5 year discounted cash flow model. Key assumptions used in the discounted cash flows are: (a) projected cash flow was estimated using current results with a growth rate of 2% and a terminal growth rate of 4 times EBITDA, (b) taxes were estimated using current rates, (c) an estimate of working capital was based on historical requirements, (Papillon has historically not incurred material capital expenditures) and (d) a discount rate of 20% were used in the cash flow model.

*(Expressed in thousands of United States Dollars)*

## 10. DEBT

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

| | 2018 | 2017 |
|---|---|---|
| | **$** | $ |
| Aggregate debt facilities | | |
| (i) Revolving Credit Facility | **540** | 583 |
| (ii) Mill Creek Term Loan | **474** | 616 |
| (iii) Mill Creek Term Loan | **922** | 1,153 |
| (iv) Papillon Term Loan | **3,467** | 1,016 |
| (v) Equipment Financings | **119** | 160 |
| (vi) Related Party Notes | **555** | 3,555 |
| | **6,077** | 7,083 |
| Less: current portions of | | |
| Bank Debt | **(1,735)** | (1,253) |
| Related Party Notes | **(555)** | - |
| Equipment Financing | **(46)** | (89) |
| **Total long term debt** | **3,741** | 5,741 |

### Bank facilities

The Meadows Bank facilities (items (i) to (iii) in the table above) include the following:

(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 May 25, 2019. At December 31, 2018, $540 (2017 - $583) 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, 2018, $150 (2017 - $142) was recorded as current portion of long term debt and the balance of $324 (2017 - $474) was recorded as long term debt.

(iii) $1,264 Term Loan – a five and a half year, secured equipment acquisition term loan. 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, 2018, $245 (2017 - $233 ) was recorded as current portion of equipment purchase financing and the balance of $677 (2017 - $920) was recorded as long term debt.

## 10. DEBT (CONT'D)

The MIN-AD and Mill Creek 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. and contain certain covenants that limit, among other things, the ability of 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 of 1.30.

(iv) Papillon Term Loan - in the second quarter of 2018, Papillon Agricultural LLC (the parent company of Papillon Agricultural Company Inc.) arranged a $4.0 million, five year secured term loan bearing interest at a fixed rate of 4.75%. The proceeds of the loan were used to repay in full a bank term loan ($918) and the remaining Seller Notes ($3,000), (see Related party notes below).The loan is secured against all the present and future assets of Papillon Agricultural Company Inc. and Papillon Agricultural LLC, and is guaranteed by the Company and its subsidiaries, Secret Pass Gold Inc. and Papillon Agricultural Company Inc. The loan contains various covenants customary for a facility of this nature, including restrictions on new indebtedness, asset dispositions and acquisitions. The loan also contains financial covenants including (i) a minimum debt service cover ratio of 1.15 and (ii) beginning in the second year of the loan, a requirement that 80% of accounts receivable plus cash must be equal to or greater than the outstanding loan balance. At December 31, 2018, $800 (2017 - $Nil) was recorded as current portion of long term debt and the balance of $2,667 (2017 - $Nil) was recorded as long term debt.

(v) Equipment Financing - in the course of operations, MIN-AD and Mill Creek arrange equipment finance facilities with major equipment manufacturers. The total amount outstanding under these facilities at December 31, 2018 was $119 (2017 - $160) and the interest rate on the facilities ranges from 1.99% to 5.00% per annum.

(vi) Related Party Notes - on March 23, 2016, in connection with financing the acquisition of Papillon Agricultural Company Inc., the Company issued notes to the original shareholders of Papillon for $3,899 (the "Seller Notes"). The Seller Notes had a maturity date of March 23, 2019. During 2017, $899 of the Seller Notes were prepaid and in the second quarter of 2018, the remaining $3,000 of Seller Notes were prepaid. The Papillon noteholders are related parties as they continue to work for, or were directors of Papillion.

Also, in connection with financing the acquisition of Papillon, the Company borrowed $500 from the Chairman of the Company and $55 from the Chief Executive Officer of the Company, (the "Buyer Notes").The Buyer Notes are unsecured and bear interest at 6% per annum. The principal and accrued interest are due in full on December 31, 2019 and is recorded as current portion of long term debt. At December 31, 2018 accrued interest totaled $95 (2017 - $62)

As at December 31, 2018 and 2017 the Company was in compliance with all bank debt covenant requirements.

*(Expressed in thousands of United States Dollars)*

## 11. 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.

## 12. 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, 2019, so the liability has been presented in these financial statements as long term. During the year, the Board of Directors of the Company declared and paid three quarterly preferred share dividends totaling $126. (2017 - $Nil). The dividends are recorded as interest expense.

## 13. SHARE CAPITAL

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

| | Number | Amount |
|---|---|---|
| **Balance, December 31, 2018 and 2017** | 22,617,811 | $5,864 |

## 14. INCOME PER SHARE

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

.3

| | 2018 | 2017 |
|---|---|---|
| **Basic income per share** | | |
| Income available to common shares | **999** | 1,801 |
| Weighted average common shares (in thousands) | **22,618** | 22,618 |
| | **0.04** | 0.08 |
| **Diluted income per share** | | |
| Income available to common shares | **999** | 1,801 |
| Income available to common shares, assuming dilution | **999** | 1,801 |
| 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 |
| | **0.03** | 0.05 |

Each Preferred Share (Note 12) 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.

## 15. INCOME TAXES

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

| | 2018 | 2017 |
|---|---|---|
| | **$** | $ |
| Income before income taxes per financial statements | **1,470** | 2,231 |
| United States statutory tax rate | **27%** | 40% |
| Income tax | **397** | 892 |
| Change in estimate in future income tax recovery | **344** | (218) |
| Application of loss carryforward balances and other | **(204)** | (260) |
| Permanent differences | **24** | 28 |
| Difference between amortization for accounting and tax | **(89)** | (12) |
| Income tax | **471** | 430 |

| | 2018 | 2017 |
|---|---|---|
| Income tax expense: | **$** | $ |
| Current | **334** | |
| Deferred | **137** | 430 |
| Total | **471** | 430 |

*(Expressed in thousands of United States Dollars)*

## 15. INCOME TAXES (CONT'D)

Deferred income tax liabilities have been calculated as follows:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Carrying value of mineral properties, plant and equipment for accounting purposes in excess of carrying value for tax purposes | (1,726) | **(1,716)** |
| Carrying value of intangibles and goodwill for tax purposes in excess of carrying value | (4) | **29** |
| Carrying value of finance lease for tax purposes in excess of carrying value | - | - |
| United States tax losses | - | **862** |
| Less: tax losses not recognized | - | - |
| Approximate tax rate | **27%** | **40%** |
| Deferred income tax liability | **(467)** | **(330)** |

At December 31, 2018, the Company has Canadian tax losses which are not recognized as deferred tax assets. The Company recognizes the tax benefit of the tax losses only to the extent of anticipated future Canadian taxable income that can be reduced by tax losses. The gross amount of the tax losses for which a tax benefit has not been recorded expire as follows:

| Incurred | Expires | Amount |
|---|---|---|
| | | C$ |
| 2007 | 2027 | 464 |
| 2008 | 2028 | 377 |
| 2009 | 2029 | 262 |
| 2010 | 2030 | 319 |
| 2011 | 2031 | 328 |
| 2012 | 2032 | 303 |
| 2013 | 2033 | 249 |
| 2014 | 2034 | 169 |
| 2015 | 2035 | 166 |
| 2016 | 2036 | 199 |
| 2017 | 2037 | 262 |
| 2018 | 2038 | 75 |
| | | 3,173 |

*(Expressed in thousands of United States Dollars)*

## 16. RELATED PARTY TRANSACTIONS

### (a) Notes and loan related to the acquisition of Papillon Agricultural Company Inc., ("Papillon")

In the second quarter of 2018, Papillon repaid the remaining $3,000 outstanding principal balance of the Seller Notes due to the original shareholders of Papillion and made a final interest payment to the noteholders of $16. During the first six months of 2018, the Company paid interest of $59 to the noteholders. The Papillon noteholders are related parties as they either continue to work for Papillon or were directors of Papillon.

The Company's $1.5 million term loan with Shore United Bank, which was fully repaid in April 2018, required a personal guarantee from the CEO of the Company, (in addition to corporate guarantees provided by the Company and two of its subsidiaries). To compensate the CEO for assuming this obligation, the Board of Directors approved a guarantee fee payable to the CEO in an amount equal to an annual rate of 2% interest on the outstanding balance of the loan for so long as the guarantee was in place. At year end 2017, Shore United Bank agreed to release the CEO from the personal guarantee. Guarantee fees charged during the year were nil (2017 - $45.) The fee of $45 was paid in full to the CEO during 2018.

### (b) Key management remuneration

The Company's related parties as defined by IAS 24, Related Party Disclosures, include the key management of the Company and its subsidiaries. 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:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Short term benefits including salaries, consulting and director fees | **819** | 713 |

## 17. REVENUE SUPPLEMENTAL INFORMATION

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

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Min-Ad and Mill Creek | | |
| Dolomite sales | **7,680** | 7,245 |
| Freight charges | **2,117** | 2,124 |
| Fuel charges | **377** | 295 |
| Other revenue | **-** | - |
| | **10,174** | 9,664 |
| Papillon | | |
| Animal feed sales | **34,990** | **39,578** |
| Other revenue | **683** | **879** |
| Freight charges | **1,419** | **1,769** |
| | **47,266** | 51,890 |

## 18. 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 major financial institutions 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 19.

### 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, 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.

*(Expressed in thousands of United States Dollars)*

## 18. FINANCIAL RISK MANAGEMENT (CONT'D)

**Fair value measurement of financial instruments**

Fair value is the price that would be received to sell an asset or settle a liability in an orderly transaction between willing, knowledgeable parties in an arm's length transaction at the measurement date.
Fair values of financial instruments traded in active markets are determined based on quoted market prices, where available. For financial instruments not traded in an active market, fair values are determined based on appropriate valuation techniques. Such techniques may include discounted cash flow analysis, using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, and other valuation models.

The Company applies a hierarchy to classify valuation methods used to measure financial instruments carried at fair values subsequent to initial recognition. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable, as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 valuation techniques use significant observable inputs, either directly (i.e prices) or indirectly (i.e. derived from prices), or valuations are based on quoted prices for similar instruments; and

Level 3 valuation techniques use significant inputs that are unobservable (supported by little or no market activity).

At December 31, 2018, the Company did not have any financial assets or financial liabilities measured at fair value. The Company's financial assets and liabilities include cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, long term debt and the Series A preferred shares, none of which are measured at fair value subsequent to initial recognition. Due to their short-term nature, the carrying value of cash and cash equivalents, receivables and payables and accrued liabilities approximates their fair value. Long term debt is recorded on the Company's consolidated balance sheets at amortized cost, which approximates its fair value as all debt carries market rates of interest.

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **Financial assets measured at amortized cost** | | |
| Cash and cash equivalents | **2,463** | 2,106 |
| Accounts receivable | **3,255** | 3,893 |
| | | |
| **Financial liabilities measured at amortized cost** | | |
| Series A preferred shares | **3,417** | 3,417 |
| Accounts payable and accrued liabilities | **2,182** | 3,212 |
| Equipment purchase financing | **119** | 160 |
| Promissory notes to related parties | **-** | 3,555 |
| Long-term debt - current portion | **1,735** | 1,253 |
| Long-term debt - non-current portion | **3,668** | 2,115 |

*(Expressed in thousands of United States Dollars)*

## 19. MANAGEMENT OF CAPITAL

The Company considers its capital structure at December 31, 2018 to include shareholders' equity which totalled $4,022 (2017 - $3,023); Preferred Shares of $3,417 (2017 - $3,417) and long term debt of $6,077 (2017 - $7,083). (Note 10)

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 10.

## 20. COMMITMENTS AND DEBT MATURITY

The Company is committed to $7,168 for obligations and financial commitments in the normal course of operations and financing activities. At December 31, 2018, the Company had the following undiscounted financial commitments and financial liabilities:

| | **Total** | **2019** | **2020** | **2021** | **2022** | **Thereafter** |
|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Bank Principal Repayments | 5,403 | 1,735 | 1,218 | 1,241 | 942 | 267 |
| Equipment Financing | 119 | 46 | 26 | 24 | 15 | 8 |
| Operating Lease | 1,091 | 401 | 401 | 225 | 64 | - |
| Related Party Notes | 555 | 555 | - | - | - | - |
| **Total** | **7,168** | **2,737** | **1,645** | **1,490** | **1,021** | **275** |

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.