# INTER-ROCK MINERALS INC.

## MANAGEMENT'S DISCUSSION & ANALYSIS

## For the Year Ended December 31, 2019

**April 17, 2020**

**INTER-ROCK MINERALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

## NOTES TO READER

References to "Inter-Rock" and the "Company" in this discussion refer to Inter-Rock Minerals Inc. and its subsidiaries taken as a whole.

The following management discussion and analysis ("MD&A") provides an analysis of the financial condition of Inter-Rock at December 31, 2019 and compares it to the financial condition of the Company on December 31, 2018. The MD&A also analyzes the Company's results of operations for the year ended December 31, 2019 and compares those results to the results for the year ended December 31, 2018.

This MD&A has been prepared in compliance with the requirements of National Instrument ("NI") 51-102 – Continuous Disclosure Obligations. This MD&A should be read in conjunction with Inter-Rock's annual audited consolidated financial statements and corresponding notes for the years ended December 31, 2019 and December 31, 2018. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

All monetary amounts are expressed in United States dollars unless otherwise indicated.

This MD&A is prepared as of April 17, 2020.

## DESCRIPTION OF THE BUSINESS

Inter-Rock 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 Company Inc. ("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.

## 2019 HIGHLIGHTS

- Operating cash flow (before working capital changes) of $3.61 million, up from $3.40 million in 2018, (for comparative purposes, 2018 cash flow has been adjusted to assume the adoption of IFRS 16 – Leases. See Operations Review below for further details).

- Reduced debt by $1.41 million. Consolidated debt at the end of the year was $4.67 million.

- Tons sold at all three operating businesses increased in 2019.

Prices for diary products improved in 2019 after four years of low milk prices. Average raw milk prices in the U.S. increased by 16 percent in 2019 over the 2018 average. Prices reached five-year highs in the fourth quarter of 2019. Improved prices were attributable, in part, to reduced herd sizes, strong export sales of a broad range of dairy products and increasing domestic consumption of cheese and yogurt, which offset declining fluid milk consumption.

At the outset of 2020, the consensus annual outlook for the U.S. dairy industry was positive, although milk prices had started to decline in January and February, as higher prices in the fourth quarter of 2019 stimulated increased milk production. As of the date of this MD&A, the coronavirus pandemic, ("COVID-19") has significantly changed the outlook for the U.S. dairy market and for the global demand for dairy products, (refer to Risk Factors – Coronavirus – COVID-19). A recession in the United States will have a significant negative impact on the domestic dairy industry and exports of dairy products will also be materially depressed in the event of a global recession. Already, milk consumption is declining in the U.S., as restaurants and schools have closed due to COVID-19. The increased sale of milk through retail stores is not expected to compensate for the loss of milk sold through restaurants and schools. A reduction in milk production through increased culling of herds may temper the impact of slower economic activity on milk prices.

Despite the uncertainty of the length and magnitude of the economic impact of COVID-19, Inter-Rock expects that its available cash and cash flow will be sufficient to meet its operating requirements and debt repayment obligations in 2020.

## OPERATIONS REVIEW

The Company adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019. The objective of IFRS 16 is to record most leases on the lessee's balance sheet. The Company adopted IFRS 16 using a modified retrospective approach which does not require restatement of prior period financial statements. Prior to the adoption of IFRS 16, the Company's leases were classified as operating leases and payments made under operating leases were recognized as an expense in the statement of income and through operating activities in the statement of cash flows. For comparative purposes, this MD&A presents prior year operating costs and operating cash flow figures with the application of IFRS 16. The Company's principal leases include mobile mining equipment, rail cars and a rail siding at its dolomite operations and office space. For more information on IFRS 16 please see Note 3.15 in the Company's condensed consolidated financial statements.

### Papillon

Papillon develops and produces premium specialty nutritional products for dairy consultants, feed suppliers and dairy producers in the United States. Papillon has its own line of high quality proteins and rumen probiotic products that are produced under toll manufacturing agreements. In addition, Papillon distributes MIN-AD products and a clostridia control product.

Papillon recorded revenue of $34.92 million in 2019, down from $37.26 million in 2018. Tons sold of all products in 2019 were approximately 4% higher than the prior year. Papillon's revenue for its principal products reflects targeting a set gross margin per ton. As a consequence, if the cost of input ingredients fall, revenues will fall commensurately; however gross margin per ton may be maintained. Accordingly, despite lower revenue in 2019, gross profit (revenue less cost of goods sold) was largely unchanged at $5.41 million, ($2018: $5.49 million).

Sales of protein supplements improved along with higher milk prices in the third and fourth quarters of 2019. Protein sales in the fourth quarter accounted for over 30% of total protein sales for the year. With continued weak dairy market conditions in the first half of 2019, sales of Papillon's higher margin products declined from the prior year as it typically takes three or four quarters of higher milk prices to generate an improvement in dairy farm finances. Papillon's higher value products normally experience a gradual recovery.

Cash flow from operating activities (before working capital changes) was $1.52 million in 2019, as compared with $1.66 million in 2018, (cash flow in 2018 includes a one-time recovery of $127,000). Excluding the recovery in 2018, cash flow in 2019 was similar to the prior year, in part due to maintaining SG&A expenses at approximately the same level as 2018.

Despite poor dairy market conditions in 2018 and the first half of 2019, Papillon continued to invest in marketing, business development and new staff, including hiring a new national sales manager, to expand the geographic reach of the sales team.

**Mill Creek**

Mill Creek owns and operates a dolomite quarry and plant in Mill Creek, Oklahoma. Mill Creek sells into specialty markets for dolomite, principally glass, roofing materials and aglime. Located approximately half way between Dallas, TX and Oklahoma City, OK, Mill Creek is ideally located to serve the large concentration of glass and asphalt shingle manufacturers in Texas, Oklahoma, and eastern Kansas.

About 75% of Mill Creek's sales volume is to the glass industry, primarily for float glass production which is used in the construction and automotive industries. Mill Creek produces a uniform composition, low decrepitation dolomite for glass furnaces, where it serves as a flux, which assists melting and adjusts the melt viscosity, and acts as a source of magnesium and calcium. The filler and aglime markets require purity and uniformity, but have no decrepitation requirement. The filler market, primarily for asphalt shingles, accounts for about 15% of Mill Creek's sales volume and the remaining 10% of sales are to the aglime market where Mill Creek's products provide a high purity source of calcium and magnesium to enhance soils and reduce acidity.

Sales logistics at Mill Creek are straightforward as the majority of customers have FOB Mill Creek pricing and thus make their own freight arrangements. Most shipments are by truck, but the plant is located on a railway siding and some shipments are made by rail.

Mill Creek recorded net revenue of $4.95 million in 2019, an increase of about 9% from 2018 ($4.56 million). The increase in revenue in 2019 was attributable to higher sales volumes, which increased by 10% over the prior year. The proportion of sales tons to glass customers remained constant year-over-year at about 77%.

Operating cash flow (before working capital changes) was $950,000 in 2019, as compared with $748,000 of cash flow generated in 2018, ($442,000 of equipment lease payments in 2019 (2018: $339,000), previously recorded as operating costs, are now recorded as financing related costs under IFRS 16). Cash flow improved as a result of higher revenue; however, the increase was partly offset by a 12% increase in mining and plant operating costs due to increased expenditures on quarry dewatering and plant maintenance and repair.

Mill Creek incurred capital expenditures of $393,000 in 2019, as compared with $322,000 in 2018. Capital expenditures of $350,000 are budgeted for 2020.

**MIN-AD**

MIN-AD quarries, processes, and markets a specialty dolomite for dairy and beef cattle feed. The dolomite is used as a source of magnesium and calcium and as a rumen acid buffer. MIN-AD produces three product lines: (i) Standard – a broad particle size distribution for dry supplements; (ii) Fines – a finely ground product sold to liquid feed manufacturers and (iii) Granular – a dust free coarse product for cattle on pasture. Approximately 96% of sales are in the United States, while the other 4% are in Alberta and British Columbia. MIN-AD's quarry and grinding plant are located in northern Nevada near the town of Winnemucca.

MIN-AD's sales and marketing activities are managed by Papillon. In the northeast, central Atlantic and upper mid-west regions of the U.S., Papillon acts as the exclusive distributor of MIN-AD's products. Under a distribution agreement, MIN-AD products are purchased by Papillon and then sold by Papillon to dairy feed manufacturers. This arrangement takes advantage of Papillon's marketing and sales expertise and geographic reach in the eastern United States. In 2019, almost 40% percent of MIN-AD's revenue was generated by sales to Papillon. Papillion also acts as a sales agent for MIN-AD's products in regions of the U.S. not covered by the exclusive distribution agreement, primarily the mid-west and western states. Papillon is paid a commission by MIN-AD for tons sold under a sales agent agreement.

MIN-AD's sales volumes in 2019 were 10% higher than the prior year. Gross revenue (including freight and fuel costs passed on to customers) was $7.66 million in 2019 as compared with $7.43 million in 2018. Revenue improved as a result of higher sales, particularly a 14% increase in tons sold to Papillon.

Operating cash flow (before working capital changes) was $985,000 in 2019, down from $1.03 million in 2018 ($207,000 of equipment lease payments in 2019 (2018: $207,000), previously recorded as operating costs, are now recorded as financing related costs under IFRS 16). The decrease in cash flow was largely attributable to higher costs for rail related fees, contract mining and general and administrative expenses.

MIN-AD incurred $489,000 of capital expenditures in 2019, (2018: $79,000). Approximately $215,000 of the capital expenditures in 2019 were for a new front-end loader. Capital expenditures of $350,000 are budgeted for 2020.

## CONSOLIDATED FINANCIAL REVIEW

| **Financial Performance** | Three months ended | | Year ended | |
|---|---|---|---|---|
| **US$,000** | **Dec. 31, 2019** | Dec. 31, 2018 | **Dec. 31, 2019** | Dec. 31, 2018 |
| Revenue | **$11,871** | $10,298 | **$44,664** | $47,266 |
| Operating costs[1] | **$9,200** | $8,000 | **$35,358** | $38,149 |
| SG&A | **$1,402** | $1,646 | **$5,699** | $5,718 |
| Net income (loss) | **$732** | ($203) | **$1,633** | $999 |
| Income per share, basic | **$0.03** | ($0.01) | **$0.07** | $0.04 |
| | | | | |
| Cash flow from operations[1,2] | **$1,269** | $652 | **$3,607** | $3,399 |
| Capital expenditures | **$256** | $146 | **$877** | $408 |

[1] 2018 operating costs and cash flow from operations adjusted to reflect IFRS 16, Leases.
[2] Before working capital changes.

***Review of Fourth Quarter Financial Results***

The Company recorded revenue of $11.87 million in the fourth quarter of 2019, an increase of 15% compared to the prior year period (Q4 2018: $10.30 million). The increase in revenue was principally attributable to higher tons sold by Papillon as a result of improved dairy market conditions. Operating cash flow in the fourth quarter of 2019 of $1.27 million was almost double the operating cash flow in the year earlier period (Q4 2018: $652,000) due to higher gross profit and lower SG&A expenses.

***Review of 2019 Financial Results***

The Company recorded revenue of $44.66 million in 2019, a decrease of 6% from 2018 revenue of $47.27 million. Despite lower revenue, gross profit (revenue minus operating costs) increased to $9.31 million, up from $8.53 million in 2018. Papillon accounted for 78% of the Company's consolidated revenue in 2019. As previously noted, the majority of Papillon's revenue is determined as a set margin over the cost of goods sold, so as raw ingredient prices fall, revenue also falls; however, with a set profit margin per ton sold, gross profits increase with sales volume. In 2019, gross profit increased as a result of higher sales volumes at all three operating businesses.

Operating costs at the dolomite businesses include quarrying, plant and maintenance costs, while Papillon's operating costs primarily comprise raw material costs and toll manufacturing fees. Operating costs were $35.36 million in 2019, down from $38.15 million in 2018, largely reflecting lower costs of ingredients for Papillon's protein products. Operating costs as a percent of revenues fell slightly in 2019.

Selling, general and administrative expenses, ("SG&A") were $5.67 million in 2019, as compared with $5.72 million in 2018. SG&A includes all administrative, sales and marketing costs for the Company's three wholly owned subsidiaries as well as Toronto office corporate general and administrative expenses. SG&A expenses were relatively flat year-over-year at the dolomite operations and for the corporate office. At Papillon, increases in payroll related expenses were offset by reduced spending for professional fees and research and development.

Interest expense was $415,000 in 2019, as compared with $356,000 in 2018. The 2019 figure includes $111,000 of interest expense recognized on lease liabilities, (2018: $0). Lower interest expense related to debt in 2019 is attributable to a reduction in the Company's consolidated debt. During 2019, the Board of Directors declared three quarterly preferred share dividends, totalling $129,000, as compared with three quarterly dividend payments of $126,000 in 2018. The dividends are calculated at a rate equivalent to the U.S. prime interest rate and are recorded as interest on Series A preferred shares on the consolidated statement of income.

During the year ended December 31, 2019, the Company recognized a current tax expense of $80,000 and a deferred tax recovery of $186,000, as compared with a current tax expense of $334,000 and deferred tax expense of $137,000 for the year ended December 31, 2018.

Inter-Rock reported net income of $1.63 million in 2019, or $0.07 per share, as compared with net income of $999,000, or $0.04 per share in 2018.

## FINANCIAL CONDITION

| Financial Condition (US$,000) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Current assets | **$8,394** | $7,223 |
| Total assets | **$18,847** | $16,240 |
| Current liabilities | **$5,256** | $4,518 |
| Total liabilities | **$13,278** | $12,218 |
| Working capital | **$3,138** | $2,705 |
| Total debt | **$4,671** | $6,077 |
| Shareholders' equity | **$5,569** | $4,022 |

The financial condition of the Company remains strong with working capital of $3.14 million at December 31, 2019, including $1.68 million of cash. Total assets and liabilities are both higher at year end 2019, as compared with 2018, partially as a result of the adoption of IFRS 16, which required the Company to record a right-of-use asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. At December 31, 2019, the net book value of the right-of-use assets was $1.53 million and the lease liability was $1.64 million. The Company's consolidated debt decreased to $4.67 million at December 31, 2019, down from $6.08 million at December 31, 2018.

The Company's dolomite subsidiaries had $200,000 available under a revolving credit facility at the end of 2019.

### Debt Facilities

The Company's bank debt at December 31, 2019 is summarized below. The borrowers under the first two facilities listed below are MIN-AD and Mill Creek. The MIN-AD and Mill Creek facilities are secured by the assets of MIN-AD and Mill Creek and are guaranteed by both the Company and its subsidiary, Secret Pass Gold Inc.

(i) $500,000 revolving credit facility: a one-year, revolving credit facility in the amount of the lesser of $500,000 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. The facility matures on May 25, 2020. At December 31, 2019, the outstanding balance was $300,000.

(ii) $1.73 million term loan: a five-year secured term loan bearing interest at a fixed rate of 5.50% per annum and amortizing over sixty months in equal instalments. The loan matures in June, 2024. At December 31, 2019, the outstanding balance was $1.58 million.

(iii) $4.0 million term loan: a five-year secured term loan bearing interest at a fixed interest rate of 4.75% and amortizing over sixty months with equal principal repayments of $66,667 plus interest. The loan matures in April 2023. The borrower is Papillon Agricultural LLC, the parent company of Papillon. The loan is secured by the assets of Papillon and Papillon Agricultural LLC, and is guaranteed by the Company and its subsidiaries, Secret Pass Gold Inc. and Papillon. At December 31, 2019, the outstanding balance was $2.67 million.

In addition to the debt described above, the Company had approximately $126,000 of debt outstanding at December, 2019 under various equipment financing facilities.

The borrowers under the bank facilities were in compliance with all debt covenants as of the date of this MD&A.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to a company's ability to access cash. Sources of liquidity generally include operating cash flow, proceeds from the issuance of debt and equity, availability under credit facilities and proceeds from asset sales. The Company's strategy is to generate positive operating cash flow to fund its operating, financing and capital requirements.

At December 31, 2019 the Company had consolidated cash of $1.68 million. The Company's dolomite subsidiaries also had $200,000 available under a revolving credit facility. In the opinion of management, the Company's liquidity comprising cash, cash flow from operations and availability under the revolving credit facility, is sufficient to meet normal operating requirements and financing commitments. The Company's most significant liquidity requirements during 2020 are scheduled repayments of bank debt, interest and lease payments, which in aggregate total $2.47 million, (including $300,000 under the revolving credit facility, which the Company expects to renew for twelve months beyond the current maturity date of May 2020).

### Cash Flows

The change in the Company's cash balance during 2019 is reconciled as follows ($000):

| | |
|---|---|
| **Cash at January 1, 2019** | **$2,463** |
| Cash provided by operations | $3,607 |
| Proceeds from loans | $357 |
| Repayments of debt and interest | ($2,154) |
| Repayment of lease obligations | ($699) |
| Cash used for capital equipment purchases | ($877) |
| Cash provided (used) by changes in working capital | ($859) |
| Other | ($29) |
| Preferred share dividends | ($129) |
| **Cash December 31, 2019** | **$1,680** |

### Cash Flow Provided by Operating Activities

Before working capital adjustments, the Company generated $1.27 million of operating cash flow in the fourth quarter of 2019, as compared with $626,000 in the prior year quarter. Operating cash flow for the full year 2019 was $3.61 million, up 6% from $3.40 million in 2018. The increase in operating cash flow in the fourth quarter and for the year ended December 31, 2019 is primarily attributable to higher sales as a result of improved milk prices in the second half of the year.

### Cash Flow Used in Financing Activities

In 2019, the Company made scheduled debt repayments of principal and interest of $2.15 million (2018: $5.38 million). In addition, the Company made payments related to lease obligations of $699,000, (2018: nil). The Company received loan proceeds of $357,000, including drawing $300,000 under its revolving credit facility and $57,000 for a mine vehicle purchase.

The Company paid $129,000 of preferred share dividends in 2019, (2018: $126,000).

### Cash Flow Used in Investing Activities

In the fourth quarter of 2019, cash used in investing activities was $256,000, as compared with $146,000 in the year earlier period.

In 2019, cash used in investing activities was $877,000 as compared with $408,000 in 2018. The capital investments were incurred at the Company's dolomite operations primarily for mill equipment and refurbishments and for the purchase of a new front-end loader. The Company has budgeted $700,000 for capital expenditures at MIN-AD and Mill Creek in 2020.

### Selected Annual Information

| **US$,000** | **2019** | 2018 | 2017 |
|---|---|---|---|
| **Financial Performance** | | | |
| Revenue | **$44,664** | $47,266 | $51,890 |
| Operating costs[1] | **$35,358** | $38,149 | $42,050 |
| SG&A | **$5,699** | $5,718 | $5,204 |
| Net income | **$1,633** | $999 | $1,801 |
| Income per share, basic | **$0.07** | $0.04 | $0.08 |
| | | | |
| Cash flow from operations[1,2] | **$3,607** | $3,399 | $4,636 |
| Capital expenditures | **$877** | $408 | $1,520 |

[1] 2018 and 2017 adjusted for IFRS 16.
[2] Before working capital changes.

### Summary of Quarterly Results

| US$,000 | **Q4/19** | **Q3/19** | **Q2/19** | **Q1/19** | **Q4/18** | **Q3/18** | **Q2/18** | **Q1/18** |
|---|---|---|---|---|---|---|---|---|
| Revenue | 11,871 | $11,089 | $11,605 | $10,099 | $10,298 | $11,280 | $13,278 | $12,410 |
| Net Income (Loss) | $732 | $569 | $470 | ($138) | ($203) | $487 | $386 | $329 |
| EPS – Basic | $0.03 | $0.03 | $0.02 | ($0.01) | ($0.01) | $0.02 | $0.02 | $0.01 |

Quarterly revenue generally improved in the last three quarters of 2019 following a period of very low milk prices in the fourth quarter of 2018 and the first quarter of 2019. The net losses recorded in the fourth quarter of 2018 and first quarter of 2019 are primarily attributable to the negative impact of sustained low milk prices on Papillon's sales volumes.

## FINANCIAL COMMITMENTS

The Company incurs financial commitments in the normal course of operations and financing activities. Financial commitments include payments due under bank loans, equipment leases and equipment financing loans, among other commitments. At December 31, 2019, the Company had the following financial commitments:

| (US$,000) | Total | 2020 | 2021 | 2022 | 2023 | Thereafter |
|---|---|---|---|---|---|---|
| Debt repayments | $4,545 | $1,418 | $1,136 | $1,155 | $642 | $194 |
| Equipment financings | $126 | $38 | $63 | $15 | $10 | $0 |
| Lease obligations | $2,263 | $802 | $563 | $372 | $166 | $360 |
| **Total** | **$6,934** | **$2,258** | **$1,762** | **$1,542** | **$818** | **$554** |

Debt repayments represent the principal only and includes $300,000 drawn under the Company's revolving credit facility which matures May 25, 2020. The Company anticipates extending the maturity date of the facility for an additional year. Lease obligations represent the undiscounted amount of the lease commitments, not the discounted liability recorded on the Consolidated Balance Sheet. Lease obligations include the lease of corporate office space in Toronto. The office lease commenced subsequent to year end and, accordingly, was not included in the lease liability recorded on the Balance Sheet at year end 2019.

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 22,438,811 common shares and 17,136,980 preferred shares issued and outstanding.

The Company does not have any equity-based compensation plans.

## RELATED PARTY TRANSACTIONS

In connection with the acquisition of Papillon, the Company issued unsecured promissory notes of $500,000 to the Company's Chairman and $55,000 to the CEO. The notes accrued interest at 6% per annum, with the accrued interest payable with the principal at maturity on December 31, 2019. During the third quarter of 2019, the note to the CEO was repaid in full with accrued interest of $11,400. During the fourth quarter of 2019, the note to the Chairman was repaid in full with accrued interest of $114,000.

## SUBSEQUENT EVENT

### Normal Course Issuer Bid

On February 14, 2020, the Company received approval to commence a Normal Course Issuer Bid (the "NCIB") to purchase for cancellation up to 1,130,891 Common Shares, representing 5% of the outstanding Common Shares of the Company. Inter-Rock may purchase common shares under the NCIB over the next twelve-month period beginning on or about February 18, 2020. The NCIB will terminate upon the earliest of (i) the Company purchasing 1,130,891 common shares, (ii) the Company providing notice of termination of the NCIB and (iii) the date that is 12 months following the commencement of the NCIB.

Any purchases under the NCIB will be conducted on the open market through the facilities of the TSXV or alternative Canadian trading systems. The price paid for any Common Shares repurchased under the NCIB will be the prevailing market price at the time of purchase. All Common Shares purchased by the Company will be cancelled. As of the date of this MD&A, the Company had purchased 179,000 shares for cancellation.

A copy of the Form 5G – Notice of Intention to Make a Normal Course Issuer Bid, filed by the Company with the TSXV, can be obtained from the Company upon request without charge.

**Paycheck Protection Program**

In March 2020, the U.S. government passed the Coronavirus Aid, Relief, and Economic Security Act, ("CARES ACT") to provide financial assistance to individuals and businesses. A major component of the CARES ACT is the Paycheck Protection Program ("PPP"). The principal aim of the PPP is to provide loans to small businesses so that they have sufficient funds to keep employees on the payroll. The loans are available through the U.S. government's Small Business Administration, ("SBA"). PPP loans are obtained by applying through an SBA approved lender. Borrowers are required to certify that the current economic uncertainty necessitates the loan request.

The amount of a PPP loan is the lesser of $10.0 million or 2.5 times a Company's average monthly payroll, including salaries, lease/mortgage interest and utilities. The loan proceeds are only to be used for payroll and other allowable expenses. The loan term is for two years and has a fixed interest rate of 1%. There are no repayments of principal and interest required for the first six months of the loan. If employers maintain their payroll for eight weeks, then 100% of the loan can be forgiven. The amount forgiven depends upon the number of employees retained in the eight week period following loan funding.

The Company's three operating businesses have PPP loan applications accepted and funds reserved by the SBA in the following amounts: Papillon: $317,000, MIN-AD: $214,000 and Mill Creek: $284,000. Papillon's loan was funded on April 16, 2020 and it is anticipated that the loans for MIN-AD and Mill Creek will be funded by the end of April 2020.

## FINANCIAL INSTRUMENTS AND 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. The Company does not use derivative financial instruments as part of its strategy to manage market 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 receivable 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 creditworthiness 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.

### 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 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 and 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 floating rate debt 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.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions in applying accounting policies that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. We review these estimates and underlying assumptions on an ongoing basis based on our experience and other factors, including expectations of future events that we believe to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Certain accounting estimates and judgements have been identified as being "critical" to the presentation of our financial condition and results of operations because they require us to make subjective and/or complex judgments about matters that are inherently uncertain; or there is a reasonable likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates.

The Company's critical accounting judgements and estimates are described in Note 4 to the Consolidated Financial Statements.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the consolidated financial statements; and (ii) the consolidated financial statements fairly present all material respects the financial condition, results of the operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), the Company utilizes the Venture Issuer Basic Certificate, which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

I. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

II. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a Venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Inter-Rock has identified a potential control weakness regarding a lack of segregation of duties because of limited staff resources. Inter-Rock believes that this control weakness has not caused any material information to be withheld in its financial disclosure and has not impacted reported financial results.

## RISK FACTORS

The following list details material risks to the business of the Company. The risks described below are not exhaustive. Additional risks and uncertainties, or those that the Company currently deems to be immaterial, may become material and adversely affect the Company's business. The realization of any of these risks may materially and adversely affect the Company's business, financial condition, results of operations and/or the market price of the Company's securities.

## Coronavirus (COVID-19)

Coronavirus disease is an infectious respiratory disease caused by a new virus. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. As a consequence, governments worldwide have enacted emergency measures to reduce the spread of the disease. The measures include travel bans, physical distancing, quarantine periods for people that have the disease and those that have travelled, closing of social, cultural and educational facilities, and in some jurisdictions, the closing of all non-essential businesses. Global equity markets have declined considerably and have experienced extreme volatility. Governments are providing substantial monetary and fiscal measures in an effort to stabilize economic conditions; however, it is not clear to what extent these measures will mitigate and stabilize the serious negative economic consequences resulting from the emergency measures imposed to combat COVID-19.

COVID-19 could have a substantial negative impact on the operations of the Company, its suppliers and its customers. Any labour quarantines or other disruptions to the Company's operations may impact its ability to provide products to its customers and, as a consequence, negatively impact the Company's revenues and cash flow. Similarly, the closure of one of the Company's quarrying and processing operations or its toll manufacturing facilities could severely limit the Company's production and its ability to supply its customers. Moreover, a widespread health crisis in the United States could have a material impact on the economy and lead to a prolonged recession that could seriously depress the demand for the Company's products. It is not possible to reliably estimate the length and severity of the economic consequences of the COVID-19 pandemic and the impact on the operations and financial results of the Company.

As of the date of this MD&A, the Company's operations in the United States have not been directly impacted.

## Competition

The Company competes with other businesses that produce, market and sell similar products. Many of these companies have greater financial resources, closer proximity to markets and technical capabilities than Inter-Rock. As a consequence of this competition, the Company may be unable to compete on the basis of price with other producers and lose market share. Moreover, the Company may be unable to acquire or maintain attractive dolomite properties or skilled personnel on acceptable terms. As a result, the Company's financial and operational condition could be materially adversely affected. The Company makes efforts to counter competition risks through marketing, distribution agreements, customer service and pricing strategy.

## Commodity Prices

Inter-Rock's businesses, particularly MIN-AD and Papillon, are exposed to fluctuations in the price of milk and the price of feed ingredients for dairy and beef cattle (including the price of certain grains and forage). Dairy farmers may spend less on specialty feed additives, like those produced by Papillon, if milk prices drop, while both dairy and beef producers may spend less on specialty products produced by MIN-AD and Papillon if the cost of feed ingredients increase. Fluctuations in the price of milk and feed ingredients are caused by numerous factors beyond the control of Inter-Rock, including milk production levels, herd sizes, crop yields and unusual weather patterns, among others.

## Government Regulation

The quarrying, processing and development activities of the Company are subject to various laws governing development, production, taxes, royalties, labour standards and occupational health and safety, toxic substances, land use, water use and other matters. In addition, Papillon's and MIN-AD's products are subject to feed safety regulations. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could have an adverse effect on the Company's financial position and results of operations.

## Environmental Regulation

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's financial position and results of operations. Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from continuing its operations or from proceeding with planned exploration or development of mineral properties.

## Cost Risk

The Company is exposed to industry wide cost pressures on capital and operating expenditures. The increasing costs seen in the Company's operations increases the risk relating to the profitability of its operations and the economic returns on its investments. The Company continues to implement cost management and pricing strategies to mitigate this risk.

## Indebtedness

Although the Company has been successful in making its scheduled principal and interest repayments under its various note and loan facilities, there can be no assurance that it will continue to do so. The Company's level of indebtedness could have material consequences for its operations including: (a) limiting its ability to borrow additional amounts for working capital, capital expenditures or debt service requirements; (b) limiting the Company's ability to use operating cash flow in other areas, such as capitalizing on business opportunities or reacting to competitive pressures because of its obligations to service debt; (c) increasing the Company's vulnerability to general adverse economic and industry conditions; and (d) limiting its ability or increasing the costs to refinance indebtedness.

The Company expects to utilize its cash flow from operations to pay its operating costs and to pay interest and principal on its debt. The Company's ability to meet these payment obligations will depend on its future operating and financial performance, which will be affected by financial, business, economic and other factors. The Company will not be able to control many of these factors, such as economic conditions in the markets in which it operates. The Company cannot be certain that its future cash flow from operations will be sufficient to allow it to make principal and interest payments on its debt and meet its other obligations. If cash flow from operations is insufficient or if there is a contravention of the debt facility covenants, the Company may be required to refinance all or part of its existing debt, sell assets, borrow additional money or issue equity. There can be no assurance that the Company will be able to refinance all or part of its existing debt on terms that are commercially reasonable.

**Dependence on Management and Key Personnel**

Inter-Rock is dependent on the services of key executives and a small number of highly skilled and experienced operating personnel. Loss of any of these people could have a material adverse effect on the Company's business. The marketplace for skilled personnel may become more competitive, which means the cost of hiring, training and retaining such personnel may increase. Factors outside the Company's control, including competition for human capital and the high-level of expertise and experience required to manage the Company's businesses will affect the Company's ability to employ the specific personnel required. The failure to retain or attract a sufficient number of skilled personnel could have a material adverse effect on the Company's business, results of operations and financial condition. The Company has not taken out and does not intend to take out key man insurance.

## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements which may include, but are not limited to, statements with respect to the future financial or operating performance of Inter-Rock and its subsidiaries. All statements other than statements of historical fact are forward-looking statements. Generally, forward-looking statements can be identified by the use of words such as "plans", "expects", "anticipates", "believes", "estimates", "expects" and similar expressions, or the negatives of such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might", or "will" be taken, occur or be achieved. Forward-looking statements are based on reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to price volatility for the Company's dairy feed ingredients and dolomite products, changes in economic conditions in the markets for the Company's products, particularly the diary market in the United States, market competition, the ability to attract and retain skilled staff, timing and availability of external financing on acceptable terms, increases in costs, environmental compliance, and changes in environmental and other local legislation and regulation, interest rate fluctuations, as well as those risk factors listed in the "Risk Factors" section in the Company's most recent annual MD&A. There may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

The Board of Directors of Inter-Rock Minerals Inc. has approved the disclosure contained in this MD&A.