

Inter-Rock Minerals Inc.
Consolidated Financial Statements

Expressed in United States dollars

Years ended December 31, 2019 and 2018

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, 2019 and 2018 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, 2019 and 2018, and consolidated financial performance and its consolidated cash flows for the years then ended 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.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. 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 to governance. 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 Jakovic.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 17, 2020
Toronto, Ontario

Inter-Rock Minerals Inc.

Consolidated Balance Sheets

As at December 31st

(Expressed in thousands of United States Dollars)

	Note	2019	2018
		\$	\$
ASSETS			
Current assets			
Cash		1,680	2,463
Accounts receivable		4,000	3,255
Inventories	6	2,237	1,170
Prepaid expenses and other assets		477	335
Total Current Assets		8,394	7,223
Non-current assets			
Properties, plant and equipment	7	6,625	4,861
Intangible assets	8	2,019	2,347
Goodwill	8	1,809	1,809
Total Assets		18,847	16,240
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		3,190	2,087
Accrued interest payable	9	-	95
Current portion of long term debt	9	1,419	1,735
Current portion of lease obligations	3	609	-
Current portion equipment purchase financing	9	38	46
Current portion of promissory notes to related parties	9	-	555
Total Current Liabilities		5,256	4,518
Non-current liabilities			
Long term debt	9	3,126	3,668
Equipment purchase financing	9	88	73
Lease obligations	3	1,035	-
Deferred income tax liability	14	281	467
Asset retirement obligation	10	75	75
Series A preferred shares	11	3,417	3,417
Total Liabilities		13,278	12,218
Equity			
Share capital	12	5,864	5,864
Contributed surplus		315	315
Deficit		(610)	(2,157)
Total Equity		5,569	4,022
Total Liabilities and Equity		18,847	16,240

Financial Commitments (Note 19)

Subsequent Events (Note 20)

Approved on behalf of the Board of Directors:

"Michael B. Crombie"
Director

"David R. Crombie"
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, except share and per share amounts)

	Note	2019	2018
		\$	\$
REVENUE	5,16	44,664	47,266
COST OF SALES			
Operating costs	5	35,358	38,737
Amortization and depletion, mining	7	1,208	531
		36,566	39,268
GROSS PROFIT		8,098	7,998
OPERATING EXPENSES			
Selling, general and administrative	5	5,699	5,718
Amortization of intangible assets	8	328	328
INCOME BEFORE FINANCING COSTS		2,071	1,952
FINANCING COSTS			
Interest on Series A preferred shares	11	129	126
Interest on debt and lease obligations	9	415	356
INCOME BEFORE INCOME TAXES		1,527	1,470
INCOME TAXES			
Current	14	80	334
Deferred	14	(186)	137
		(106)	471
NET INCOME AND COMPREHENSIVE INCOME		1,633	999
Basic income per share	13	0.07	0.04
Diluted income per share	13	0.04	0.03
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 12)	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$
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
Change in accounting policy (Note 3)	-	-	(86)	(86)
Balance, January 1, 2019	5,864	315	(2,243)	3,936
Net income and comprehensive income	-	-	1,633	1,633
Balance, December 31, 2019	5,864	315	(610)	5,569

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	2019	2018
		\$	\$
CASH PROVIDED BY (USED IN) OPERATIONS			
Net income		1,633	999
Items not affecting cash			
Amortization and depletion, mining		1,208	531
Amortization of intangible assets		328	328
Interest expense		544	482
Deferred income tax expense (recovery)		(186)	137
Loss on disposal of properties, plant and equipment		51	-
		3,578	2,477
Net changes in non-cash working capital			
Accounts receivable		(745)	638
Inventories		(1,067)	225
Prepaid expenses		(142)	(77)
Accounts payable and accrued liabilities		1,095	(1,096)
Accrued interest payable		-	33
Cash generated by operating activities		2,719	2,200
INVESTING			
Purchase of properties, plant and equipment	7	(877)	(408)
Proceeds on disposal of properties, plant and equipment		-	20
Cash used in investing activities		(877)	(388)
FINANCING			
Interest paid		(510)	(323)
Interest paid on Series A preferred shares	11	(129)	(126)
Proceeds from long term debt	9	300	4,000
Repayment of long term debt	9	(1,154)	(1,965)
Proceeds from equipment purchase financings		57	48
Repayment of equipment purchase financings		(46)	(89)
Repayment of lease obligations	3	(588)	-
Repayment of related party loans	9	(555)	(3,000)
Cash used in financing activities		(2,625)	(1,455)
Net change in cash		(783)	357
Cash, beginning of year		2,463	2,106
Cash, end of year		1,680	2,463

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

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(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 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.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These consolidated financial statements, including comparative balances for the year ended December 31, 2019, have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements were approved and authorized by the Board of Directors of the Company on April 16, 2020.

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.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(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:

Plant and equipment	3 - 15 years
Vehicles	5 - 7 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. Right-of-use assets are depreciated using the straight-line method over the shorter of the economic useful life of the asset or the term of the lease. 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 Revenue recognition

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. 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.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.3 Revenue recognition (cont'd)

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.

3.4 Income taxes

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

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

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

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

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.5 Income per share

The basic income per share is computed by dividing the 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.

3.6 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 consolidated statement of comprehensive income. Adjustments relating to changes in the obligation are recognized in properties, plant and equipment.

3.7 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.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.8 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.

3.9 Financial Instruments

The Company's financial instruments, from which financial risk arises, are cash, trade accounts receivables, accounts payable and accrued liabilities, floating and fixed rate bank loans, and the Series A preferred shares. At December 31, 2019, 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:

Asset/Liability	IFRS 9
Cash and cash equivalents	Amortized cost
Accounts receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Debt	Amortized cost
Series A preferred shares	Amortized cost

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).

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.9 Financial Instruments (cont'd)

The Company's accounting policy for financial instruments is as follows:

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.

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 and preferred shares 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.

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.

Derivatives

The Company does not utilize derivative instruments to mitigate exposures to commodity, currency, interest risk or other exposures.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
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(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.10 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 the consolidated statements of income and comprehensive income.

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 the consolidated statements of income and comprehensive income.

3.11 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. No impairment losses or allowances for expected credit losses were recognized in 2019 or 2018.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.12 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.

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.

3.13 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.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 New Accounting Standards Adopted During the Year IFRS 16 – Leases

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. Accordingly, under IFRS 16, the Company is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. An election is available to not apply IFRS 16 to leases with a term of less than 12 months or leases where the underlying asset is of low value.

The Company has adopted IFRS 16 using a modified retrospective approach, which does not require restatement of prior periods. Comparative information has not been restated and continues to be reported under IAS 17, Leases.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To determine whether a contract contains the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an explicitly or implicitly identified asset;
- the Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the contract term;
- the Company has the right to direct the use of the asset.

The Company leases mining equipment, rail cars, a rail siding and office space, that had previously been classified as operating leases under IAS 17. On adoption of IFRS 16, liabilities for these leases were measured as the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of January 1, 2019. The incremental rate used in calculating the lease liabilities was 5.5%. The Company elected to measure the right-of-use assets for these leases at the carrying amount as if the standard had been applied since the commencement date, but discounted using the Company’s incremental borrowing rate at the date of initial application.

On initial adoption of IFRS 16, the Company used the following practical expedients as permitted by the standard when applying IFRS 16 to leases previously classified as operating leases:

- applied the exemption not to recognize right-of-use assets and liabilities for leases of low value;
 - applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining; and
 - apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
-

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

(Expressed in thousands of United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 New Accounting Standards Adopted During the Year IFRS 16 – Leases (cont'd)

The Company's lease obligations at January 1, 2019 are reconciled to the operating lease commitments at December 31, 2018 as follows:

Operating lease commitments at December 31, 2018	\$ 1,663
Operating lease commitments related to extension options	\$ 697
Discounting using the January 1, 2019 incremental borrowing rate	(302)
Discounted lease obligations at January 1, 2019	<u>2,058</u>
Less: obligations related to short term leases	-
Less: obligations related to low value assets	-
Lease obligations at January 1, 2019	<u><u>\$ 2,058</u></u>

The following is the new accounting policy for leases under IFRS 16:

A contract is or contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. Right-of-use assets are initially measured at cost, which is the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are subsequently depreciated from the commencement date of the lease to the earlier of the end of the lease term or the end of the useful life of the asset. Right-of-use assets may also be reduced due to impairment losses and adjusted for any re-measurements of the lease liability.

At the commencement of the lease, a lease liability is recognized and is measured at the present value of the lease payments to be made over the term of the lease, discounted using the interest implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. After the commencement date, the lease liability is carried at amortized cost. The carrying amount is re-measured if there is a modification to the lease contract, including a change to the lease term, a change in the amount of the fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company does not recognize right-of-use assets and lease liabilities for low value leases or for leases that have a lease term of 12 months or less. Lease payments for these types of leases will be recognized as an expense over the lease term.

Inter-Rock Minerals Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 New Accounting Standards Adopted During the Year IFRS 16 – Leases (cont'd)

The Company's lease obligations consist of the following as at December 31, 2019:

Movement in lease obligations:	
IFRS 16 adoption	\$ 2,058
Additions during the year	174
Payments during the year	(588)
Lease obligations at December 31, 2019	<u>1,644</u>
Less: current portion	(609)
Total long term lease obligations	<u><u>\$ 1,035</u></u>

During 2019, the Company recognized interest expense of \$111 on lease liabilities.

Purchase, Extension and Termination Options of Current Leases

Mobile Mine Equipment

The Company's mobile mine equipment leases have four-year terms and include an option for the Company to purchase the equipment on the lease termination date. In the event the Company exercises the purchase option, the purchase price shall be the equipment's fair market value, which is defined in the lease agreement as an amount equal to the sales price obtainable in an arm's length transaction between a willing and informed buyer and a willing and informed seller.

Rail Cars

The Company leases rail cars from two lessors. Under the terms of one lease agreement, the cars are leased for a three-year term and at the expiration of the term, a new lease agreement is negotiated. The other lease agreement is also for a three-year term; however, the agreement includes an automatic renewal clause, under which the lease of the rail cars is automatically renewed at the end of the three-year term, unless notice is provided by either the lessor or the Company to terminate the lease. In determining the lease liability associated with the rail cars covered by the automatic renewal lease clause, the Company assumed that the lease was renewed for a further three-year period beyond the current September 2021 expiry date.

Railway Siding

The Company leases a portion of a rail track and the underlying and adjacent land at its Mill Creek operation. The term of the lease continues until either party provides notice of termination. The annual lease amount is subject to a three percent annual increase. In determining the lease liability associated with the lease of the rail siding, the Company assumed a ten-year lease term.

Papillon Office Lease

Papillon leases office space in Easton, Maryland. The lease has a five-year term, with two, five-year renewal options. The annual rent increases at a rate of 2.5% per year. In determining the lease liability associated with the rent of the Papillon office, the Company assumed one, five-year renewal term beyond the expiration of the current term in February 2023.

Inter-Rock Minerals Inc.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 New Accounting Standards Adopted During the Year IFRIC 23 - Uncertainty over income tax treatments

As of January 1, 2019, the Company also adopted IFRIC 23, Uncertainty over income tax treatments ("IFRIC 23"), which did not have an impact on these financial statements.

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.

Inter-Rock Minerals Inc.

Notes to the Consolidated Financial Statements
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4. JUDGMENTS AND ESTIMATES (CONT'D)

(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.

(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.

(vi) 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.

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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.

Segment earnings correspond to each business' earnings from operations. The Company's management reporting system evaluates performance based on a number of factors; however the primary profitability measure is the earnings from operations before depreciation, amortization, net financing income or expense and income taxes ("EBITDA").

Segment operating results are as follows:

Year ended	Mill				Elimi-	
December 31, 2019	MIN-AD.	Creek	Papillon	Other	nations	Total
REVENUE						
Internal sales	2,844	-	206	676	(3,726)	-
External sales	4,815	5,133	34,716	-	-	44,664
COST OF SALES						
Operating costs	5,656	3,030	29,516	-	(2,844)	35,358
Amortization & depletion, mining	395	736	35	-	42	1,208
GROSS PROFIT	1,608	1,367	5,371	676	(924)	8,098
OPERATING EXPENSES						
Selling, general & administration	1,018	1,153	3,882	657	(1,011)	5,699
Amortization of intangible assets	-	-	328	-	-	328
INCOME BEFORE FINANCING	590	214	1,161	19	87	2,071
FINANCING COSTS						
Interest on Series A preferred shares	-	-	-	129	-	129
Interest on debt and lease obligations	75	135	195	38	(28)	415
INCOME (LOSS) BEFORE INCOME TAXES	515	79	966	(148)	115	1,527
INCOME TAXES						
Current	-	-	80	-	-	80
Deferred	-	-	-	(186)	-	(186)
NET COMPREHENSIVE INCOME	515	79	886	38	115	1,633

Inter-Rock Minerals Inc.

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5. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

As at December 31, 2019	MIN-AD.	Mill Creek	Papillon	Other	Elimi- nations	Total
ASSETS						
Current assets	1,451	1,811	5,348	32	(248)	8,394
Non-current assets	1,991	4,351	4,111	-	-	10,453
	3,442	6,162	9,459	32	(248)	18,847
LIABILITIES						
Current liabilities	1,233	1,136	3,027	108	(248)	5,256
Non-current liabilities	369	1,809	2,146	3,698	-	8,022
	1,602	2,945	5,173	3,806	(248)	13,278

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

Segment balances for the prior year are as follows:

Year ended December 31, 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

Inter-Rock Minerals Inc.

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5. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

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

6. INVENTORIES

Inventories comprise the following:

	2019	2018
	\$	\$
Raw materials and consumables	889	562
Finished goods	1,348	608
Total inventories	2,237	1,170

Inventory recognized in cost of sales during the year amount to \$8,965 (2018 - \$7,684).

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7. PROPERTIES, PLANT AND EQUIPMENT

Cost	Land	Dolomite Properties	Plant and Equipment	Right of Use Assets	Vehicles	Spare Parts	Total
Balance, December 31, 2017	535	2,051	12,519	-	445	321	15,871
Additions in the year	-	-	352	-	49	7	408
Disposals in the year	(20)	-	-	-	-	-	(20)
Balance, December 31, 2018	515	2,051	12,871	-	494	328	16,259
Recognized upon adoption of IFRS 16	-	-	-	1,972	-	-	1,972
Additions in the year	-	-	777	174	100	-	1,051
Disposals in the year	-	-	(31)	-	(104)	(11)	(146)
Balance, December 31, 2019	515	2,051	13,617	2,146	490	317	19,136

Accumulated Amortization and Depletion	Land	Dolomite Properties	Plant and Equipment	Right of Use Assets	Vehicles	Spare Parts	Total
Balance, December 31, 2017	-	(1,219)	(9,276)	-	(372)	-	(10,867)
Additions in the year	-	(38)	(467)	-	(26)	-	(531)
Disposals in the year	-	-	-	-	-	-	-
Balance, December 31, 2018	-	(1,257)	(9,743)	-	(398)	-	(11,398)
Additions in the year	-	(49)	(491)	(618)	(50)	-	(1,208)
Disposals in the year	-	-	-	-	95	-	95
Balance, December 31, 2019	-	(1,306)	(10,234)	(618)	(353)	-	(12,511)

Net Book Value	Land	Dolomite Properties	Plant and Equipment	Right of Use Assets	Vehicles	Spare Parts	Total
As at December 31, 2018	515	794	3,128	-	96	328	4,861
As at December 31, 2019	515	745	3,383	1,528	137	317	6,625

For the year ended December 31, 2019, there were no indicators of impairment in the carrying value of the Company's dolomite properties, plant and equipment and right-of-use assets.

Inter-Rock Minerals Inc.

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7. PROPERTIES, PLANT AND EQUIPMENT (CONT'D)

The right-of-use depreciation expense and carrying amount relates to the following types of assets:

	Depreciation expense	Carrying amount
Mining Equipment	\$ 382	\$ 745
Railcars	191	407
Rail Siding	10	91
Office Space	35	285
	\$ 618	\$ 1,528

8. 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	(324)	(222)	(11)	(18)	(575)	-
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
Less: amortization	(184)	(124)	(8)	(12)	(328)	-
Balance December 31, 2019	1,158	800	3	58	2,019	1,809

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

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

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8. INTANGIBLE ASSETS AND GOODWILL (CONT'D)

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, 2019 or 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% was used in the cash flow model.

9. DEBT

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

	2019	2018
	\$	\$
<u>Aggregate debt facilities</u>		
(i) Revolving credit facility	300	540
(ii) Mill Creek term loan	1,579	1,396
(iii) Papillon term loan	2,666	3,467
(iv) Equipment financings	126	119
(v) Related party notes	-	555
	4,671	6,077
<u>Less: current portions of</u>		
Bank debt	(1,419)	(1,735)
Related party notes	-	(555)
Equipment financing	(38)	(46)
Total long term debt	3,214	3,741

Inter-Rock Minerals Inc.

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9. DEBT (CONT'D)

Bank facilities

In June 2019, the Company consolidated and refinanced its Meadows Bank facilities (items (i) and (ii) in the table above.) The outstanding balances of two term loans, totalling \$1,234, together with \$500 drawn under the revolving credit facility were combined to create a new \$1,734 five year term loan as described in item (ii) below. In addition, the size of the revolving credit was reduced from \$1,000 to \$500 as described in (i) below.

- (i) \$500 Revolving Credit Facility – a one-year, secured revolving credit facility (“RC”) in the amount of the lesser of \$500 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, 2020. At December 31, 2019, \$300 was outstanding under the RC facility and was recorded as current portion of long term debt.
- (ii) \$1,734 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 \$33 and matures on June 21, 2024. At December 31, 2019, \$319 was recorded as current portion of long term debt and the balance of \$1,260 was recorded as long term debt.

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.

- (iii) Papillon Term Loan - a \$4.0 million, five year secured term loan bearing interest at a fixed rate of 4.75% per annum. The loan is secured against all the present and future assets of Papillon and Papillon Agricultural LLC, and is guaranteed by the Company and its subsidiaries, Secret Pass Gold 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, 2019, \$800 (2018 - \$800) was recorded as current portion of long term debt and the balance of \$1,866 (2018 - \$2,667) was recorded as long term debt.
 - (iv) 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, 2019 was \$126 (2018 - \$119) and the interest rate on the facilities ranges from 1.99% to 5.00% per annum.
 - (v) In connection with financing the acquisition of Papillon in 2016, the Company borrowed \$55 from the Chief Executive Officer of the Company and \$500 from the Chairman of the Company, (the "Buyer Notes.") During the current year, the Company repaid the principal amount of the Buyer Notes, in full, plus accrued interest of \$125.
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Inter-Rock Minerals Inc.

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9. DEBT (CONT'D)

As at December 31, 2019 and 2018 the Company was in compliance with all bank debt covenants.

10. 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 properties has been discounted to its present value based on an estimate of the Company's pricing in the market to obtain debt.

11. 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, 2020, so the liability has been presented in these consolidated financial statements as long term. During the year, the Board of Directors of the Company declared three quarterly preferred share dividends totaling \$129, (2018 - \$126). The dividends are recorded as interest expense.

12. 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, 2019 and 2018	22,617,811	\$5,864

Inter-Rock Minerals Inc.

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13. INCOME PER SHARE

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

	2019	2018
Basic income per share		
Income available to common shares	1,633	999
Weighted average common shares (in thousands)	22,618	22,618
	0.07	0.04
Diluted income per share		
Income available to common shares	1,633	999
Income available to common shares, assuming dilution	1,633	999
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
	0.04	0.03

Each Preferred Share (Note 11) 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.

14. INCOME TAXES

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

	2019	2018
	\$	\$
Income before income taxes per financial statements	1,527	1,470
United States statutory tax rate	27%	27%
Income tax	412	397
Change due to difference in foreign tax rates	24	-
Change in estimate in future income tax recovery	(186)	344
Application of loss carryforward balances and other	(142)	(204)
Permanent differences	38	24
Difference between amortization for accounting and tax	(252)	(89)
Income tax	(106)	472
	2019	2018
Income tax expense:	\$	\$
Current	80	334
Deferred	(186)	137
Total	(106)	471

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14. INCOME TAXES (CONT'D)

Deferred income tax liabilities have been calculated as follows:

	2019	2018
	\$	\$
Carrying value of mineral properties, plant and equipment for accounting purposes in excess of carrying value for tax purposes	(1,415)	(1,726)
Carrying value of intangibles and goodwill for tax purposes in excess of carrying value	252	(4)
Other temporary differences	123	-
Approximate tax rate	27%	27%
Deferred income tax liability	(281)	(467)

At December 31, 2019, 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	116
2019	2039	153
		3,367

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15. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere (see Note 9), the related party transactions are as follows:

(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 Papillon 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.

(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, 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:

	2019	2018
	\$	\$
Short term benefits including salaries, consulting and director fees	840	819

16. REVENUE SUPPLEMENTAL INFORMATION

The Company’s revenue by type is broken down as follows in the consolidated statements of income and comprehensive income.

	2019	2018
	\$	\$
<u>Min-Ad and Mill Creek</u>		
Dolomite sales	8,252	7,680
Freight charges	1,360	2,117
Fuel charges	336	377
	9,948	10,174
<u>Papillon</u>		
Animal feed sales	32,978	35,673
Freight charges	1,738	1,419
	44,664	47,266

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17. 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 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 18.

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.

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17. 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, 2019, the Company did not have any financial assets or financial liabilities measured at fair value. The Company's financial assets and liabilities include cash, trade receivables, accounts payable and accrued liabilities, lease obligations, 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, receivables and payables and accrued liabilities approximates their fair value. Long term debt is recorded on the Company's consolidated balance sheet at amortized cost, which approximates its fair value as all debt carries market rates of interest.

	2019	2018
	\$	\$
Financial assets measured at amortized cost		
Cash	1,680	2,463
Accounts receivable	4,000	3,255
Financial liabilities measured at amortized cost		
Series A preferred shares	3,417	3,417
Accounts payable and accrued liabilities	3,190	2,182
Equipment purchase financing	126	119
Long-term debt - current portion	1,419	1,735
Long-term debt - non-current portion	3,126	3,668
Lease obligations - current portion	609	-
Lease obligations - non-current portion	1,035	-

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18. MANAGEMENT OF CAPITAL

The Company considers its capital structure at December 31, 2019 to include shareholders' equity which totalled \$5,569 (2018 - \$4,022); preferred shares of \$3,417 (2018 - \$3,417) and long term debt of \$4,671 (2018 - \$6,077). (Note 9)

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 will be 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 9.

19. FINANCIAL COMMITMENTS

The Company is committed to \$6,934 (2018 - \$7,168) for obligations and financial commitments in the normal course of operations and financing activities. At December 31, 2019, the Company had the following financial commitments:

	Total	2020	2021	2022	2023	Thereafter
	\$	\$	\$	\$	\$	\$
Bank principal repayments	4,545	1,418	1,136	1,155	642	194
Equipment financing	126	38	63	15	10	-
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. Lease obligations represent the undiscounted amount of the lease commitments. Lease obligations include the lease of the corporate office space in Toronto. The office lease commenced subsequent to year end and, accordingly, was not included in the lease liability recorded at year end 2019.

20. SUBSEQUENT EVENTS

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.

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20. SUBSEQUENT EVENTS (CONT'D)

Normal Course Issuer Bid (cont'd)

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 these financial statements, 179,000 common shares have been repurchased.

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.

New Leases Not Effective at Year End 2019

Toronto Office Lease

Prior to year end 2019, the Company entered into a three-year lease for office space in Toronto. The lease commenced February 1, 2020. The Company has the option to extend the lease for one additional term of three years. Monthly payments during for the first year of the lease are approximately C\$14,700. The lease agreement provides for market based annual rent increases. The Company is subleasing office space surplus to its requirements.

Additional Rail Cars

In December 2019, the Company leased two additional rail cars for its dolomite business in Nevada. The lease has a three-year term and commenced upon the delivery of the cars in January 2020.

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20. SUBSEQUENT EVENTS (CONT'D)

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.