# INTER-ROCK MINERALS INC.

## MANAGEMENT'S DISCUSSION & ANALYSIS

## For the Year Ended December 31, 2020

**April 14, 2021**

**INTER-ROCK MINERALS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2020**

## 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, 2020 and compares it to the financial condition of the Company on December 31, 2019. The MD&A also analyzes the Company's results of operations for the year ended December 31, 2020 and compares those results to the results for the year ended December 31, 2019.

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, 2020 and December 31, 2019. 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 14, 2021.

## 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.

## 2020 HIGHLIGHTS

- Record consolidated revenue of $55.55 million.
- Operating cash flow before working capital changes of $3.44 million, (2019: $3.59 million).
- Working capital at year end increased to $3.60 million, including $2.07 million of cash.

- Tons sold at Mill Creek were down 23% from the prior year as a result of COVID-19 impacts on its customers and the loss of sales to a glass customer and roofing customer.

Prices for dairy products in the United States improved in 2020, the second year in a row after four years of low milk prices. Despite sharp declines in April and May following the WHO declaration of the COVID-19 pandemic, milk prices recovered quickly and remained above the prior year average for most of the remainder of the year. The average annual raw milk price in 2020 was 7% higher than 2019 and 24% higher than the average price in 2018.

The sudden closure of restaurants and schools in April as a result of the spread of COVID-19 materially reduced demand for milk and other dairy products early in the second quarter of 2020; however, prices recovered significantly by June due to increasing retail sales of milk, increased herd culling and lower milk production in the spring. Throughout the third and most of the fourth quarter of 2020, prices for dairy products were supported by strong domestic retail purchases and exports, notably to China. Prices were further supported by government purchases under the Farmers to Families Food Box Program (a US government coronavirus aid program, under which the USDA purchases agricultural products and distributes them to families in need).

Milk farmers have responded to the increase in milk prices by increasing production. Production growth in the fourth quarter of 2020 was attributable to both more milk cows and higher milk production per cow. Retail sales, exports and continued purchases by the government under the food box program did not offset the increase in production and consequently the milk price in December 2020 and January 2021 was down considerably from November 2020. Dairy farmers are also currently facing higher feed costs, with the price of corn increasing sharply in large part due to strong export demand from China. Lower milk prices and more expensive feed are leading to an increase in herd culling in some regions; however, it is not clear if this will be adequate to maintain current milk prices, which are more than 10% below the 2020 average. Notwithstanding lower milk prices and higher feed costs for dairy farmers, Papillon continues to experience strong demand for its protein products, in part due to higher prices for alternative protein additives like soybean meal. If COVID-19 is better controlled in the second half of 2021, increased economic activity should improve demand for dairy products both in the US and export markets.

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 from operations will be sufficient to meet its operating requirements and financial commitments in 2021.

**COVID-19 PANDEMIC**

The World Health Organization (the "WHO") declared COVID-19 a pandemic on March 11, 2020. The Company responded by implementing several initiatives to help protect the health and safety of our employees and their families, our suppliers and customers. The Company also took steps to improve its liquidity, specifically by drawing down its revolving credit facility and applying for forgivable COVID-19 relief loans from the U.S. Small Business Administration and building raw material inventories. Each business developed site-specific plans, based on the advice of the public health authorities, that enable them to address and respond to the evolving conditions associated with COVID-19.

COVID-19 negatively impacted the Company's results, particularly in the second quarter of 2020 at Mill Creek, and could have further negative impacts on the operations of the Company, its suppliers and its customers. Any labour quarantines or other disruptions to the Company's operations may impact our ability to provide products to our customers and, as a consequence, negatively impact our revenues and cash flow. Prolonged closures of meat processing facilities may also reduce the availability of a key ingredient in the Company's protein supplements. Moreover, the widespread health crisis in the United States is having a material impact on the economy and may depress 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 financial results of the Company.

## OPERATIONS REVIEW

### 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 $47.14 million in 2020, an increase of 35% from $34.92 million in 2019. Total tons sold of all products combined in 2020 were approximately 23% higher than the prior year. In particular, sales volumes of protein products were 35% higher in 2020 than in 2019. Gross profit (revenue less costs of goods sold) was $6.35 million in 2020, a record level and approximately 18% higher than 2019. (Papillon's revenue for its principal products reflects targeting a set gross profit per ton. As a consequence, if the cost of input ingredients fall, revenues will fall commensurately; however, margins can be maintained. Accordingly, gross profit can be more indicative of financial performance than revenue). The improved performance in 2020 over 2019 reflects, in part, lower sales in the first half of 2019, which were attributable to weak dairy market conditions. It typically takes two to 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 $2.33 million in 2020, as compared with $1.52 million in 2019. The increase in cash flow is attributable to higher sales. SG&A expenses increased marginally in 2020, with increases in payroll, marketing and professional fees partially offset by a reduction in expenses impacted by COVID-19, including travel and entertainment and fees associated with conferences and event sponsorship. Despite the impact of COVID-19 on the U.S. economy, Papillon continued to invest in marketing and business development throughout 2020 and sales efforts have been targeting new opportunities in existing regional markets.

As a result of COVID-19, Papillon has implemented measures to protect the health of its employees. All sales employees are working from home, with only limited travel by car. Papillon is actively monitoring its liquidity, while maintaining raw material inventory levels to mitigate against possible supply disruptions stemming from COVID-19. Additionally, the raw material blends for some products have been reformulated so that substitution of ingredients is possible should there be a shortfall of a particular ingredient.

### 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 production of float glass 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's total tons sold in 2020 were 23% lower than the prior year, while tons sold to glass customers declined by 27%. The proportion of sales tons to glass customers fell from 77% in 2019 to 72% in 2020. Sales volumes were substantially negatively impacted in 2020, starting in the second quarter with the loss of a large glass customer and to glass customers reducing inventory as a result of COVID-19. Additionally, sales to the roofing market, which accounted for approximately 20% of sales volume in the first quarter dropped to less than 2% of sales by the fourth quarter. Total volumes sold in both the third and fourth quarters of 2020 improved over the levels in the second quarter, although they remained significantly below levels recorded in the second half of 2019. The majority of the improvement in tons sold in the second half of 2020 was sales of aglime, which has a lower sales price than the product sold to glass customers.

Reduced sales volume and a lower priced product mix contributed to materially lower revenue and cash flow at Mill Creek in 2020. Mill Creek recorded revenue of $3.93 million in 2020, a decrease of about 21% from 2019 ($4.95 million). Operating cash flow (before working capital changes) was $384,000 in 2020, as compared with $950,000 of cash flow generated in 2019.

To address the drop in sales, Mill Creek initiated a number of cost saving measures in the second half of 2020. These included moving to one shift per day, reducing equipment usage and working in only one quarry. Additionally, in March 2021, Mill Creek reduced its leased equipment fleet by not replacing a haul truck at the end of its lease term.

Payments related to equipment leases (which are recorded as financing payments and thus not netted against operating cash flow) totalled $528,000 in 2020, as compared with $439,000 in 2019. The increase was attributable to lease modifications made in the third quarter of 2019 to improve service terms and extend the warranties on the leased equipment. In addition, debt service repayments totalled approximately $420,000 in 2020, as compared with $440,000 in 2019.

Mill Creek incurred capital expenditures of $270,000 in 2020, as compared with $393,000 in 2019. Capital expenditures of $350,000 are budgeted for 2021.

In addition to the cost saving measures noted above, Mill Creek is also actively exploring for opportunities to replace lost sales volume in the glass and roofing filler markets.

**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 2020, 37% 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 business remained steady in 2020, with operating and financial results comparable to those recorded in the prior year. Sales volumes in 2020 were about 2% below the level in 2019, while gross revenue (including freight and fuel costs passed on to customers) was $7.56 million in 2020, as compared with $7.66 million in 2019. Operating cash flow (before working capital changes) was $999,000 million in 2020, up slightly from $985,000 million in 2019.

Payments related to rail car leases (recorded as financing payments and thus not netted against operating cash flow) totalled $175,000 in 2020, as compared with $207,000 in 2019. The reduction in rail lease payments in 2020 is attributable is leasing fewer rail cars.

MIN-AD incurred $166,000 of capital expenditures in 2020, (2019: $489,000). Approximately $215,000 of the capital expenditures in 2019 were for a new front-end loader. Capital expenditures of $250,000 are budgeted for 2020.

The Company has implemented measures at both dolomite operations to protect the health of its employees, contractors and suppliers and to ensure the continued safe operation of the businesses. Plant and office workers have been physically separated at both locations, health and hygiene protocols have been posted and implemented, including temperature checks and portable toilets have been installed for contractors and truck drivers. Both operations have built up finished product inventory and deferred some capital spending to enhance liquidity.

## CONSOLIDATED FINANCIAL REVIEW

| **Financial Performance** | Three months ended | | Year ended | |
|---|---|---|---|---|
| **US$,000** | **Dec. 31, 2020** | Dec. 31, 2019 | **Dec. 31, 2020** | Dec. 31, 2019 |
| Revenue | **$14,617** | $11,871 | **$55,548** | $44,664 |
| Operating costs | **$12,062** | $9,200 | **$45,886** | $35,358 |
| Gross Profit | **$2,555** | $2,671 | **$9,662** | $9,306 |
| SG&A | **$1,784** | $1,402 | **$5,947** | $5,699 |
| Net income (loss) | **$500** | $732 | **$1,778** | $1,633 |
| Income per share, basic | **$0.02** | $0.03 | **$.08** | $0.07 |
| | | | | |
| Cash flow from operations | **$646** | $1,304 | **$3,435** | $3,578 |
| Capital expenditures | **$101** | $256 | **$494** | $877 |

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

The Company recorded revenue of $14.62 million in the fourth quarter of 2020, compared with $11.87 million in the prior year period. The increase in revenue was principally attributable to higher tons sold by Papillon as a result of improved dairy market conditions. Gross profit of $2.56 million in the fourth quarter of 2020 was similar to the prior year quarter ($2.67 million). An increase in gross profit at Papillon was more than offset by a reduction in gross profit in the fourth quarter at Mill Creek. Operating cash flow in the fourth quarter of 2020 was $646,000, down from $1.34 million in the year earlier period due primarily to higher SG&A expenses and lower gross profit.

### ***Review of 2020 Financial Results***

The Company generated record revenue of $55.55 million in 2020, an increase of 24% from 2019 revenue of $44.66 million. Papillon accounted for 85% of the Company's consolidated revenue in 2020, (2019:78%). (Approximately one-third of MIN-AD's revenue is derived from inter-company sales to Papillon and this revenue is eliminated upon consolidation). Gross profit increased to $9.66 million, up from $9.31 million in 2019. The increase in consolidated gross profit, attributable to higher sales volumes at Papillon, was limited by significantly lower gross profit at Mill Creek and by a modest decline in gross profit margins for Papillon's products.

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 $45.89 million in 2020, up from $35.36 million in 2019, largely reflecting higher sales volumes at Papillon. Gross profit margins declined in 2020 to 17.4% of revenue, from 20.8% in the prior year.

Selling, general and administrative expenses ("SG&A") were $5.95 million in 2020, as compared with $5.70 million in 2019. 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 and foreign exchange impacts on Toronto based expenses. SG&A expenses were relatively flat year-over-year at the dolomite operations, while Papillon recorded increases in payroll expenses and marketing and professional fees. A stronger Canadian dollar in 2020 had a minor impact on head office expenses.

Interest expense comprises interest on debt and interest recognized on lease liabilities. In 2020, interest expense was $316,000, as compared with $415,000 in 2019. The 2020 figure includes

$221,000 of debt related interest (2019: $304,000) and $95,000 of interest expense recognized on lease liabilities, (2019: $111,000). Lower interest expense related to debt in 2020 is attributable to a reduction in the Company's consolidated debt.

During 2020, the Company declared three quarterly preferred share dividends, totalling $84,000, as compared with three quarterly dividends of $129,000 in 2019. Dividends are recorded as interest on Series A preferred shares on the consolidated statement of income. The dividends are calculated using the preferred share value of $0.20/share and a rate equivalent to the U.S. prime interest rate.

A $502,000 gain on debt forgiveness was recorded in 2020 to reflect the forgiveness of debt related to loans provided under a U.S. government COVID-19 financial assistance program, (see Paycheck Protection Program below). The non-cash gain is recorded in the same amount as the principal forgiven. The original loan proceeds were recorded as proceeds from long term debt on the consolidated statement of cash flows.

During the year ended December 31, 2020, the Company recognized a current tax expense of $325,000 and a deferred tax expense of $14,000, as compared with a current tax expense of $80,000 and deferred tax recovery of $186,000 for the year ended December 31, 2019.

Inter-Rock reported net income of $1.78 million in 2020, or $0.08 per share, as compared with net income of $1.63 million, or $0.07 per share in 2019.

## FINANCIAL CONDITION

| **Financial Condition (US$,000)** | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| Current assets | **$11,544** | $8,394 |
| Current liabilities | **$7,945** | $5,256 |
| Working capital | **$3,599** | $3,138 |
| Total assets | **$21,441** | $18,847 |
| Total liabilities | **$14,164** | $13,278 |
| Lease obligations | **$1,560** | $1,644 |
| Total debt | **$4,032** | $4,671 |
| Shareholders' equity | **$7,277** | $5,569 |

At December 31, 2020, the Company's financial condition was sound, with working capital of $3.60 million, including $2.07 million of cash. Current assets increased to $11.54 million at year end 2020, as compared with $8.39 million the year earlier. The increase was largely attributable higher accounts receivable, which advanced to $6.35 million (versus $4.00 million a year earlier and $3.38 million at the end of the third quarter of 2020), reflecting the timing of cash receipts and an increase in revenue relative to the preceding periods. The Company's consolidated debt decreased to $4.03 million at December 31, 2020, down from $4.67 million at December 31, 2019. Total debt at year end includes Papillon's $318,000 PPP loan (see Debt Facilities below), which the Company anticipates will be forgiven in 2021.

### Debt Facilities

The Company's bank debt at December 31, 2020 is summarized below. MIN-AD and Mill Creek are co-borrowers under the first two facilities listed below. 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, 2021. At December 31, 2020 the outstanding balance was $500,000.

(ii) Mill Creek $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, 2020, the outstanding balance was $1.26 million.

(iii) Papillon $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, 2020, the outstanding balance was $1.87 million.

In addition to the bank debt described above, the Company had approximately $88,000 of debt outstanding at December 31, 2020 under two equipment financing facilities.

Papillion is in full compliance with the terms and conditions of its bank loan as of the date of this MD&A.

MIN-AD and Mill Creek, as co-borrowers, are required to maintain a minimum debt service cover ratio of 1.30x under the terms of the revolving credit and term loan facilities described above in points (i) and (ii). The debt service ratio is calculated quarterly on a rolling four quarter basis. The co-borrowers were not in compliance with the debt service ratio at the end of the second quarter of 2020 and the ratio remained below the required minimum when calculated at September 30, 2020 and December 31, 2020. The non-compliance is attributed to significantly lower cash flow from Mill Creek in the second quarter of 2020. The Company discussed the second quarter results with Meadows Bank and, in part due to the impact of COVID-19, Meadows Bank has not issued a notice of default, nor taken any other action. In the event of a covenant breach prior to the end of the reporting period and in the absence of the right to defer settlement of the loan for at least 12 months after the reporting date, IFRS 7 requires the loan be classified as current. Notwithstanding the absence of an event of default declared by the lender and the continuation of regularly scheduled debt service, in accordance with IFRS 7, the entire outstanding loan balance of $1.26 million at December 31, 2020 has been recorded as current portion of long-term debt.

**Paycheck Protection Program**

In March 2020, the U.S. government passed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES ACT") to provide financial assistance to individuals and businesses. A major component of the CARES ACT is the Paycheck Protection Program (the "PPP"), a forgivable loan program for small businesses administered by the U.S. Small Business Administration (the "SBA"). The loans are obtained by applying through an SBA approved lender. The PPP was modified in June 2020 when the US Congress passed the Paycheck Protection Program Flexibility Act.

The principal aim of the PPP is to provide forgivable loans to small businesses so that they have sufficient funds to maintain employees on their payroll. Borrowers are required to certify that the economic uncertainty resulting from COVID-19 necessitates the loan request.

For loan forgiveness, certain employee retention criteria must be met and the loan proceeds are only to be used for payroll and other allowable expenses, including mortgage interest, rent and utilities. To be eligible for forgiveness, the "covered period", defined as the period during which the PPP loan proceeds must be spent, has been extended by the PPP Flexibility Act from 8 weeks following loan origination to the earlier of 24 weeks following origination and December 31, 2020.

For loans received prior to June 5, 2020 (as is the case of the PPP loans received by the Company's subsidiaries), the loan term is for two years, unless the borrower and lender agree to a five-year term, (under the PPP Flexibility Act, loans granted after June 5 have a minimum five-year maturity). The loan interest rate is fixed at 1%. Principal and interest payments are deferred until the date on which the SBA informs the lender of the borrower's loan forgiveness amount (or if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's covered period).

The Company's three operating subsidiaries received PPP loans in the second quarter of 2020 aggregating $817,000, funded as follows: Papillon: $318,000, MIN-AD: $215,000 and Mill Creek: $284,000.

Borrowers can commence the loan forgiveness process once the lenders of record have established an online portal for accepting loan forgiveness applications. Applications for loan forgiveness are reviewed by the lender of record and then submitted by the lender to the SBA. Once the lender is repaid by the SBA, a formal forgiveness notice is provided to the Borrower. Forgiveness applications can be fully or partially approved for forgiveness or denied altogether.

MIN-AD and Mill Creek submitted loan forgiveness applications in December 2020 and received formal notice of forgiveness of their loans prior to year end. In the first quarter of 2021, Papillon was informed by their lender of record that they were ready to accept applications for loan forgiveness. Papillon expects to have their loan forgiveness application processed in the second quarter of 2021.

## 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, 2020, the Company had consolidated cash of $2.07 million. The Company's most significant liquidity requirements over the next twelve months are scheduled principal and interest repayments of bank debt and lease payments, which total $2.44 million at December 31, 2020 and comprise $1.82 million of debt service (excluding the Papillon PPP loan and including $500,000 under the revolving credit facility, which the Company expects to renew for twelve months beyond the current maturity date of May 2021) and $620,000 in lease payments. In the opinion of management, the Company's liquidity comprising cash and cash flow from operations is sufficient to meet normal operating requirements and financing commitments.

### Cash Flows

The change in the Company's cash balance during 2020 is reconciled as follows ($000):

| | |
|---|---:|
| **Cash at January 1, 2020** | **$1,680** |
| Cash provided by operations | $3,435 |
| Proceeds from loans | $1,017 |
| Repayments of debt and interest | ($1,376) |
| Repayments of lease obligations | ($861) |
| Cash used in working capital changes | ($1,163) |
| Capital expenditures | ($494) |
| Cash used to repurchase common shares | ($70) |
| Interest (dividends) on preferred shares | ($96) |
| **Cash at December 31, 2020** | **$2,072** |

### Cash Flow Provided by Operating Activities

Before non-cash working capital adjustments, the Company generated $646,000 of operating cash flow in the fourth quarter of 2020, as compared with $1.30 million in the comparable quarter of 2019. Operating cash flow for the full year 2020 was $3.44 million, down slightly from $3.61 million in 2019.

### Cash Flow Used in Financing Activities

In 2020, the Company made scheduled debt repayments of principal and interest of $1.38 million (2019: $2.15 million) and payments related to lease obligations of $861,000 (2019: $699,000). The Company also paid $96,000 of preferred share dividends in 2020 (2019: $129,000). Additionally, the Company repurchased and cancelled 305,000 common shares during the year at a cost of $70,000, or C$0.30/share. Partially offsetting these outflows were loan proceeds of $1,017,000, including $817,000 in PPP loans and a $200,000 drawdown under the revolving credit facility.

### Cash Flow Used in Investing Activities

In the fourth quarter of 2020, cash used in investing activities was $96,000, as compared with $256,000 in the year earlier period.

In 2020, cash used in investing activities was $494,000 as compared with $877,000 in 2019. All capital investments, except $58,000, were incurred at the Company's dolomite operations. The reduction in capital spending in 2020 was partly due to deferring some capital projects as a result of COVID-19. Additionally, the 2019 figure includes the cost to purchase of a new front-end loader. The Company has budgeted approximately $600,000 for capital expenditures at MIN-AD and Mill Creek in 2021.

### Selected Annual Information

| **US$,000** | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Financial Performance** | | | |
| Revenue | **$55,548** | $44,664 | $47,266 |
| Operating costs | **$45,886** | $35,358 | $38,149 |
| SG&A | **$5,947** | $5,699 | $5,718 |
| Net income | **$1,778** | $1,633 | $999 |
| Income per share, basic | **$0.08** | $0.07 | $0.04 |
| Cash flow from operations[1] | **$3,435** | $3,578 | $2,477 |
| Capital expenditures | **$494** | $877 | $408 |

[1] Before working capital changes.

### Summary of Quarterly Results

| US$,000 | **Q4/20** | **Q3/20** | **Q2/20** | **Q1/20** | **Q4/19** | **Q3/19** | **Q2/19** | **Q1/19** |
|---|---|---|---|---|---|---|---|---|
| Revenue | $14,617 | $12,067 | $14,187 | $14,677 | $11,871 | $11,089 | $11,605 | $10,099 |
| Gross Profit | $2,555 | $2,593 | $1,902 | $2,612 | $2,671 | $2,500 | $2,417 | $1,718 |
| Net Income (Loss) | $500 | $669 | ($69) | $678 | $732 | $569 | $470 | ($138) |
| EPS – Basic | $0.02 | $0.03 | $0.00 | $0.03 | $0.03 | $0.03 | $0.02 | ($0.01) |

The positive trend in quarterly revenue and gross profit generally reflects higher prices for dairy products over the past seven quarters, following a period of very low milk prices in the fourth quarter of 2018 and the first quarter of 2019. The reduction in gross profit in the second quarter of 2020 reflects the negative impact of COVID-19 on sales volumes at Mill Creek and the loss of a glass customer. The net loss recorded in the first quarter of 2019 is 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, 2020, the Company had the following undiscounted financial commitments:

| (US$,000) | **Total** | **2021** | **2022** | **2023** | **2024** | **Thereafter** |
|---|---|---|---|---|---|---|
| Bank debt repayments | $3,627 | $1,636 | $1,156 | $643 | $192 | $0 |
| Equipment financings | $89 | $39 | $28 | $22 | $0 | $0 |
| Lease obligations | $1,717 | $620 | $461 | $227 | $175 | $234 |
| **Total** | **$5,433** | **$2,295** | **$1,645** | **$892** | **$367** | **$234** |

Debt repayments represent the principal only and include $500,000 drawn under the Company's revolving credit facility which matures May 25, 2021. The Company anticipates extending the maturity date of the facility for an additional year. Debt repayments assume the Papillon PPP loan is forgiven. Lease obligations represent the undiscounted amount of the lease commitments at December 31, 2020.

## 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 22,306,811 common shares and 17,136,980 preferred shares issued and outstanding.

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

## RELATED PARTY TRANSACTIONS

There were no related party transactions in 2020.

## NORMAL COURSE ISSUER BID

Under its previously disclosed normal course issuer bid (the "NCIB"), the Company could purchase for cancellation up to 5%, or 1,130,891 of its common shares over the twelve-month period from February 18, 2020 to February 18, 2021. Over the term of the NCIB, the Company purchased for cancellation a total of 311,000 common shares at an average cost of C$0.30/share (of which 305,000 were purchased in 2020). The NCIB expired on February 18, 2021 and the Company has received approval from the TSX Venture Exchange ("TSXV") to renew its NCIB (see Subsequent Events below).

## SUBSEQUENT EVENTS

### Renewal of Normal Course Issuer Bid

On February 19, 2021, the Company received approval from the TSXV to renew its NCIB to purchase for cancellation up to 1,000,000 common shares, representing 4.4% of the outstanding common shares of the Company. Inter-Rock may purchase common shares under the NCIB over the twelve-month period beginning on or about February 25, 2021. The NCIB will terminate upon the earliest of (i) the Company purchasing 1,000,000 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 not purchased any shares under the renewed NCIB 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.

### Equipment Financing

To finance the purchase of a haul truck, in March 2021, Mill Creek obtained a four-year secured term loan from an equipment manufacturer in the amount of $493,000 at a fixed annual interest rate of 2.89%. The loan amortizes over 49 months with 48 payments of $8,925 and a bullet payment in the 49th month of $100,000. The loan is secured by the truck and is guaranteed by MIN-AD.

## 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 the United States and Canada.

### 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 substantial 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 does 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 in 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 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. Initially, global equity markets declined considerably and experienced extreme volatility. Equity markets have since recovered. 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 primarily impacted the Company's Mill Creek business in 2020 as glass customers reduced their purchases of dolomite. COVID-19 may have additional negative impacts 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, the 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.

**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 businesses 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, demand in export markets and unusual weather patterns, among others.

**Government Regulation**

The quarrying, processing and development activities of the Company's dolomite subsidiaries are subject to various laws governing development, production, taxes, royalties, labour and occupational health and safety standards, toxic substances, land use, water use and other matters. Papillon's and MIN-AD's products are also 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.

In addition, some of Papillon's dairy feed protein additives include products made from animal proteins, such as blood meal and feather meal sourced from the pork and poultry industries. There can be no assurance that new regulations will not be enacted that ban or restrict the use of animal proteins in the food supply chain.

**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 and Lease Obligations**

Although the Company has been successful in making its scheduled principal and interest repayments under its various note and loan facilities and in servicing its lease obligations, 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, interest and principal on its debt and obligations under equipment and office leases. 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 lease 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 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 dairy 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, 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.