

Inter-Rock Minerals Inc.
Condensed Consolidated Interim Financial Statements
(Unaudited)

Expressed in United States dollars

For the Three and Six Months Ended June 30, 2017 and 2016

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

INTER-ROCK MINERALS INC.

August 23, 2017

Inter-Rock Minerals Inc.

Condensed Interim Consolidated Statements of Financial Position

As at June 30th

(Expressed in thousands of United States Dollars)

UNAUDITED	Note	June 30, 2017	December 31, 2016
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		1,375	1,123
Accounts receivable		3,940	3,699
Inventories	6	1,042	771
Prepaid expenses and other assets		240	199
Total Current Assets		6,597	5,792
Non-current assets			
Properties, plant and equipment	7	5,513	6,102
Mineral exploration properties and deferred exploration costs	8	268	268
Deferred income tax asset		100	100
Intangibles	4, 9	2,839	3,003
Goodwill	4, 9	1,809	1,809
Total Assets		17,126	17,074
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		3,001	2,946
Current portion of long term debt	10	1,113	1,088
Current portion equipment purchase financing	10	268	177
Current portion of promissory notes to related parties	10	-	250
Total Current Liabilities		4,382	4,461
Non-current liabilities			
Accrued interest payable		45	44
Long term debt	10	1,422	1,631
Equipment purchase financing	10	1,211	1,770
Promissory notes to related parties	10	4,054	4,454
Asset retirement obligation	11	75	75
Series A preferred shares	12	3,417	3,417
Total Liabilities		14,606	15,852
Equity			
Share capital	13	5,864	5,864
Contributed surplus		315	315
Deficit		(3,659)	(4,957)
Total Equity		2,520	1,222
Total Liabilities and Equity		17,126	17,074

Commitments and contingencies (Note 14)

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

Inter-Rock Minerals Inc.

Condensed Interim Consolidated Statement of Comprehensive Income

For the periods ended June 30th

(Expressed in thousands of United States Dollars)

UNAUDITED	Note	Three months ended June 30		Six months ended June 30	
		2017	2016	2017	2016
		\$	\$	\$	\$
REVENUE	16	13,646	8,600	27,021	11,323
COST OF SALES					
Operating costs	5	11,140	6,942	22,584	8,933
Amortization and depletion, mining	7	152	150	311	300
		11,292	7,092	22,895	9,233
GROSS PROFIT		2,354	1,508	4,126	2,090
OPERATING EXPENSES					
Selling, general and administrative	5	1,215	1,375	2,424	1,831
Amortization of intangibles	9	82	-	164	-
INCOME FOR THE PERIOD BEFORE FINANCING COSTS		1,057	133	1,538	259
FINANCING COSTS					
Interest on long term debt	10	113	118	240	143
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD		944	15	1,298	116
Basic comprehensive income per share		0.042	0.000	0.057	0.001
Diluted comprehensive income per share		0.097	0.000	0.033	0.000

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

Inter-Rock Minerals Inc.

Condensed Interim Consolidated Statements of Changes in Equity

As at and for the periods ended June 30th

(Expressed in thousands of United States Dollars)

UNAUDITED	Share Capital (Note 13)	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$
Balance, December 31, 2015	5,864	315	(5,707)	472
Total income and comprehensive income for the period	-	-	101	101
Balance, June 30, 2016	5,864	315	(5,591)	588
Balance, December 31, 2016	5,864	315	(4,957)	1,222
Total income and comprehensive income for the period	-	-	1,298	1,298
Balance, June 30, 2017	5,864	315	(3,659)	2,520

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

Inter-Rock Minerals Inc.

Condensed Interim Consolidated Statements of Cash Flow

As at and for the periods ended June 30th

(Expressed in thousands of United States Dollars)

UNAUDITED	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
CASH PROVIDED BY (USED IN)				
OPERATIONS				
Net income for the period	944	15	1,298	116
Items not effecting cash				
Amortization and depletion, mining	152	150	311	300
Amortization of intangibles	82	-	164	-
Interest expense	113	118	240	143
Gain on disposal of properties, plant and equipment	-	-	(55)	-
	1,291	283	1,958	559
Net changes in non-cash working capital				
Accounts receivable	153	97	(241)	(1,310)
Inventories	(104)	224	(271)	(170)
Prepaid expenses	(68)	95	(41)	(81)
Accounts payable and accrued liabilities	(1,081)	(653)	59	1,098
Accrued interest payable	8	-	1	-
Cash generated by operating activities	199	46	1,465	96
INVESTING				
Purchase of properties, plant and equipment	(23)	(228)	(1,409)	(343)
Proceeds on disposal of properties, plant and equipment	-	-	398	-
Acquisition of Papillion, net of cash acquired	-	(83)	-	(5,057)
Cash used in investing activities	(23)	(311)	(1,011)	(5,400)
FINANCING				
Interest paid	(103)	(97)	(223)	(122)
Proceeds from short term debt	-	-	18	-
Repayment of long term debt	(103)	(138)	(205)	(247)
Proceeds from equipment purchase financings	-	-	1,264	-
Repayment of equipment purchase financings	(34)	(33)	(406)	(75)
Proceeds from related party loans	-	-	-	4,454
Repayment of related party loans	(200)	-	(650)	-
Cash provided by (used in) financing activities	(440)	(268)	(202)	4,010
Net change in cash and cash equivalents	(264)	(529)	252	210
Cash and cash equivalents, beginning of period	1,639	1,068	1,123	329
Cash and cash equivalents, end of period	1,375	539	1,375	539

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

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

1. NATURE OF OPERATIONS

Inter-Rock Minerals Inc. ("Inter-Rock" or the "Company") was continued in St. Michael, Barbados on September 15, 2000. The Company is engaged in the production and marketing of high purity dolomite throughout the United States. The Company markets its dolomite to the animal feed, glass, roofing and aglime industries. The Company's subsidiary, Papillon Agricultural Company Inc., is engaged in the marketing and distribution of specialty ingredients to the dairy feed industry. The Company's office is located at 500 - 2 Toronto Street, Toronto, Ontario, M5C 2B6, Canada. The Company is listed on the TSX Venture Exchange and the Company's trading symbol is "IRO".

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, Secret Pass Gold Inc. ("Secret Pass"), MIN-AD Inc. ("MIN-AD"), a wholly-owned subsidiary of Secret Pass, Mill Creek Dolomite LLC ("Mill Creek") and Papillon Agricultural LLC, both wholly-owned subsidiaries of MIN-AD Inc. and Papillon Agricultural Company Inc. ("Papillon") the wholly-owned subsidiary of Papillon Agricultural LLC. All intercompany transactions, balances, income and expenses are eliminated in full upon consolidation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards, ("IFRS") as applicable to the preparation of interim financial statements, including International Accounting Standard, ("IAS") 34, *Interim Financial Reporting* and do not include all of the information required for full annual financial statements by IFRS. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2016 prepared in accordance with IAS as issued by the International Accounting Standards Board ("IASB").

The Board of Directors approved these interim financial statements on August 22, 2017.

(b) Functional and presentation currency

These financial statements are presented in United States dollars, which is the functional currency of the Company and its subsidiaries. All financial information presented in United States dollars is rounded to the nearest thousand, except where otherwise indicated.

(c) Use of estimates and judgements

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.

The condensed consolidated interim financial statements reflect the judgements and estimates outlined by the Company in note 3 in its audited consolidated financial statements for the year ended December 31, 2016.

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements reflect the accounting policies applied by the Company in its audited consolidated financial statements for the year ended December 31, 2016. The Company's significant accounting policies are presented as note 2 in the audited consolidated financial statements for the year ended December 31, 2016.

The IASB continues to amend and to add to current IFRS standards and interpretations. The Company's accounting policies adopted for preparation of its IFRS annual consolidated financial statements will be determined as of December 31, 2017. In the event that accounting policies adopted at December 31, 2017 differ materially from the accounting policies used in the preparation of these condensed consolidated interim financial statements, these condensed consolidated interim financial statements will be restated to retrospectively account for the application of those policies adopted at December 31, 2017.

4. BUSINESS COMBINATION

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

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

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

	Note	Amount
		\$
Secured promissory notes issued to original shareholders of Papillon bearing interest at 5.57%	16	3,499
Secured promissory notes issued to original shareholders of Papillon bearing interest at 7%		400
Cash	10, 16	2,055
		5,954

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

4. BUSINESS COMBINATION (CONT'D)

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

	Note	Amount
		\$
Assets		
Cash		970
Accounts receivable		1,381
Inventory		214
Prepaid and other		129
Property, plant and equipment		54
Investment		10
Intangibles	9	3,250
Liabilities		
Accounts payable and accrued liabilities		(1,862)
		4,146
Goodwill	9	1,808
Total net assets acquired		5,954

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

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

5. SUBSIDIARIES AND BUSINESS SEGMENTS

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

Operating segments of the Company are as follows:

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

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

5. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

The Company's Chief Executive Officer evaluates the performance of these segments and allocates resources to them based on certain performance measures (mainly cash flow from operations).

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

Segment operating results are as follows:

For the six month period ended June 30, 2017	MIN-Ad.	Mill Creek	Papillon	Other	Elimi- nations	Total
REVENUE						
Internal sales	1,518	-	37	234	(1,789)	-
External sales	2,531	1,802	22,688	-	-	27,021
COST OF SALES						
Operating costs	2,845	1,148	19,640	-	(1,049)	22,584
Amortization & depletion	143	163	-	-	5	311
GROSS PROFIT	1,061	491	3,085	234	(745)	4,126
OPERATING EXPENSES						
Selling, general & administration	477	505	1,637	225	(420)	2,424
Amortization intangibles	-	-	164	-	-	164
INCOME (LOSS) FOR THE PERIOD BEFORE FINANCING COSTS	584	(14)	1,284	9	(325)	1,538
FINANCING COSTS						
Interest on long-term debt	26	59	138	17	-	240
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	558	(73)	1,146	(8)	(325)	1,298

Adjustments and eliminations include inter-segment revenues and expenses that are eliminated on consolidation

As at June 30, 2017	MIN-Ad.	Mill Creek	Papillon	Other	Elimi- nations	Total
ASSETS						
Current assets	1,326	1,485	4,184	15	(413)	6,597
Non-current assets	2,045	3,469	4,646	369	-	10,529
	3,371	4,954	8,830	384	(413)	17,126
LIABILITIES						
Current liabilities	1,244	898	2,127	158	(45)	4,382
Non-current liabilities	47	1,724	4,990	3,463	-	10,224
	1,291	2,622	7,117	3,621	(45)	14,606

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

5. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

For the three month period ended June 30, 2017	MIN-Ad.	Mill Creek	Papillon	Other	Elimi- nations	Total
REVENUE						
Internal sales	730	-	17	117	(864)	-
External sales	1,284	1,027	11,335	-	-	13,646
COST OF SALES						
Operating costs	1,419	635	9,743	-	(657)	11,140
Amortization & depletion	71	79	-	-	2	152
GROSS PROFIT	524	313	1,609	117	(209)	2,354
OPERATING EXPENSES						
Selling, general & administration	254	257	802	101	(199)	1,215
Amortization intangibles	-	-	82	-	-	82
INCOME FOR THE PERIOD BEFORE FINANCING COSTS	270	56	725	16	(10)	1,057
FINANCING COSTS						
Interest on long-term debt	11	26	67	9	-	113
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	259	30	658	7	(10)	944

Segment balances for the prior period are as follows:

For the six month period ended June 30, 2016	MIN-Ad.	Mill Creek	Papillon	Other	Elimi- nations	Total
REVENUE						
Internal sales	435	-	-	-	(435)	-
External sales	2,953	1,953	6,417	-	-	11,323
COST OF SALES						
Operating costs	2,669	1,248	5,402	-	(386)	8,933
Amortization & depletion	190	108	2	-	-	300
GROSS PROFIT	529	597	1,013	-	(49)	2,090
OPERATING EXPENSES						
Selling, general & administration	352	486	745	248	-	1,831
INCOME FOR THE PERIOD BEFORE FINANCING COSTS	177	111	268	(248)	(49)	259
FINANCING COSTS						
Interest on long-term debt	18	24	81	20	-	143
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	159	87	187	(268)	(49)	116

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

5. SUBSIDIARIES AND BUSINESS SEGMENTS (CONT'D)

As at June 30, 2016	MIN-Ad.	Mill Creek	Papillon	Other	Elimi- nations	Total
ASSETS						
Current assets	1,083	1,217	2,048	22	-	4,370
Non-current assets	2,214	2,145	5,123	261	-	9,743
	3,297	3,362	7,171	283	-	14,113
LIABILITIES						
Current liabilities	1,465	1,221	1,277	282	-	4,245
Non-current liabilities	27	224	5,057	3,972	-	9,280
	1,492	1,445	6,334	4,254	-	13,525
For the three month period ended June 30, 2016	MIN-Ad.	Mill Creek	Papillon	Other	Elimi- nations	Total
REVENUE						
Internal sales	435	-	-	-	(435)	-
External sales	1,211	972	6,417	-	-	8,600
COST OF SALES						
Operating costs	1,307	619	5,402	-	(386)	6,942
Amortization & depletion	95	53	2	-	-	150
GROSS PROFIT	244	300	1,013	-	(49)	1,508
OPERATING EXPENSES						
Selling, general & administration	159	302	745	169	-	1,375
INCOME (LOSS) FOR THE PERIOD BEFORE FINANCING	85	(2)	268	(169)	-	133
FINANCING COSTS						
Interest on long-term debt	10	11	81	16	-	118
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	75	(13)	187	(185)	(49)	15

6. INVENTORIES

Inventories comprise the following:

	2,017	2,016
	\$	\$
Raw materials and consumables, at cost	362	443
Finished goods, at cost	680	328
Total inventories, at lower of cost and net realizable value	1,042	771

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

7. PROPERTIES, PLANT AND EQUIPMENT

Costs of properties, plant and equipment comprise the following:

	Balance December 31, 2016	Additions during the period	Disposals during the period	Balance June 30, 2017
	\$	\$	\$	\$
<u>Cost</u>				
Land	535	-	-	535
Dolomite Properties	2,051	-	-	2,051
Mill Equipment	6,110	-	(564)	5,546
Mill (i.e. Capital projects)	6,835	58	-	6,893
Vehicles	496	-	(52)	444
Spare Parts	607	7	-	614
	16,634	65	(616)	16,083

	Balance December 31, 2016	Additions during the period	Disposals during the period	Balance June 30, 2017
	\$	\$	\$	\$
<u>Accumulated amortization and depletion</u>				
Land	-	-	-	-
Dolomite Properties	(1,203)	(6)	-	(1,209)
Mill Equipment	(3,778)	(144)	221	(3,701)
Mill	(5,149)	(150)	-	(5,299)
Vehicles	(402)	(11)	52	(361)
Spare Parts	-	-	-	-
	(10,532)	(311)	273	(10,570)

	Balance December 31, 2016	Balance June 30, 2017
	\$	\$
<u>Net book value</u>		
Land	535	535
Dolomite Properties	848	842
Mill Equipment	2,332	1,845
Mill	1,686	1,594
Vehicles	94	83
Spare Parts	607	614
	6,102	5,513

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

8. MINERAL EXPLORATION PROPERTIES AND DEFERRED EXPLORATION COSTS

Mineral exploration properties and deferred exploration costs comprise the following:

	Sentinel Peak (a)	Varyville (b)	Total
	\$	\$	\$
Cost			
Balance December 31, 2016 and June 30, 2017	247	21	268

(a) Sentinel Peak

The Sentinel Peak gold property is located in Northern Humboldt County, Nevada approximately 80 miles northwest of Winnemucca, Nevada. The Company holds 22 claims covering 440 acres.

(b) Varyville

The Company holds eight claims in a historic gold mining district of northwest Nevada. These properties are all gold projects. No work is planned for 2017.

9. INTANGIBLES AND GOODWILL

Intangibles and goodwill comprise the following:

	Customer relationships (a)	Distribution rights (b)	Non- compete (c)	Brand (d)	Total Intangibles	Goodwill
	\$	\$	\$	\$	\$	\$
Balance June 30, 2016	-	-	-	-	-	1
Papillon acquisition (Note 4)	1,850	1,270	30	100	3,250	1,808
Less: amortization	(139)	(95)	(5)	(8)	(247)	-
Balance December 31, 2016	1,711	1,175	25	92	3,003	1,809
Less: amortization	(46)	(31)	(2)	(3)	(164)	-
Balance June 30, 2017	1,665	1,144	23	89	2,839	1,809

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

- Customer relationships, which are long-standing relationships with many specialty feed ingredient suppliers, toll manufacturers and customers in the dairy industry.
- Distribution rights, which are exclusive rights of the Company to produce and distribute specialty feed ingredients to the dairy industry.
- Non-compete arrangements, which serve to protect the Company's sensitive and confidential information. These agreements may apply to employees as well as any person or company that interacts with the business and encounters confidential information. The agreements have to be reasonable in scope and duration in order to be upheld in court.

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

9. INTANGIBLES AND GOODWILL (CONT'D)

- d) Brand, where the value of a brand is determined by the consumers' perception of the brand. Positive brand equity is achieved when consumers are willing to pay more for a product with a recognizable brand name than they would pay for a generic version of the product.

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

The goodwill impairment analysis performed by the Company concluded there was no impairment to goodwill as at June 30, 2017 as the fair value of its CGUs exceeded its carrying value.

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

10. DEBT

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

	June 30, 2017	December 31, 2016
	\$	\$
<u>Long term debt</u>		
Revolving Credit Facility	693	672
Mill Creek Term Loan	684	750
Papillon Term Loan	1,158	1,297
Long term debt	2,535	2,719
Less: current portion of long term debt	(1,113)	(1,088)
Non-current portion of long term debt	1,422	1,631

Inter-Rock Minerals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the periods ended June 30, 2017 and 2016

(Expressed in thousands of United States Dollars)

10. DEBT (CONT'D)

	June 30, 2017	December 31, 2016
	\$	\$
<u>Equipment purchase financing</u>		
Equipment purchase financing	1,479	1,947
Less: current portion of equipment purchase financing	(268)	(177)
Non-current portion of equipment purchase financing	1,211	1,770

	June 30, 2017	December 31, 2016
	\$	\$
<u>Promissory notes to related parties</u>		
Promissory notes to related parties	4,054	4,704
Less: current portion of promissory notes to related parties	-	(250)
Non-current portion of promissory notes to related parties	4,054	4,454

Bank facilities

On December 16, 2016, the Company refinanced its revolving credit and term loan facilities for its MIN-AD and Mill Creek dolomite operations with Meadows Bank. Additionally, the Company arranged an equipment purchase term loan with Meadows Bank to finance the acquisition of crushing and screening equipment at Mill Creek.

The Meadows Bank facilities are summarized below:

- (i) \$1,000 Revolving Credit Facility – a one-year, secured revolving credit facility (“RC”) in the amount of the lesser of \$1,000 or 75% of accounts receivable at MIN-AD and Mill Creek, bearing interest at the U.S. bank prime rate plus 1.00% per annum. Any amounts drawn under the RC facility can be repaid any time and are due in full at maturity on December 25, 2017. At June 30 2017, \$693 was outstanding under the RC facility and was recorded as current portion of long term debt.
- (ii) \$750 Term Loan – a five year, secured term loan bearing interest of 5.50% per annum. The loan amortizes in sixty equal monthly principal and interest payments of \$14 and matures on December 25, 2021. At June 30, 2017, \$138 was recorded as current portion of long term debt and the balance of \$546 was recorded as long term debt.

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(Expressed in thousands of United States Dollars)

10. DEBT (CONT'D)

- (iii) \$1,264 Equipment Term Loan – a five and a half year, secured term loan arranged to partially finance the purchase of crushing and screening equipment for Mill Creek. For six months post drawdown, the loan bears interest at the U.S. bank prime rate plus 0.50% and the Company is only required to make monthly interest payments during this six month period. Thereafter, the loan bears interest at a fixed rate of 5.50% and amortizes over sixty months in equal principal and interest payments of \$24. The loan matures on June 25, 2022. At June 30, 2017, \$168 was recorded as current portion of long term debt and the balance of \$1,096 was recorded as long term debt.

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

In connection with the acquisition of Papillon in the first quarter of 2016, the Company arranged a \$1,500, three year secured term loan with Shore United Bank. The loan bears interest at 4.75% per annum with monthly principal and interest payments of \$28 and a final principal repayment of \$669 at maturity on March 22, 2019. The Shore loan is guaranteed by the Company, certain of the Company's subsidiaries and the Chief Executive Officer of the Company and is secured by Papillon's accounts receivables. Under the terms of the Shore United loan, Papillon Agricultural LLC, (the "Borrower") is governed by certain covenants including, requiring Shore Bank approval for distributing cash to Inter-Rock, restrictions on new indebtedness, asset dispositions and acquisitions, a requirement to maintain a minimum debt service cover ratio and a certain level of cash and accounts receivables, among other covenants. At June 30, 2017, \$282 was recorded as current portion of long term debt and the balance of \$876 was recorded as long term debt.

As at June 30, 2017 the Company was in compliance with all bank debt covenant requirements.

Equipment purchase financings

In the course of operations, the Company arranges equipment finance facilities with major equipment manufacturers and financial institutions. The total amounts currently outstanding under these facilities range from \$11 to \$1,264 and the interest rate on the facilities range from 1.99% to 5.95% per annum. At June 30, 2017 \$268 was recorded as current portion of long term debt and the balance of \$1,211 was recorded as long term debt.

Related party notes

On March 23, 2016, in connection with financing the acquisition of Papillon Agricultural Company Inc., the Company received a loan from the original shareholders of Papillon for \$3,899 (the "Seller Notes"). In addition, the Company borrowed \$500 from the Chairman of the Company and \$55 from the Chief Executive Officer of the Company to assist in financing the purchase price of Papillon (the "Buyer Notes"). Refer to Note 17 for details of this related party debt. On March 1, 2017, the Company prepaid \$200 of the Seller Notes. On May 12, 2017, the Company made a second \$200 prepayment fully repaying the 7% Seller Notes. \$3,499 of the 5.75% Seller Notes remain outstanding.

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For the periods ended June 30, 2017 and 2016

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11. ASSET RETIREMENT OBLIGATION

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

12. SERIES A PREFERRED SHARES

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

Each Preferred Share is entitled to one vote, is redeemable and retractable on demand at a value of US\$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 of the Company.

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 their right to retract the Preferred Shares for the year ending December 31, 2017, so the liability is presented in these financial statements as long-term.

The Company has not declared a preferred share dividend, accordingly for the first 6 months of 2017, the Company recorded \$Nil in dividends as interest expense.

13. SHARE CAPITAL

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

	Number	Amount (\$)
Balance, June 30, 2017 and 2016	22,617,811	5,864

14. COMMITMENTS AND CONTINGENCIES

At June 30, 2017 the Company had the following financial commitments:

	Total	2017	2018	2019	2020	Thereafter
	\$	\$	\$	\$	\$	\$
Bank Principal Repayments	2,535	903	438	870	158	166
Equipment Financing	1,479	166	318	282	275	438
Operating Lease	668	89	178	178	178	45
Related Party Notes	4,054	-	-	4,054	-	-
Total	8,736	1,158	934	5,384	611	649

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15. INCOME TAXES

The Company has net operating losses for income tax purposes of \$2,653 (2016 – \$2,696) which can be carried forward and applied against future taxable income. The potential benefit of these losses has been recognized in these financial statements as deferred income tax assets to the extent that management expects them to be utilized. The right to use these losses expires as follows:

<u>Incurred</u>	<u>Expires</u>	<u>Amount</u>
		\$
1998	2018	444
2004	2024	18
2005	2025	5
2006	2026	5
2007	2027	2
2008	2028	172
2009	2029	520
2010	2030	62
2011	2031	350
2012	2032	446
2013	2033	193
2014	2034	436
		<u>2,653</u>

16. RELATED PARTY TRANSACTIONS

(a) Promissory notes related to the acquisition of Papillon Agricultural Company Inc.

On March 23, 2016, in connection with financing the acquisition of Papillon, the Company received loans from the shareholders of Papillon totaling \$3,899 (the "Seller Notes"). The Papillon noteholders are related parties as they continue to work for, or are directors of Papillon. In addition, the Company borrowed \$500 from the Chairman of the Company and \$55 from the Chief Executive Officer of the Company to assist in financing the purchase price of Papillon (the "Buyer Notes"). Salient terms of the promissory notes are outlined below:

- (i) \$3,899 Seller Notes: On March 23, 2016, the Company issued promissory notes to the shareholders of Papillon Agricultural Company Inc. The Seller Notes comprise two tranches: a \$3,499 tranche bearing interest at 5.75% per annum and a \$400 tranche bearing interest at 7% per annum. Interest is paid quarterly and the principal is due at maturity on March 23, 2019. The Seller Notes are guaranteed by Inter-Rock and Papillon Agricultural Company Inc. and are secured by a pledge of the shares of Papillon Agricultural Company Inc. On March 1, 2017, the Company prepaid \$200 of the Seller Notes. On May 12, 2017, the Company made a second \$200 prepayment fully repaying the 7% Seller Notes. \$3,499 of the 5.75% Seller Notes remain outstanding.

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

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16. RELATED PARTY TRANSACTIONS (CONT'D)

- (ii) \$555 Buyer Notes: in connection with the acquisition of Papillon, on March 23, 2016, the Company issued a \$500 promissory note to the Chairman of Inter-Rock and a \$55 promissory note to the Chief Executive Officer of Inter-Rock. The Notes are unsecured and bear interest at 6% per annum. The principal and accrued interest is due in full on December 31, 2019. At June 30, 2017, accrued interest totaled \$45.

(b) CEO loan guarantee fee

The Company's term loan with Shore United Bank requires loan guarantees from the Company, its subsidiaries Secret Pass Gold and Papillon Agricultural Company Inc. and a personal guarantee from the CEO of the Company. To compensate the CEO for assuming this obligation, the Board of Directors approved a retroactive guarantee fee payable to the CEO in an amount equal to an annual rate of 2% interest on the outstanding balance of the loan for so long as the guarantee is in place. At June 30, 2017 the accrued guarantee fee owing to the CEO was \$34.

(c) Other related party notes

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

(d) Key management remuneration

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

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

	For the three months ended		For the six months ended	
	June 30	June 30	June 30	June 30
	2017	2016	2017	2016
	\$	\$	\$	\$
Short term benefits including salaries, consulting and directors fees	191	278	380	409

Inter-Rock Minerals Inc.

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(Expressed in thousands of United States Dollars)

17. REVENUE SUPPLEMENTAL INFORMATION

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

	For the three months ended		For the six months ended	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016
	\$	\$	\$	\$
<u>Min-Ad and Mill Creek</u>				
Dolomite sales	1,862	2,022	3,450	4,028
Freight charges	381	689	752	1,362
Fuel surcharges	68	40	131	84
	2,311	2,751	4,333	5,474
<u>Papillon</u>				
Animal feed sales	10,598	5,849	21,184	5,849
Other revenue	264	-	499	-
Freight charges	473	-	1,005	-
	13,646	8,600	27,021	11,323

18. FINANCIAL INSTRUMENTS

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 from its operating activities, primarily from trade receivables, and from its financing activities, including deposits and other financial instruments with banks and financial institutions.

Credit risk relates to cash, cash equivalents and accounts receivable, and arises from the possibility that any counterparty to an instrument fails to perform. 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 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 balances with banks and financial institutions is managed by maintaining cash balances at three banks in North America.

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(Expressed in thousands of United States Dollars)

18 FINANCIAL INSTRUMENTS (CONT'D)

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. The Company is growing and in order to meet its short and longer-term working capital requirements, the Company will attempt, if necessary, to secure further financing to ensure that those obligations are properly discharged.

Operationally, the Company manages its liquidity by continuously monitoring forecasted and actual gross profit, expenses, and cash flows from operations.

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 (Note 12) and, to the extent that it uses it, the revolving credit facility (Note 10) since the interest rate or dividend payment on these instruments fluctuates with the general level of interest rates. Of the financial instruments held at year-end, a one percent change in interest rates would affect the profitability of the Company by an immaterial amount.

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

19. MANAGEMENT OF CAPITAL

The Company considers its capital structure to include shareholders' equity and the Preferred Shares which approximate total capital of \$5,937 (2016- \$4,639)

The Company's objective when managing capital is to ensure adequate liquidity to continue operations. The Company seeks to ensure that cash from operations is sufficient to meet all operating expenses, sustaining capital expenditures, and debt service obligations. Funds for significant capital improvements are primarily secured through long-term debt. There is no assurance that bank debt is available. There were no changes in capital management in the year.

The Company's long-term capital is subject to external restrictions including continued listing requirements of the TSX Venture Exchange and certain debt covenants as described in Note 10.