Athabasca MINERALS INC.

THREE AND SIX MONTHS ENDED JUNE 30, 2020

# UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of Athabasca Minerals Inc. (the "Corporation" or "AMI" or "Athabasca") have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of interim financial statements.

## Interim Condensed Consolidated Statements of Financial Position (Unaudited)

| | Notes | As at June 30, 2020 | As at December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | $ 1,089,500 | $ 1,995,280 |
| Trade and other receivables | 5, 20 | 114,716 | 1,011,903 |
| Inventory | 6 | 1,112,475 | 1,112,475 |
| Prepaid expenses and deposits | | 41,621 | 115,582 |
| Current Assets | | 2,358,312 | 4,235,240 |
| Long-term deposits | 7 | 757,252 | 803,288 |
| Restricted cash | 8 | 1,835,160 | 1,761,470 |
| Contract assets | 9 | 2,452,694 | 392,879 |
| Property and equipment | 10 | 849,588 | 982,306 |
| Right-of-use assets | 11 | 317,032 | 175,414 |
| Intangible assets | 4 | 143,447 | - |
| Resource properties | 12 | 6,750,782 | 6,288,436 |
| Investments in associates | 13 | 3,605,830 | 3,633,427 |
| **Total Assets** | | $ 19,070,097 | $ 18,272,460 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 20 | $ 527,642 | $ 1,348,550 |
| Income taxes payable | 4 | 31,344 | - |
| Current portion of bank loans | 14 | 475,672 | - |
| Current portion of lease obligations | 15 | 162,583 | 93,685 |
| Current portion of environmental rehabilitation obligations | 16 | 16,904 | 16,693 |
| Current Liabilities | | 1,214,145 | 1,458,928 |
| Bank loans | 14 | 1,144,328 | - |
| Lease obligations | 15 | 152,500 | 86,205 |
| Environmental rehabilitation obligations | 16 | 3,023,174 | 2,455,513 |
| Total Liabilities | | 5,534,147 | 4,000,646 |
| **Shareholders' Equity** | | | |
| Share capital | 17 | 17,367,831 | 16,734,732 |
| Contributed surplus | | 5,084,827 | 4,964,152 |
| Deficit | | (8,916,708) | (7,427,070) |
| Total Shareholders' Equity | | 13,535,950 | 14,271,814 |
| **Total Liabilities and Shareholders' Equity** | | $ 19,070,097 | $ 18,272,460 |

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

**Approved by the Board of Directors**

| " Don Paulencu " | "Terrance Kutryk" |
|---|---|
| Director | Director |

## Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

| | Notes | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|---|
| Aggregate sales revenue | 23 | $ 59,071 | $ 980,405 | $ 548,089 | $ 980,405 |
| Management services revenue, net of royalties | 23 | 186,641 | - | 457,213 | 433,635 |
| **Revenue** | | 245,712 | 980,405 | 1,005,302 | 1,414,040 |
| Operating costs | | (173,855) | (1,171,627) | (791,171) | (1,676,605) |
| Depreciation, depletion, and amortization expense | 10, 11 | (102,850) | (84,754) | (203,695) | (145,946) |
| Cost of sales | | (276,705) | (1,256,381) | (994,866) | (1,822,551) |
| **Gross profit (loss)** | | (30,993) | (275,976) | 10,436 | (408,511) |
| General and administrative expenses | | (709,939) | (795,236) | (1,448,821) | (1,617,078) |
| Share of loss from investments in associates | 13 | (8,213) | (35,458) | (27,597) | (60,887) |
| Share-based compensation expense | 17 | (76,144) | (92,719) | (178,707) | (146,642) |
| Other operating expenses | 22 | (32,712) | (25,425) | (111,203) | (173,125) |
| **Operating loss** | | (858,001) | (1,224,814) | (1,755,892) | (2,406,243) |
| Finance costs on lease obligations | 22 | (2,907) | (178) | (5,587) | (621) |
| Other non-operating income (expenses) | 22 | 183,805 | (119,971) | 261,424 | (14,027) |
| Interest income | | 3,145 | 34,316 | 10,417 | 55,110 |
| **Loss before income taxes** | | (673,958) | (1,310,647) | (1,489,638) | (2,365,781) |
| Income tax (expense) recovery | | - | - | - | (1,825) |
| **Total loss and comprehensive loss** | | $ (673,958) | $ (1,310,647) | $ (1,489,638) | $ (2,367,606) |
| Loss per common share - basic | 17 | $ (0.014) | $ (0.030) | $ (0.032) | $ (0.057) |
| Loss per common share - diluted | 17 | $ (0.014) | $ (0.030) | $ (0.032) | $ (0.057) |
| Weighted average number of shares outstanding | 17 | 47,563,231 | 43,140,203 | 46,938,207 | 41,849,243 |

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

## Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

| | Notes | Number of Shares | Share Capital | Contributed Surplus | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2018, as previously stated | | 40,240,606 | $ 14,465,325 | $ 4,908,045 | $ (4,701,467) | $ 14,671,903 |
| Adjustment on initial application of IFRS 16, net of tax of $1,825 | | - | - | - | (4,935) | (4,935) |
| **Adjusted balance as at January 1, 2019** | | **40,240,606** | **$ 14,465,325** | **$ 4,908,045** | **$ (4,706,402)** | **$ 14,666,968** |
| Shares issued in purchase of investment | 13 | 2,100,000 | $ 1,129,800 | $ - | $ - | $ 1,129,800 |
| Share-based compensation | | - | - | 117,814 | - | 117,814 |
| Stock options exercised | | 118,333 | 39,445 | (14,879) | - | 24,566 |
| Warrants exercised | | 1,625,000 | 650,000 | (81,250) | - | 568,750 |
| Share issuance costs, net of tax of $nil | | - | (1,149) | - | - | (1,149) |
| Total loss and comprehensive loss for the period | | - | - | - | (2,367,606) | (2,367,606) |
| **Balance as at June 30, 2019** | | **44,083,939** | **$ 16,283,421** | **$ 4,929,730** | **$ (7,074,008)** | **$ 14,139,143** |
| Shares issued in purchase of investment | | - | $ - | $ - | $ - | $ - |
| Share-based compensation | | - | - | 169,110 | - | 169,110 |
| Stock options exercised | | 880,001 | 308,039 | (116,563) | - | 191,476 |
| Warrants exercised | | 362,500 | 145,000 | (18,125) | - | 126,875 |
| Share issuance costs, net of tax of $nil | | - | (1,728) | - | - | (1,728) |
| Total loss and comprehensive loss for the period | | - | - | - | (353,062) | (353,062) |
| **Balance as at December 31, 2019** | | **45,326,440** | **$ 16,734,732** | **$ 4,964,152** | **$ (7,427,070)** | **$ 14,271,814** |
| Shares issued | 17 | 2,937,318 | $ 619,444 | $ - | $ - | $ 619,444 |
| Share-based compensation | 17 | - | - | 125,830 | - | 125,830 |
| Stock options exercised | 17 | 50,000 | 13,655 | (5,155) | - | 8,500 |
| Total loss and comprehensive loss for the period | | - | - | - | (1,489,638) | (1,489,638) |
| **Balance as at June 30, 2020** | | **48,313,758** | **$ 17,367,831** | **$ 5,084,827** | **$ (8,916,708)** | **$ 13,535,950** |

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

## Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Notes | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | $ 1,392,229 | $ 510,143 | $ 2,164,129 | $ 2,105,332 |
| Payments to suppliers | | (1,501,534) | (1,210,775) | (2,012,931) | (1,931,340) |
| Payments to employees | | (500,125) | (602,424) | (1,114,333) | (1,335,932) |
| Interest received | | 3,142 | 34,316 | 10,417 | 55,110 |
| Finance costs paid | | (2,907) | (178) | (5,587) | (621) |
| **Net cash (used in) generated from operating activities** | | (609,195) | (1,268,918) | (958,305) | (1,107,451) |
| **INVESTING ACTIVITIES** | | | | | |
| Long-term deposits | 7 | 23,710 | (4,975) | 46,036 | (5,705) |
| Restricted cash | 8 | (32) | (56,513) | (73,690) | 318,794 |
| Spending on contract assets | 9 | (233,909) | (57,177) | (1,564,666) | (57,177) |
| Proceeds on disposal of property and equipment | 10 | - | 6,700 | - | 6,700 |
| Purchase of property and equipment | 10 | - | (5,353) | - | (8,878) |
| Spending on resource properties | 12 | - | - | (826) | (36,636) |
| Cash acquired in TerraShift acquisition | 4 | 151,832 | - | 151,832 | - |
| Cash consideration paid for acquisition of TerraShift | 4 | (25,000) | - | (25,000) | - |
| Consideration paid for investments in associates | 13 | - | (742,000) | - | (1,022,000) |
| **Net cash (used in) generated from investing activities** | | (83,399) | (859,318) | (1,466,314) | (804,902) |
| **FINANCING ACTIVITIES** | | | | | |
| New financing from bank loans | 14 | 80,000 | - | 1,580,000 | - |
| Repayment of lease obligations | 15 | (33,716) | (18,266) | (69,661) | (36,279) |
| Net proceeds from exercise of warrants and stock options | 17 | - | 592,167 | 8,500 | 592,167 |
| **Net cash generated from (used in) financing activities** | | 46,284 | 573,901 | 1,518,839 | 555,888 |
| **Net change in cash** | | (646,310) | (1,554,335) | (905,780) | (1,356,465) |
| Cash, beginning of period | | 1,735,810 | 5,276,407 | 1,995,280 | 5,078,537 |
| **Cash, end of period** | | $ 1,089,500 | $ 3,722,072 | $ 1,089,500 | $ 3,722,072 |

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

## Note 1 - Nature of Business

Athabasca is a public corporation incorporated under the Business Corporations Act (Alberta) and its shares are listed on the TSX Venture Exchange under the symbol AMI-V (formerly ABM-V). The Corporation's head office is 4409 – 94 Street NW., Edmonton, Alberta, Canada T6E 6T7.

Incorporated in 2006, Athabasca is an integrated group of companies focused on the aggregates, industrial minerals and resource sectors, including exploration and development; aggregates marketing and midstream supply-logistics solutions. Business activities include aggregate production, sales and royalties from corporate-owned pits, management services of third-party pits, acquisitions of sand and gravel operations, integrated supply/delivery solutions of industrial minerals, and new venture development. The Corporation is strategically focused on growing its three core business units: the AMI Aggregates division, the AMI RockChain division, and the AMI Silica division. Management is continually pursuing opportunities for sustained growth and diversification in supplying aggregate products and industrial minerals.

Athabasca's business comprised the following three reportable segments:

- **AMI Aggregates** division produces and sells aggregate out of its corporate pits and manages the Coffey Lake Public Pit on behalf of the Province of Alberta for which aggregate management services revenue are earned. Additionally, the Corporation has industrial mineral leases, such as those supporting AMI's Richardson Quarry Project, that are strategically positioned for future development in industrial regions with historically and consistently high demand for aggregates.
- **AMI Silica** division is positioning to become a leading supplier of premium domestic silica sand with regional deposits in Alberta and NE British Columbia. This reporting segment encompasses all silica assets including Firebag, the Duvernay Project and the Montney In-Basin Project.
- **AMI RockChain** division is a midstream technology-based business using its proprietary RockChain™ digital platform, associated algorithm and quality assurance & control services to provide cost-effective integrated supply / delivery solutions of industrial minerals to industry, and the construction sector.
    - **TerraShift Engineering Ltd.** is a newly acquired entity within the AMI RockChain division. It offers technology-based applications that support resource exploration and development, environmental and regulatory planning, resource management, compliance reporting, and reclamation for a growing customer base across Western Canada and Ontario. TerraShift operating results will be considered part of the AMI RockChain division going forward.

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 were approved and authorized for issue by the Board of Directors on August 26, 2020.

## Note 2 - Basis of Presentation

### a) Statement of Compliance

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020, including comparatives, were prepared in accordance with IAS 34 International Accounting Standard – "Interim Financial Reporting" (IAS 34) as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in the annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") have been condensed or omitted.

The significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the Corporation's audited annual consolidated financial statements for the year ended December 31, 2019, and should be read in conjunction with those audited annual consolidated financial statements. Actual results may differ from estimated results due to differences between estimated or anticipated events and actual events and results.

## Note 2 - Basis of Presentation – continued

**b) Basis of Presentation**

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". They do not contain all the necessary annual disclosures and as a result, they should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2019.

These unaudited interim condensed consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries AMI RockChain Inc. ("AMI RockChain"), which was incorporated on March 19, 2018 and AMI Silica Inc. ("AMI Silica"), which was incorporated on May 30, 2018 (collectively the "subsidiaries"). Additionally, as at June 30, 2020, AMI RockChain acquired 100% of the shares in TerraShift Engineering Ltd. The details of the acquisition are found in Note 4.

The Corporation also holds a 49.2% ownership interest in a private Alberta corporation that owns the Montney In-Basin silica sand project (Note 13) and a 49.6% ownership interest in a private Alberta corporation that holds the Duvernay silica sand project in Alberta (Note 13). These interests are accounted for using the equity method.

The assets, liabilities, equity, income, expenses, and cash flows of the Corporation and its wholly-owned subsidiaries to the date of these interim consolidated financial statements have been combined and any intercompany investments and transactions have been eliminated upon consolidation. Uniform accounting policies are used by all entities. All transactions in the subsidiaries are reflected in these consolidated financial statements.

**c) Functional and Presentation Currency**

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars which is the functional currency of the Corporation and its subsidiaries.

**d) Reclassification of Prior Year Amounts**

Certain prior year amounts have been reclassified for consistency with current year presentation.

## Note 3 – Significant Accounting Policies

The accounting policies applied in these unaudited interim condensed consolidated financial statements are the same as those applied in the December 31, 2019 audited annual consolidated financial statements with the addition of the following new policy arising due to the acquisition of TerraShift on June 30, 2020.

**Business Combinations and Goodwill**
Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at the acquisition date at fair value. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognized at their fair values at the acquisition date. The process of determining fair value of the acquired assets and the consideration paid is complex and may consume an extended time period. Acquisition costs incurred are expensed in the period in which they are incurred except for costs related to shares issued in conjunction with the business combination.

Goodwill is initially measured at the excess of the fair value of consideration transferred less the fair value of the net identifiable assets acquired and liabilities assumed. If this amount is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the interim condensed consolidated statement of loss and comprehensive loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but is subject to an annual impairment test. Goodwill impairment is evaluated annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

## Note 4 – Acquisition of TerraShift Engineering Ltd. ("TerraShift")

On June 30, 2020, the Corporation announced that it had acquired the shares and assets of TerraShift Engineering Ltd. ("TerraShift"). TerraShift is a privately-owned company based in Edmonton, Alberta with proprietary technology (TerraMaps) that focuses on resource data, search intelligence and geospatial software that will further strengthen the functionality and capabilities of the Corporation's proprietary RockChain™ digital platform. The TerraShift team also brings technical services with highly efficient methods and streamlined approaches for resource exploration and development, environmental and regulatory planning, resource management, compliance reporting, and reclamation that benefits a growing customer base across Western Canada and Ontario.

AMI RockChain acquired 100% of the common shares of TerraShift from its two shareholders. Payment to the shareholders for the acquisition of TerraShift is comprised of three types of payments:

| | |
|---|---|
| Initial payment: | $25,000 cash and $75,013 in AMI common shares paid on June 30, 2020 |
| Trailing payments: | Additional payments of $75,000 in AMI common shares on each of June 30, 2021 and June 30, 2022 |
| Performance payout: | Additional payments of 50% of TerraShift earnings before interest, taxes, depreciation and amortization ("EBITDA") higher than an agreed upon amount for each of the first and second year of operations post-closing. If the EBITDA targets are exceeded, these performance payments can be paid by the Corporation in cash or AMI common shares. |

The trailing payments and performance payout are both contingent on the two former TerraShift shareholders remaining employed by the Corporation, and as such, under IFRS 3, they are considered part of employee remuneration and not part of the TerraShift purchase price. AMI RockChain will accrue an estimate for each of these employee bonuses on a quarterly basis going forward and expense the amounts in the consolidated statement of loss and comprehensive loss.

## Note 4 – Acquisition of TerraShift Engineering Ltd. ("TerraShift") - continued

Management's estimate of the fair value of the purchase price for the acquired assets and liabilities assumed is as follows:

| | Notes | | Total |
|---|---|---|---|
| **Purchase price consideration** | | | |
| AMI common shares (542,002 common shares @ $0.1384 per share) | **17** | $ | 75,013 |
| Cash | | | 25,000 |
| **Total purchase price** | | **$** | **100,013** |

The purchase price allocation to the following identifiable assets and liabilities is based on their estimated fair values as at June 30, 2020:

| | Notes | | Total |
|---|---|---|---|
| **Purchase price allocation** | | | |
| Cash | | $ | 151,832 |
| Trade and other receivables | | | 30,178 |
| Property and equipment | **10** | | 7,741 |
| Intangible assets - customer relationships and software | | | 143,447 |
| Accounts payable and accrued liabilities | | | (35,693) |
| Income taxes payable | | | (31,344) |
| Bank Loan ("CEBA" loan) | **14** | | (40,000) |
| **Total net assets acquired** | | **$** | **226,161** |
| Total purchase price | | | 100,013 |
| **Gain on acquisition of TerraShift** | | **$** | **126,148** |

The intangible assets acquired represent anticipated future cash flows related to existing customer relationships and software developed by TerraShift. It is estimated that these intangible assets will generate cash flows for a period of one year for the customer relationships and five years for the software and each of the intangibles will, therefore, be amortized accordingly.

The estimate of the fair value of the acquisition related intangibles and the resulting gain on acquisition is preliminary. The final purchase price allocation as well as the determination of the fair value of the net assets acquired and the acquisition related intangibles and gain on acquisition of TerraShift will be determined within six months of the acquisition date. The actual fair value of the assets and liabilities may differ materially from the amounts disclosed above in this preliminary purchase price allocation because of changes in fair values as further analysis is completed in connection with the acquisition.

## Note 5 – Trade and Other Receivables

Trade and other receivables are non-interest bearing and are carried at amortized cost, and impaired using the simplified approach which records impairment at the lifetime expected credit losses.

## Note 6 – Inventory

Inventory with a production cost of approximately $54,093 and $511,592 was sold and is included in operating costs for the three and six months ended June 30, 2020 respectively (three and six months ended June 30, 2019: $781,026 and $781,026 respectively). These aggregate sales were networked sales with third-parties via AMI RockChain.

The inventory balance of $1,112,475 as at June 30, 2020 is unchanged from December 31, 2019 as all aggregate sales in the six months ended June 30, 2020 were networked third-party sales. As at June 30, 2020, inventory consists of $264,180 of unprocessed gravel and $848,295 of crushed gravel.

## Note 7 – Long-term Deposits

| | | As at | |
|---|---|---|---|
| | Notes | June 30, 2020 | December 31, 2019 |
| Security deposits on surface materials leases | | $ 617,362 | $ 665,188 |
| Security deposits on miscellaneous leases | | 106,520 | 106,520 |
| | | 723,882 | 771,708 |
| Security deposits on exploration leases | | 33,370 | 31,580 |
| | | $ 757,252 | $ 803,288 |

## Note 8 – Restricted Cash

| | | As at | |
|---|---|---|---|
| | Notes | June 30, 2020 | December 31, 2019 |
| **Funds on deposit** | | | |
| Poplar Creek site | | $ 300,000 | $ 300,000 |
| House River pit | | 57,401 | 56,406 |
| **Guaranteed investment certificates for letters of credit** | | | |
| Susan Lake pit | | 230,705 | 228,540 |
| Poplar Creek Site, storage yard | | 180,000 | 183,600 |
| Emerson pit | | 76,004 | 76,004 |
| Coffey Lake reclamation | | 296,520 | 296,520 |
| Coffey Lake indusrial miscellaneous lease | | 74,130 | - |
| Coffey Lake performance bond | | 500,000 | 500,000 |
| Coffey Lake right of way | | 100,000 | 100,000 |
| Credit card facility | | 20,400 | 20,400 |
| | | $ 1,835,160 | $ 1,761,470 |

The Corporation has placed funds on deposit to be applied toward the costs of reclamation for the Poplar Creek site and the House River pit. The balance as at June 30, 2020 is $357,401 (as at December 31, 2019: $356,406).

The Corporation has secured its letters of credit to the benefit of the Government of Alberta for decommissioning and restoration with guaranteed investment certificates as at March 31, 2020 in the amount of $1,457,359 (December 31, 2019: $1,384,664). This amount includes $896,520 put in place in December 2019 as well as $74,130 put in place in March 2020 towards the new Coffey Lake public pit. See Note 16 for additional information regarding the reclamation liability set up for the Coffey Lake public pit.

## Note 9 – Contract Assets

| | As at | | | |
|---|---|---|---|---|
| | June 30, 2020 | | December 31, 2019 | |
| | **Costs to obtain contract** | | Costs to obtain contract | |
| Coffey Lake public pit | **$** | **1,451,959** | $ | 392,879 |
| Duvernay Frac Sand Project off-take agreement | | **1,000,735** | | - |
| | **$** | **2,452,694** | $ | 392,879 |

**Coffey Lake**

The Coffey Lake contract was awarded to the Corporation on February 21, 2019 and the site began operations on March 21, 2020. It is a 15-year contract with the Government of Alberta to construct, operate and manage the Coffey Lake public pit north of Fort McMurray, Alberta. The costs included in the Coffey Lake contract asset were spent to enable the Corporation to prepare the site for operations. These costs are expected to be recovered through the receipt of fixed volume-based pit management fees from customers, net of Government royalties.

During the three and six months ended June 30, 2020, the Corporation spent $67,242 and $1,063,931 respectively on the Coffey Lake contract asset (December 31, 2019: $392,879).

The Coffey Lake contract asset will be amortized based on actual volume sales as a proportion of the estimated economically recoverable resource (units of production method). For the three and six months ended June 30, 2020, the Corporation recorded amortization of $1,510 and $4,851 respectively on the Coffey Lake contract asset (December 31, 2019: $nil).

**Duvernay Silica Sand Project off-take agreement**

The Corporation signed an off-take agreement with Shell Canada Energy for silica sand from the Duvernay site in the first quarter of 2020. The off-take agreement, which includes certain take-or-pay provisions, carries a five-year term with two mutually acceptable and separate one-year extensions beginning on the later of mid-2021 or 30 days after the Duvernay facility has been commissioned. The off-take agreement allows Shell to procure a minimum volume over five years or up to an annual maximum of silica sand that represents the majority of the Duvernay site's stated capacity.

The Corporation incurred costs of $166,667 and $1,000,735 in the three and six months ended June 30, 2020 respectively (December 31, 2019: $nil) to secure the Duvernay off-take agreement. These costs include $500,000 in AMI's common shares issued to the Corporation's advisors as well as cash payments of $500,735.

The contract asset will be amortized over the life of the Duvernay silica sand project based on actual volume sales as a proportion of the estimated economically recoverable resources (units of production method).

## Note 10 – Property and Equipment

| | Stockpile pad | Crushing equipment | Equipment | On-site buildings | Office complex | Scales and scale houses | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| **December 31, 2018** | **$ 262,104** | **$ -** | **$ 4,405,103** | **$ 275,593** | **$ 104,162** | **$ 579,577** | **$ 5,626,539** |
| Additions | - | - | 51,372 | - | - | - | 51,372 |
| Disposals | - | - | (23,885) | (80,492) | - | (52,386) | (156,763) |
| Impairment | - | - | (32,991) | - | - | (3,303) | (36,294) |
| **December 31, 2019** | **$ 262,104** | **$ -** | **$ 4,399,599** | **$ 195,101** | **$ 104,162** | **$ 523,888** | **$ 5,484,854** |
| Additions | - | - | 7,741 | - | - | - | 7,741 |
| Disposals | - | - | - | - | - | - | - |
| **June 30, 2020** | **$ 262,104** | **$ -** | **$ 4,407,340** | **$ 195,101** | **$ 104,162** | **$ 523,888** | **$ 5,492,595** |
| | | | | | | | |
| **Accumulated Depreciation:** | | | | | | | |
| **December 31, 2018** | **$ 178,951** | **$ -** | **$ 3,314,983** | **$ 264,349** | **$ 104,162** | **$ 470,873** | **$ 4,333,318** |
| Additions | 52,421 | - | 237,266 | 3,037 | - | 30,119 | 322,843 |
| Disposals | - | - | (20,735) | (80,492) | - | (52,386) | (153,613) |
| **December 31, 2019** | **$ 231,372** | **$ -** | **$ 3,531,514** | **$ 186,894** | **$ 104,162** | **$ 448,606** | **$ 4,502,548** |
| Additions | 26,342 | - | 102,005 | 1,457 | - | 10,655 | 140,459 |
| Disposals | - | - | - | - | - | - | - |
| **June 30, 2020** | **$ 257,714** | **$ -** | **$ 3,633,519** | **$ 188,351** | **$ 104,162** | **$ 459,261** | **$ 4,643,007** |
| | | | | | | | |
| **Net book value:** | | | | | | | |
| December 31, 2018 | $ 83,153 | $ - | $ 1,090,120 | $ 11,244 | $ - | $ 108,704 | $ 1,293,221 |
| December 31, 2019 | $ 30,732 | $ - | $ 868,085 | $ 8,207 | $ - | $ 75,282 | $ 982,306 |
| **June 30, 2020** | **$ 4,390** | **$ -** | **$ 773,821** | **$ 6,750** | **$ -** | **$ 64,627** | **$ 849,588** |

**Depreciation expense for the following periods:**

| | | Total |
|---|---|---|
| Six months ended June 30, 2019 depreciation to statement of loss and comprehensive loss | | $ 137,724 |
| Six months ended June 30, 2019 depreciation to repayment of environmental rehabilitation obligations | Note 16 | $ 21,293 |
| **Six months ended June 30, 2020 depreciation to statement of loss and comprehensive loss** | | **$ 140,459** |
| **Six months ended June 30, 2020 depreciation to repayment of environmental rehabilitation obligations** | **Note 16** | **$ -** |

During the three and six months ended June 30, 2020, management acquired $7,741 in new assets (December 31, 2019 - $51,372). The additions in 2020 were all part of the TerraShift acquisition described in Note 4.

During the three and six months ended June 30, 2020, management recorded no impairment loss on assets.

During the year ended December 31, 2019, management identified specific property and equipment assets being carried at an amount above the assets' recoverable amount, resulting in the recognition of an impairment loss of $36,294 included in other operating expenses. This includes a provision for damage and vandalism on equipment at the Corporation's corporate owned pits of $25,000. Additionally, an impairment of $11,294 was taken in the second quarter of 2019 on 10 pieces of small equipment that were stolen during the period.

During the three and six months ended June 30, 2020, management did not sell or dispose of any property and equipment. During the year ended December 31, 2019, the Corporation sold property and equipment with a carrying amount of $3,150 for net proceeds of $6,700, which resulted in a gain of $3,550.

## Note 11 – Right-of-use Assets

| | Notes | Truck lease asset | | Calgary office lease asset | | Edmonton office lease asset | | Xerox Photocopier lease asset | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | |
| **December 31, 2018, as previously stated** | | **$** | **-** | **$** | **-** | **$** | **-** | **$** | **-** | **$ -** |
| Adjustment on initial application of IFRS 16 | | $ | 73,823 | $ | - | $ | - | $ | - | $ 73,823 |
| **Adjusted balance as at January 1, 2019** | | **$** | **73,823** | **$** | **-** | **$** | **-** | **$** | **-** | **$ 73,823** |
| Additions | | | - | | - | | 168,613 | | 15,116 | $ 183,729 |
| Disposals | | | - | | - | | - | | - | $ - |
| **December 31, 2019** | | **$** | **73,823** | **$** | **-** | **$** | **168,613** | **$** | **15,116** | **$ 257,552** |
| Additions | | | - | | 204,854 | | - | | - | $ 204,854 |
| Disposals | | | - | | - | | - | | - | $ - |
| **June 30, 2020** | | **$** | **73,823** | **$** | **204,854** | **$** | **168,613** | **$** | **15,116** | **$ 462,406** |
| | | | | | | | | | | |
| **Accumulated Depreciation:** | | | | | | | | | | |
| **December 31, 2018, as previously stated** | | **$** | **-** | **$** | **-** | **$** | **-** | **$** | **-** | **$ -** |
| Adjustment on initial application of IFRS 16 | | $ | 42,609 | $ | - | $ | - | $ | - | $ 42,609 |
| **Adjusted balance as at January 1, 2019** | | **$** | **42,609** | **$** | **-** | **$** | **-** | **$** | **-** | **$ 42,609** |
| Additions | | | 12,286 | | - | | 26,099 | | 1,144 | $ 39,529 |
| Disposals | | | - | | - | | - | | - | $ - |
| **December 31, 2019** | | **$** | **54,895** | **$** | **-** | **$** | **26,099** | **$** | **1,144** | **$ 82,138** |
| Additions | | | 933 | | 26,524 | | 34,268 | | 1,511 | $ 63,236 |
| Disposals | | | - | | - | | - | | - | $ - |
| **June 30, 2020** | | **$** | **55,828** | **$** | **26,524** | **$** | **60,367** | **$** | **2,655** | **$ 145,374** |
| | | | | | | | | | | |
| **Net book value:** | | | | | | | | | | |
| **December 31, 2019** | | **$** | **18,928** | **$** | **-** | **$** | **142,514** | **$** | **13,972** | **$ 175,414** |
| **June 30, 2020** | | **$** | **17,995** | **$** | **178,330** | **$** | **108,246** | **$** | **12,461** | **$ 317,032** |

The right-of-use asset amount that was added upon the application of IFRS 16 on January 1, 2019 with a cost of $73,823 and accumulated depreciation of $42,609 for a net book value of $31,214 was for an asset that was not previously included in property and equipment as it was previously treated as an operating lease commitment.

The Corporation acquired one new right-of-use asset for the new Calgary office lease during the first quarter of 2020 at a cost of $204,854. No additional assets were acquired in the second quarter of 2020. This asset also includes a lease obligation of $204,854 (see Note 15).

The right-of-use assets are being depreciated over the expected life of each asset in accordance with the Corporation's accounting policies under IFRS 16.

## Note 12 – Resource Properties

| | Notes | As at June 30, 2020 | As at December 31, 2019 |
|---|---|---|---|
| Exploration costs | | **$ 1,385,917** | $ 1,385,917 |
| Pit development costs | | **3,100,249** | 3,099,423 |
| Environmental rehabilitation obligation assets | | **1,989,143** | 1,522,064 |
| Other costs | | **275,473** | 281,032 |
| | | **$ 6,750,782** | $ 6,288,436 |

## Note 12 – Resource Properties – continued

**Exploration and Pit Development Costs**

The exploration and pit development costs have been incurred across the Corporation's various operations and development projects which are primarily located in the Fort McMurray area of Northern Alberta.

The following table summarizes the exploration costs:

| | Richardson | Hinton | Steepbanks | All Other Projects | Total |
|---|---|---|---|---|---|
| Cumulative Exploration Cost at December 31, 2018 | $ 1,090,906 | $ 95,117 | $ 105,476 | $ 38,130 | $ 1,329,629 |
| Spending | 39,515 | 16,773 | - | - | 56,288 |
| **Cumulative Exploration Costs at December 31, 2019** | **$ 1,130,421** | **$ 111,890** | **$ 105,476** | **$ 38,130** | **$ 1,385,917** |
| Spending | - | - | - | - | - |
| **Cumulative Exploration Costs at June 30, 2020** | **$ 1,130,421** | **$ 111,890** | **$ 105,476** | **$ 38,130** | **$ 1,385,917** |

During the three and six months ended June 30, 2020, the Corporation spent $nil and $nil respectively to advance the exploration projects (year ended December 31, 2019: $56,288).

The following table summarizes the pit development costs:

| | Firebag | Kearl | Logan | House River | Pelican Hill | Emerson | Lynton | Total |
|---|---|---|---|---|---|---|---|---|
| Cumulative Pit Development Costs at December 31, 2018 | $ 1,141,355 | $ 1,042,534 | $ 490,055 | $ 175,266 | $ 230,357 | $ 491 | $ 44 | $ 3,080,102 |
| Additions | - | - | - | - | 19,321 | - | - | 19,321 |
| **Cumulative Pit Development Costs at December 31, 2019** | **$ 1,141,355** | **$ 1,042,534** | **$ 490,055** | **$ 175,266** | **$ 249,678** | **$ 491** | **$ 44** | **$ 3,099,423** |
| Additions | - | - | 266 | - | 560 | - | - | 826 |
| **Cumulative Pit Development Costs at June 30, 2020** | **$ 1,141,355** | **$ 1,042,534** | **$ 490,321** | **$ 175,266** | **$ 250,238** | **$ 491** | **$ 44** | **$ 3,100,249** |

During the three and six months ended June 30, 2020, the Corporation spent $nil and $826 respectively on pit development costs (year ended December 31, 2019: $19,321).

**Environmental Rehabilitation Obligation ("ERO") Assets**

The following summarizes the ERO assets:

| | | As at | |
|---|---|---|---|
| | Notes | June 30, 2020 | December 31, 2019 |
| Opening Balance, ERO assets | | **1,522,064** | $ 1,510,483 |
| Change in estimate recognized in ERO assets | | **221,673** | 14,566 |
| Amortization of ERO assets | **22** | **(7,651)** | (12,562) |
| Change in discount rate affecting ERO assets | | **253,057** | 9,577 |
| **Closing Balance, ERO assets** | | **$ 1,989,143** | $ 1,522,064 |

The ERO assets pertain to resource properties where the Corporation has the legal and constructive obligation to complete decommissioning, reclamation and restoration costs on the property as discussed in Note 16. The ERO assets increased significantly since December 31, 2019 due to the new disturbance at the Coffey Lake public pit and due to the significant decrease in Canadian bond rates that has impacted the discount rate used to value the ERO liabilities.

**Other Costs**

As at June 30, 2020, other costs within resource properties include $275,473 for miscellaneous lease costs and deposits on land (December 31, 2019: $281,032). Amortization of the lease costs in the three months and six months ended June 30, 2020 was $2,779 and $5,559 respectively (June 30, 2019: $2,779 and $5,559 respectively).

## Note 13 – Investments in Associates

Duvernay Silica Sand Project ("Duvernay Project")
On January 25, 2019, the Corporation purchased a 16.2% ownership interest in a private Alberta corporation that owns the Duvernay silica sand project in Alberta in exchange for $280,000 cash consideration and 420,000 common shares of the Corporation at a value of $0.25 per common share for a total purchase price of $385,000.

On April 30, 2019, the Corporation exercised its option ("Option #1") to purchase an additional 33.4% of the shares in a private Alberta corporation that holds the Duvernay silica sand project for $742,000 of cash consideration and the issuance of 1,680,000 common shares of the Corporation at a value of $0.61 per common share for a total purchase price of $1,766,800. This increased the Corporation's ownership interest to 49.6%. This interest is accounted for using the equity method.

The Corporation had the option to purchase the remaining 50.4% of the shares in the private corporation for $8,000,000 for an initial term of one year after the close date of January 25, 2019 ("Option #2"). The Corporation did not exercise the option and it expired on January 25, 2020.

Montney In-Basin Silica Sand Project ("MIB Project")
On December 14, 2018, the Corporation purchased a 49.2% ownership interest in a private Alberta corporation that owns the Montney In-Basin silica sand project located in the vicinity of Dawson Creek and Fort St. John in exchange for $1,498,000 cash consideration and 1,186,956 common shares of the Corporation at a value of $0.23 per common share for a total purchase price of $1,771,000. This interest is accounted for using the equity method.

The Corporation has the option to purchase the remaining 50.8% of the shares in the private corporation for $8,000,000 for an initial term of one year after the close date. This option was extended for a term of up to 6 months after a NI 43-101 compliant technical report is filed, something which has not yet occurred.

The following summarizes the investments in associates:

| | | As at | | | | | |
|---|---|---|---|---|---|---|---|
| | Notes | June 30, 2020 | | | December 31, 2019 | | |
| | | Montney in-basin project | Duvernay project | Total | Montney in-basin project | Duvernay project | Total |
| Investments in associates, beginning of year | | $ 1,585,337 | $ 2,048,090 | $ **3,633,427** | $ 1,646,151 | $ - | $ **1,646,151** |
| Additions: | | | | | | | |
| Cash consideration for original purchase | | - | - | **-** | $ - | $ 280,000 | **280,000** |
| Share consideration for original purchase | | - | - | **-** | $ - | $ 105,000 | **105,000** |
| Cash consideration for option exercised | | - | - | **-** | $ - | $ 742,000 | **742,000** |
| Share consideration for option exercised | | - | - | **-** | $ - | $ 1,024,800 | **1,024,800** |
| | | 1,585,337 | 2,048,090 | **3,633,427** | $ 1,646,151 | $ 2,151,800 | **3,797,951** |
| Purchase price allocated to share purchase options on transaction date | | - | - | **-** | $ - | $ (59,641) | **(59,641)** |
| | | 1,585,337 | 2,048,090 | **3,633,427** | $ 1,646,151 | $ 2,092,159 | **3,738,310** |
| Corporation's ownership interest | | 49.2% | 49.6% | | 49.2% | 49.6% | |
| Corporation's share of associate's net loss for the period | | (12,265) | (15,332) | **(27,597)** | (60,814) | (44,069) | **(104,883)** |
| Investments in associates, end of period | | 1,573,072 | 2,032,758 | **3,605,830** | $ 1,585,337 | $ 2,048,090 | $ **3,633,427** |

## Note 14 – Bank Loans and Credit Facility

On July 4, 2018, the Corporation entered into a credit facility with Canadian Western Bank ("CWB") with a letter of credit facility for up to $1,351,760 and a credit card facility for up to $50,000. Each letter of credit costs the Corporation an annual fee of 1.50%. On December 9, 2019, the letter of credit facility was increased to a maximum available amount of $1,458,240.

## Note 14 – Bank Loans and Credit Facility - continued

Security under the CWB facility is a general security agreement providing a first security interest in all present and after acquired property to be registered in all appropriate jurisdictions with specific registrations against guaranteed investment certificate instruments pledged as collateral.

The Corporation is in compliance with all covenants and capital spending requirements as part of this credit facility.

**CWB Bank Loan**
On January 28, 2020, the Corporation amended the credit facility with CWB to add a bank loan for $1,500,000 to help fund the development of the Coffey Lake public pit.

The term of the bank loan with CWB is thirty-nine months with thirty-three monthly loan payments of $49,022 starting in August 2020, after six months of interest only payments. The bank loan was originally for 3 years, but CWB added three months of interest only payments from May 2020 to July 2020 and extended the term of the loan by three months due to the economic uncertainty in Alberta and around the world due to the COVID-19 pandemic. The interest rate on the bank loan is 5.4%. The first five interest only payments from February 2020 to June 2020 totalling $33,731 have been capitalized to the Coffey Lake contract asset (See Note 9).

The security for the bank loan is part of the same general security agreement that was put in place when the credit facility with CWB was established in July 2018. The bank loan is also guaranteed by the Corporation's subsidiaries, AMI RockChain and AMI Silica. There are no new financial covenants added to the credit facility as a result of this new bank loan.

**Canada Emergency Business Account ("CEBA") Loans**
In April 2020, the Corporation received two $40,000 loans from the Government of Canada through the Canadian Western Bank. These loans were made available to companies that have been negatively impacted by the COVID-19 pandemic and met certain other criteria. AMI RockChain and AMI Silica each received a CEBA loan.

Additionally, TerraShift received a CEBA loan via the Alberta Treasury Branch ("ATB"), which is now part of the Corporation's liabilities as a result of the acquisition on June 30, 2020.

The CEBA loans are interest free and are to be repaid before December 31, 2022 and the Government of Canada will forgive 25% of the loan amount if repaid on time.

| | | | As at | |
|---|---|---|---|---|
| | Interest Rate | Monthly Payments | June 30, 2020 | December 31, 2019 |
| Canada Emergency Business Account (AMI RockChain) | 0.00% | $ - | $ 40,000 | $ - |
| Canada Emergency Business Account (AMI Silica) | 0.00% | $ - | $ 40,000 | $ - |
| Canada Emergency Business Account (TerraShift) | 0.00% | $ - | $ 40,000 | $ - |
| CWB Bank Loan Facility, due April 30, 2023 | 5.40% | $ 49,021.85 | $ 1,500,000 | $ - |
| | | | 1,620,000 | - |
| Current portion - principal due within one year | | | (475,672) | - |
| | | | $ 1,144,328 | $ - |

Future minimum bank loan payments for the subsequent five years is as follows:

| | |
|---|---|
| July 1, 2020 - June 30, 2021 | $ 546,120 |
| July 1, 2021 - June 30, 2022 | $ 588,262 |
| July 1, 2022 - June 30, 2023 | $ 580,019 |
| July 1, 2023 - June 30, 2024 | $ - |
| July 1, 2024 - June 30, 2025 | $ - |
| | 1,714,401 |
| Less: interest included in payments above | 94,401 |
| Bank loan principal outstanding, June 30, 2020 | $ 1,620,000 |

## Note 14 – Bank Loans and Credit Facility - continued

**Letter of Credit/Guarantee Facility**
As at June 30, 2020, the Corporation has issued letters of credit in the amounts of $1,356,595 in favour of the Government of Alberta. The Corporation has also issued a letter of credit to Imperial Oil for $100,000 for a right of way at the Coffey Lake site (December 31, 2019: $100,000). These letters of credit are secured by guaranteed investment certificates (See Note 8).

The letters of credit to the benefit of the Government of Alberta for decommissioning and restoration are as follows:

| | As at | |
|---|---|---|
| | June 30, 2020 | December 31, 2019 |
| Susan Lake Pit | $ 230,705 | $ 228,540 |
| Poplar Creek Site, storage yard | 180,000 | 180,000 |
| Emerson pit | 75,240 | 75,240 |
| Coffey Lake reclamation | 296,520 | 296,520 |
| Coffey Lake industrial miscellaneous lease | 74,130 | - |
| Coffey Lake performance bond | 500,000 | 500,000 |
| | $ 1,356,595 | $ 1,280,300 |

**Credit Card Facility**
The Corporation has access to a corporate credit card facility, up to a maximum of $20,000 (December 31, 2019: $20,000). The Corporation has secured its corporate credit card facility with a guaranteed investment certificate of $20,400 (See Note 8).

Additionally, as part of the TerraShift acquisition, the Corporation added a $15,000 credit card with ATB. There are no covenants or security required as part of this credit card agreement.

## Note 15 – Lease Obligations

The Corporation's lease obligations and future minimum lease obligations are summarized in the following table. The assets are also included as right-of-use assets under the newly adopted accounting standard IFRS 16 (see Note 11).

| | | | As at | |
|---|---|---|---|---|
| | | | June 30, 2020 | December 31, 2019 |
| **Finance Leases** | **Interest Rate** | **Monthly / Quarterly * Instalments** | | |
| EDF Trading LLC Calgary office lease, due December 31, 2022 | 3.680% | Variable | $ 171,738 | $ - |
| VETS Group Ltd. Edmonton Office Lease, due Jan 31, 2022 | 3.680% | Variable | 109,245 | 141,952 |
| Xerox Photocopier Lease, due May 19, 2024 | 3.680% | 816 * | 12,235 | 13,623 |
| Jim Peplinski Leasing, due Feb 28, 2020 | 3.680% | 1,230 | 21,865 | 24,315 |
| | | | 315,083 | 179,890 |
| Current portion - principal due within one year | | | (162,583) | (93,685) |
| | | | $ 152,500 | $ 86,205 |

Future minimum lease payments for the subsequent five years is as follows:

| | |
|---|---|
| July 1, 2020 - June 30, 2021 | $ 171,053 |
| July 1, 2021 - June 30, 2022 | $ 113,854 |
| July 1, 2022 - June 30, 2023 | $ 39,269 |
| July 1, 2023 - June 30, 2024 | $ 3,431 |
| July 1, 2024 - June 30, 2025 | $ - |
| | 327,607 |
| Less: interest included in payments above | 12,524 |
| Lease obligations principal outstanding, June 30, 2020 | $ 315,083 |

The Corporation agreed to lease obligations of $204,854 for the new Calgary office location in the first quarter of 2020. In the year ended December 31, 2019, the Corporation agreed to new lease obligations of $171,729 for the new Edmonton office location and a photocopier.

## Note 15 – Lease Obligations – continued

The lease term for the truck lease with Jim Peplinski Leasing has reached the end of its term and the Corporation is still evaluating its options for buying out the asset or re-leasing the residual value of the lease.

The following is a reconciliation of the change in lease obligations of the Corporation:

| | Notes | | Total |
|---|---|---|---|
| Lease obligations as at December 31, 2018 | | $ | 29,284 |
| Adjustment on initial application of IFRS 16 | | | 37,974 |
| **Adjusted balance as at January 1, 2019** | | **$** | **67,258** |
| Total principal repayments | | | (36,279) |
| **Lease obligations as at June 30, 2019** | | **$** | **30,979** |
| Addition of lease obligations | | | 171,729 |
| Total principal repayments | | | (22,818) |
| **Lease obligations as at December 31, 2019** | | **$** | **179,890** |
| Addition of lease obligations | | | 204,854 |
| Total principal repayments | | | (69,661) |
| **Lease obligations as at June 30, 2020** | | **$** | **315,083** |

## Note 16 – Environmental Rehabilitation Obligations ("ERO")

The following is a reconciliation of the EROs of the Corporation:

| | | As at | | | |
|---|---|---|---|---|---|
| | Notes | | June 30, 2020 | | December 31, 2019 |
| Opening balance, ERO | | $ | **2,472,206** | $ | 4,258,139 |
| Change in estimate recognized in ERO assets | **12** | | **221,673** | | 14,566 |
| Change in estimate recognized in other operating expenses | | | **-** | | (1,477,011) |
| Change in discount rate | | | **253,057** | | 9,577 |
| Change in discount rate recognized in other operating expenses | | | **71,415** | | 4,685 |
| Accretion expense | **22** | | **21,727** | | 34,852 |
| Spending on reclamation activities | | | **-** | | (351,309) |
| Amortization allocated to reclamation spending | | | **-** | | (21,293) |
| Ending balance, ERO | | | **3,040,078** | | 2,472,206 |
| Less: Current portion, ERO to be funded within one year | | | **(16,904)** | | (16,693) |
| | | **$** | **3,023,174** | $ | 2,455,513 |

Provisions for EROs are recognized for mining activities at the Corporate owned pits and the Coffey Lake public pit, as well as estimated costs related to AMI's final reclamation activities at the Susan Lake public pit. The Corporation assesses its provision for EROs on an annual basis or when new material information becomes available.

The estimated undiscounted ERO as at June 30, 2020 is $3,184,509 (December 31, 2019: $2,947,973).

## Note 16 – Environmental Rehabilitation Obligations ("ERO") - continued

During the first quarter of 2020, the Corporation removed trees and performed groundwork at the new Coffey Lake public pit site. The ERO liability recorded for the initial disturbance in the first quarter of 2020 was $221,673. There was no new disturbance at the Coffey Lake site during the second quarter of 2020. During the year ended December 31, 2019, the Corporation reduced the ERO liability by $1,462,445 as a result of receiving approval for the Susan Lake Closure Plan and executing a settlement agreement with Syncrude Canada Ltd.

Total reclamation funded during the six months ended June 30, 2020 was $nil (year ended December 31, 2019: $372,602). Reclamation work performed in 2019 primarily related to activities at Susan Lake as well as Poplar Creek.

The discount rates used by the Corporation are based on the Government of Canada bond yields for periods comparable to the expected timing of reclamation activities at each site. These rates ranged from 0.28% to 0.99% as at June 30, 2020 (December 31, 2019: 1.69% to 1.76%) depending on the expected timing of reclamation activities. The significant decrease in the discount rates used as at June 30, 2020 caused the ERO to increase by $59,403 and $324,472 respectively in the three and six months ended June 30, 2020. It is expected that reclamation activities for the Corporate owned pits and Susan Lake will occur between 2020 and 2036 considering the projected production schedules, the timing of reclamation activities included in the respective Conservation and Reclamation Business Plans, as well as the timing of expiration of the related surface materials lease for each property.

Accretion expense is the expense calculated when updating the present value of the ERO provision. This expense increases the liability based on estimated timing of reclamation activities and the discount rate used in the ERO calculations. The accretion expense amounts are included in other operating expenses on the statement of loss and comprehensive loss and are summarized in the respective table in Note 22.

## Note 17 – Share Capital

The continuity of the Corporation's outstanding share capital is as follows:

| | | Six months ended June 30, 2020 | | | Year ended December 31, 2019 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Number of Shares | | Amount | Number of Shares | | Amount |
| **Authorized:** | | | | | | | |
| An unlimited number of: | | | | | | | |
| Common voting shares with no par value | | | | | | | |
| Preferred shares, issuable in series | | | | | | | |
| **Issued and outstanding, beginning of period** | | **45,326,440** | **$** | **16,734,732** | 40,240,606 | $ | 14,465,325 |
| Shares issued in purchase of investment | | - | | - | 2,100,000 | | 1,129,800 |
| Shares issued to contractors/consultants/employees | | **2,937,318** | | **619,444** | - | | - |
| Common share issuance costs | | - | | - | - | | (2,877) |
| Warrants exercised | | - | | - | 1,987,500 | | 795,000 |
| Stock options exercised | | **50,000** | | **13,655** | 998,334 | | 347,484 |
| **Issued and outstanding, end of period** | | **48,313,758** | **$** | **17,367,831** | 45,326,440 | $ | 16,734,732 |

During the first quarter of 2020, the Corporation issued shares to two entities who helped secure the Shell off-take agreement for the Duvernay silica sand project. The Corporation issued each entity 1,065,190 common voting shares worth $250,000 for a total issuance of shares of 2,130,380 valued at $500,000 (See Note 9).

The Corporation has paid various employees, contractors and consultants partially or in whole using common voting shares rather than cash for services provided. During the three months ended June 30, 2020, the Corporation issued 221,212 common shares as payment of costs totalling $32,795 (three months ended June 30, 2019: $nil). During the six months ended June 30, 2020, the Corporation issued 264,936 common shares as payment of costs totalling $44,431 (six months ended June 30, 2019: $nil).

Additionally, the Corporation issued 542,002 common shares at a value of $75,013 as part of the acquisition of TerraShift on June 30, 2020 as described in Note 4.

## Note 17 – Share Capital – continued

**Stock options**

The Corporation has issued options to Directors, Officers, employees and consultants of the Corporation as incentives. The continuity of the Corporation's outstanding stock options is as follows:

| | Six months ended June 30, 2020 | | | Year ended December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Number of Options | | Weighted Average Exercise Price | Number of Options | | Weighted Average Exercise Price |
| **Options outstanding, beginning of year:** | **2,680,000** | **$** | **0.35** | 2,555,000 | $ | 0.33 |
| Issued | **1,009,000** | | **0.17** | 1,731,667 | | 0.46 |
| Exercised | **(50,000)** | | **0.17** | (998,334) | | 0.22 |
| Expired or cancelled | **(580,000)** | | **0.45** | (608,333) | | 0.77 |
| **Options outstanding, end of period:** | **3,059,000** | **$** | **0.28** | 2,680,000 | $ | 0.35 |

Of the 3,059,000 (December 31, 2019: 2,680,000) outstanding stock options, 1,553,334 (December 31, 2019: 1,241,666) options have vested and therefore, were exercisable at June 30, 2020 at a weighted average exercise price of $0.30 per share (December 31, 2019: $0.27 per share).

During the second quarter of 2020, 1,009,000 options were issued to Directors, Officers and employees of the Corporation at an exercise price of $0.17 per share (year ended December 31, 2019: 1,731,667).

During the three and six months ended June 30, 2020, nil and 50,000 options respectively were exercised at an exercise price of $0.17 per share for total proceeds of $8,500. The share price on the day they were exercised was $0.31 per share. For the year ended December 31, 2019, 998,334 options were exercised at an average exercise price of $0.22 per share with an average share price on the days they were exercised of $0.48 per share.

During the three and six months ended June 30, 2020, 315,000 and 580,000 options respectively expired or were cancelled (year ended December 31, 2019: 608,333).

The weighted average remaining contractual life of the outstanding stock options is 3.89 years (December 31, 2019: 4.00 years).

The Corporation’s outstanding stock options are as follows:

| | | | As at | |
|---|---|---|---|---|
| | | | June 30, 2020 | December 31, 2019 |
| **Expiry Date** | **Exercise Price** | | | |
| December 14, 2020 | $ | 0.30 | **-** | 50,000 |
| January 13, 2022 | | 0.24 | **195,000** | 195,000 |
| April 30, 2023 | | 0.17 | **-** | 65,000 |
| June 4, 2023 | | 0.17 | **400,000** | 400,000 |
| September 13, 2023 | | 0.30 | **100,000** | 100,000 |
| November 23, 2023 | | 0.26 | **350,000** | 380,000 |
| January 9, 2024 | | 0.28 | **140,000** | 225,000 |
| May 21, 2024 | | 0.57 | **-** | 75,000 |
| May 22, 2024 | | 0.57 | **270,000** | 315,000 |
| June 24, 2024 | | 0.65 | **120,000** | 120,000 |
| August 20, 2024 | | 0.64 | **30,000** | 190,000 |
| December 6, 2024 | | 0.33 | **470,000** | 520,000 |
| December 19, 2024 | | 0.28 | **15,000** | 45,000 |
| April 16, 2025 | | 0.17 | **969,000** | - |
| | | | **3,059,000** | 2,680,000 |

## Note 17 – Share Capital – continued

The Corporation's stock option plan provides that the Board of Directors may from time to time, in its discretion, grant to Directors, Officers, employees and consultants of the Corporation, or any subsidiary of the Corporation, the option to purchase common shares. Pursuant to the stock option plan, options must be exercised within thirty days following termination of employment or cessation of the optionee's position with the Corporation, or such other period established by the Board of Directors, provided that if the cessation of office, directorship, consulting arrangement or employment was by reason of death or disability, the option may be exercised within one year, subject to the expiry date.

The fair value of the options granted was estimated on the dates of the grant using the Black-Scholes Option Pricing Model. The fair values of the options granted in the last two years were estimated using the following assumptions:

| Grant Date | # of Options | Exercise Price | Dividend Yield | Expected Volatility | Risk Free Rate of Return | Expected Life | Average Fair Value on Grant Date | Forfeiture Rate |
|---|---|---|---|---|---|---|---|---|
| April 16, 2020 | 1,009,000 | $ 0.17 | Nil | 82.2% | 0.43% | 5 years | $ 0.11 | 19.6% |
| December 19, 2019 | 45,000 | $ 0.28 | Nil | 77.9% | 1.66% | 5 years | $ 0.18 | 19.2% |
| December 6, 2019 | 520,000 | $ 0.33 | Nil | 77.0% | 1.58% | 5 years | $ 0.21 | 19.2% |
| August 20, 2019 | 220,000 | $ 0.64 | Nil | 84.9% | 1.19% | 5 years | $ 0.43 | 18.8% |
| June 24, 2019 | 120,000 | $ 0.65 | Nil | 79.6% | 1.34% | 5 years | $ 0.42 | 18.1% |
| May 22, 2019 | 476,667 | $ 0.57 | Nil | 81.6% | 1.61% | 5 years | $ 0.37 | 17.7% |
| May 21, 2019 | 75,000 | $ 0.57 | Nil | 85.1% | 1.64% | 5 years | $ 0.38 | 17.7% |
| January 9, 2019 | 275,000 | $ 0.28 | Nil | 78.2% | 1.90% | 5 years | $ 0.18 | 17.3% |
| November 23, 2018 | 610,000 | $ 0.26 | Nil | 73.1% | 2.28% | 5 years | $ 0.16 | 16.3% |
| September 13, 2018 | 160,000 | $ 0.30 | Nil | 74.3% | 2.24% | 5 years | $ 0.18 | 16.6% |

The expected volatility was determined using historical trading data for the Corporation for a period commensurate with the expected life of the options.

Options may be exercisable for up to ten years from the date of grant, but the Board of Directors has the discretion to grant options that are exercisable for a shorter period. The outstanding stock option grants were issued with an exercisable period of five years from the date of grant. Options under the stock option plan are not transferable or assignable.

### Warrants

| | Six months ended June 30, 2020 | | Year ended December 31, 2019 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| **Warrants outstanding, beginning of period:** | **887,500** | **$ 0.35** | 2,875,000 | $ 0.35 |
| Issued | - | - | - | - |
| Exercised | - | **0.35** | (1,987,500) | 0.35 |
| Expired or cancelled | - | - | - | - |
| **Warrants outstanding, end of period:** | **887,500** | **$ 0.35** | 887,500 | $ 0.35 |

Of the 887,500 (December 31, 2019: 887,500) outstanding warrants, 887,500 (December 31, 2019: 887,500) were exercisable at June 30, 2020 at a weighted average exercise price of $0.35 per warrant (December 31, 2019: $0.35 per warrant).

During the six months ended June 30, 2020, no warrants were exercised (year ended December 31, 2019: 1,987,500 warrants were exercised). The warrants expire on November 21, 2020 so the weighted average remaining contractual life of the warrants is 0.39 years (December 31, 2019: 0.89 years).

## Note 17 – Share Capital – continued

The fair value of the warrants issued were estimated on the dates of the grant using the Black-Scholes Option Pricing Model. The fair values of the warrants issued were estimated using the following assumptions:

| Grant Date | # of Warrants | Exercise Price | Dividend Yield | Expected Volatility | Risk Free Rate of Return | Expected Life | Weighted Average Fair Value on Grant Date |
|---|---|---|---|---|---|---|---|
| November 21, 2018 | 2,875,000 | $ 0.35 | Nil | 72.6% | 2.23% | 2 years | $ 0.08 |

**Restricted Share Unit ("RSUs") and Deferred Share Units ("DSUs")**

On April 4, 2019, the Corporation adopted Restricted share unit ("RSU") and Deferred share unit ("DSU") plans. No RSUs have been granted yet.

| | Six months ended June 30, 2020 | | | | Year ended December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of DSUs | Weighted Average Fair Value | Number of RSUs | Weighted Average Fair Value | Number of DSUs | Weighted Average Fair Value | Number of RSUs | Weighted Average Fair Value |
| **Outstanding, beginning of year:** | **1,329,000** | **$ 0.06** | **-** | **$ -** | - | $ - | - | $ - |
| Issued | **207,000** | **0.17** | **-** | **-** | 1,449,000 | 0.06 | - | - |
| Expired or cancelled | **(345,000)** | **0.06** | **-** | **-** | (120,000) | 0.06 | - | - |
| **Outstanding, end of year:** | **1,191,000** | **$ 0.11** | **-** | **$ -** | 1,329,000 | $ 0.06 | - | $ - |

During the year ended December 31, 2019, 1,449,000 DSUs were granted to Directors, Officers and employees of the Corporation. DSUs vest 1/3rd on the first, second, and third (annual) anniversary of the date of grant based on continued tenure of the participant. During the second quarter of 2020, an additional 207,000 DSUs were granted to Directors and Officers of the Corporation.

Of the 1,191,000 (December 31, 2019: 1,329,000) outstanding DSUs as at June 30, 2020, 235,000 (December 31, 2019: nil) DSUs have vested.

During the three and six months ended June 30, 2020, 175,000 and 345,000 DSUs were forfeited respectively due to the departures of some participants (December 31, 2019: 120,000).

The fair value of the DSU liability as at June 30, 2020 is $130,398 (December 31, 2019: $77,521), which is based on the closing price of the Corporation's shares on the TSX Venture Exchange and an expected forfeiture rate of 18.8%. This liability is included in accounts payable and accrued liabilities in the consolidated statements of financial position. Any change to the fair value of the liability is included in share-based compensation expense in the consolidated statements of loss and comprehensive loss.

The value of the vested DSUs are redeemable by the participant following resignation, retirement, or death. The fair value of the DSUs redeemed is equal to the market price of the Corporation's shares and are payable in the form of cash, less applicable withholding taxes.

The stock option, RSU, and DSU plans provides for a floating maximum limit of 10% of the outstanding common shares, as permitted by the policies of the TSX Venture Exchange.

## Note 17 – Share Capital – continued

Share-based compensation expense is comprised of the following:

| | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|
| Stock options | $ **60,148** | $ 63,891 | $ **125,830** | $ 117,814 |
| Deferred share units | **15,996** | 28,828 | $ **52,877** | 28,828 |
| **Share-based compensation expense** | $ **76,144** | $ 92,719 | $ **178,707** | $ 146,642 |

Share-based compensation expense in the consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2020 includes $20,856 and $42,405 respectively to Directors (three and six months ended June 30, 2019: $16,319 and $29,208 respectively) and $61,006 and $114,390 respectively to Officers (three and six months ended June 30, 2019: $48,803 and $74,676 respectively).

### <u>Loss Per Common Share</u>

The treasury stock method is used to calculate diluted earnings (loss) per share, and under this method options that are anti-dilutive are excluded from the calculation of diluted earnings (loss) per share.

For the three and six months ended June 30, 2020 and the three and six months ended June 30, 2019, all outstanding options and warrants were considered anti-dilutive because the Corporation recorded a loss in all those periods.

| | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|
| **Basic loss per share** | | | | |
| Total loss and comprehensive loss | $ **(673,958)** | $ (1,310,647) | $ **(1,489,638)** | $ (2,367,606) |
| Weighted average number of common shares outstanding | **47,563,231** | 43,140,203 | **46,938,207** | 41,849,243 |
| **Total loss and comprehensive loss per common share, basic** | $ **(0.014)** | $ (0.030) | $ **(0.032)** | $ (0.057) |
| **Diluted loss per share** | | | | |
| Total loss and comprehensive loss | $ **(673,958)** | $ (1,310,647) | $ **(1,489,638)** | $ (2,367,606) |
| Weighted average number of common shares outstanding | **47,563,231** | 43,140,203 | **46,938,207** | 41,849,243 |
| Effect of dilutive stock options and warrants | **-** | - | **-** | - |
| Weighted average number of common shares outstanding after dilution | **47,563,231** | 43,140,203 | **46,938,207** | 41,849,243 |
| **Total loss and comprehensive loss per common share, diluted** | $ **(0.014)** | $ (0.030) | $ **(0.032)** | $ (0.057) |

## Note 18 – Related Party Transactions

The Corporation's related parties include four independent Directors, the Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer, AMI RockChain Inc., AMI Silica Inc., TerraShift Engineering Ltd., the private Alberta corporation that owns the Montney In-Basin silica sand project, and the private Alberta corporation that owns the Duvernay silica sand project.

Transactions with independent Directors were as follows:

| | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|
| **Directors:** | | | | |
| Directors fees | $ **34,000** | $ 43,500 | $ **76,000** | $ 79,500 |
| Travel and miscellaneous expenses | **-** | 1,658 | **701** | 2,799 |
| Share-based compensation | **20,856** | 16,319 | **42,405** | 29,208 |
| | $ **54,856** | $ 61,477 | $ **119,106** | $ 111,507 |

## Note 18 – Related Party Transactions - continued

Amounts due to Directors as at June 30, 2020 was $nil (June 30, 2019: $128). The Director's fees are paid on a quarterly basis, and historically have also included additional fees per meeting. In Q2 2020 the Director fee structure has been revised going forward with cost improvements based on a flat-fee structure, without any further incremental meeting fees. Any unpaid amounts due to Directors are unsecured and are non-interest bearing.

All related party transactions were in the normal course of operations and were measured at the amount of consideration established and agreed to by the related parties.

## Note 19 – Compensation of Key Management

The remuneration paid to named Officers of the Corporation were as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Salaries and other benefits | $ **155,602** | $ 156,453 | $ **310,971** | $ 311,015 |
| Share-based compensation | **61,006** | 48,803 | **114,390** | 74,676 |
| | $ **216,608** | $ 205,256 | $ **425,361** | $ 385,691 |

Amounts due to named Officers of the Corporation at June 30, 2020 was $274 (June 30, 2019: $334). These amounts are for expenses paid on behalf of the Corporation.

## Note 20 – Financial Instruments

### Classification

The Corporation's financial instruments consist of the following:

| Financial statement item | Classification |
|---|---|
| Cash | Amortized cost |
| Trade and other receivables | Amortized cost |
| Share purchase options | Fair value through profit and loss |
| Long-term deposits | Amortized cost |
| Restricted cash | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Income taxes payable | Amortized cost |
| Lease obligations and bank loans | Amortized cost |
| Deferred share unit liability (included in Accounts payable and accrued liabilities) | Fair value through profit and loss |

### Fair Value

Due to the short-term nature of cash, trade and other receivables, as well as accounts payable and accrued liabilities and income taxes payable, the carrying value of these financial instruments approximate their fair value.

The fair value of restricted cash approximates the carrying values as they are at the market rate of interest. Long-term deposits are refundable. The fair values of the long-term deposits are not materially different from their carrying value.

The lease obligations and bank loans are measured at amortized cost because the reduction in the liability using the schedule of principal payments approximates their fair value.

The deferred share unit liability and the share purchase options are the only financial instruments measured at fair value on a recurring basis. The deferred share unit liability is a Level 2 fair value hierarchy measurement and the share purchase options are a Level 3 fair value hierarchy measurement. There were no transfers between Level 1, 2, or 3 of the fair value hierarchy for the six months ended June 30, 2020 (year ended December 31, 2019: none).

## Note 20 – Financial Instruments - continued

Share purchase options

The Corporation holds share purchase options for the investments in associates as described in Note 13. Both share purchase options were valued at $nil as at June 30, 2020 and December 31, 2019. Management notified the Corporation's shareholders of the decision to not exercise either of the share purchase options in January 2020. The Duvernay project share purchase options expired unexercised on January 25, 2020. The term of the MIB project share purchase options was extended to an expiry date of six months after the NI 43-101 is filed, which has not yet occurred.

The reconciliation of the carrying amounts of financial instruments classified within Level 3 of the fair value hierarchy is as follows ($CDN):

| | Notes | June 30, 2020 | | | December 31, 2019 (As at) | | |
|---|---|---|---|---|---|---|---|
| | | Montney in-basin frac sand project | Duvernay frac sand project | Total | Montney in-basin frac sand project | Duvernay frac sand project | Total |
| Opening balance | | $ - | $ - | $ - | $ 124,151 | $ - | $ 124,151 |
| Share purchase option additions | 13 | - | - | - | - | 59,641 | 59,641 |
| Change in fair value of share purchase options | | - | - | - | (124,151) | (59,641) | (183,792) |
| **Ending balance** | | $ - | $ - | $ - | $ - | $ - | $ - |

The total amount of the unrealized loss included in the consolidated statements of loss and comprehensive loss for both the three and six months ended June 30, 2020 is $nil (year ended December 31, 2019: $183,792).

**Credit Risk**

Financial instruments that potentially subject the Corporation to credit risk consist primarily of cash, restricted cash, trade and other receivables, and long-term deposits. The Corporation's maximum credit risk at June 30, 2020 is the carrying value of these financial assets.

Credit risk associated with cash and restricted cash is minimized substantially by ensuring that these financial assets are placed with major financial institutions that have been accorded strong investment grade rating. Long-term deposits are held with the Government of Alberta thus minimizing their credit risk.

On an ongoing basis, the Corporation monitors the financial condition of its customers with all information available. The Corporation reviews the credit worthiness of all new customers and sets credit limits accordingly in order to minimize the Corporation's exposure to credit losses. The Corporation requires any customers deemed to be high-risk to prepay for aggregate prior to taking delivery.

The aging summary for trade and other receivables is as follows:

| | Current | 60-90 days | > 90 days | Total |
|---|---|---|---|---|
| **As at June 30, 2020** | **$ 111,717** | **$ 634** | **$ 2,365** | **$ 114,716** |
| **As at December 31, 2019** | **$ 401,764** | **$ 599,259** | **$ 10,880** | **$ 1,011,903** |
| As at December 31, 2018 | $ 1,048,713 | $ 311,911 | $ 171,239 | $ 1,531,863 |

The trade and other receivables as at June 30, 2020 includes $30,178 in trade receivables acquired as part of the TerraShift acquisition described in Note 4. Management believes these receivables do not carry any greater credit risk than the other outstanding receivables within the Corporation.

As at June 30, 2020, four customers individually owed greater than 10% of the total trade and other receivables balance and therefore, accounted for 85% of the Corporation's balance as at June 30, 2020 (December 31, 2019: two customers accounted for 91%).

## Note 20 – Financial Instruments - continued

**Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through budgeting and forecasting cash flows to ensure it has enough cash to meet its short-term requirements for operations, start-up costs for its wholly-owned subsidiaries AMI RockChain Inc. and AMI Silica Inc. and the newly acquired TerraShift Engineering Ltd., in addition to other contractual obligations.

As at June 30, 2020, the Corporation has enough working capital to fund on-going operations and meet its liabilities when they come due. Accordingly, the Corporation is not exposed to significant liquidity risk. The Corporation's financial liabilities include accounts payable and accrued liabilities, income taxes payable, and the bank loans and lease obligations, including interest.

The expected remaining contractual maturities of the Corporation's financial liabilities are shown in the following table:

| | As at June 30, 2020 | | | |
|---|---|---|---|---|
| | 0 - 1 year | 2 - 3 years | 4 - 5 years | Total |
| Accounts payable and accrued liabilities | $ 527,642 | $ - | $ - | $ 527,642 |
| Income taxes payable | 31,344 | - | - | 31,344 |
| Bank loans, including interest | 546,120 | 1,168,281 | - | 1,714,401 |
| Lease obligations, including interest | 171,053 | 153,123 | 3,431 | 327,607 |
| **Total** | **$ 1,276,159** | **$ 1,321,404** | **$ 3,431** | **$ 2,600,994** |

## Note 21 – Capital Disclosures

The capital of the Corporation consists of items included in equity and debt, net of cash.

| | Notes | As at June 30, 2020 | As at December 31, 2019 |
|---|---|---|---|
| Total equity attributable to shareholders | | **$ 13,535,950** | $ 14,271,814 |
| Total borrowings | | | |
| Bank loans | **14** | **1,620,000** | - |
| Lease obligations | **15** | **315,083** | 179,890 |
| Cash | | **(1,089,500)** | (1,995,280) |
| **Total managed capital** | | **$ 14,381,533** | $ 12,456,424 |

The Corporation's objective when managing capital is to provide enough capital to cover normal operating and capital expenditures. In order to maintain or adjust the capital structure, the Corporation may issue debt, purchase shares for cancellation pursuant to normal course issuer bids or issue new shares.

During the six months ended June 30, 2020, the Corporation agreed to a loan agreement with CWB for $1,500,000 to manage costs related to the development of the Coffey Lake public pit (See Note 14).

## Note 22 – Supplemental Disclosures for the Consolidated Statements of Loss and Comprehensive Loss

A large portion of the Corporation's aggregate sales and aggregate management services revenue typically come from a small group of major customers. Any customer who represents more than 10% of the Corporation's revenue for the respective period is considered a major customer. During the six months ended June 30, 2020, 85% of aggregate sales were sold to two major customers (year ended December 31, 2019: 90% to four customers).

Finance costs are comprised of the following:

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Notes | 2020 | 2019 | 2020 | 2019 |
| Interest on lease obligations | 15 | $ (2,907) | $ (178) | $ (5,587) | $ (621) |

Total lease payments, including principal and interest, for the three and six months ended June 30, 2020 was $36,623 and $75,248 respectively (June 30, 2019: $18,444 and $36,900 respectively). See Note 15 for additional information.

The interest paid on the CWB bank loan in the six months ended June 30, 2020 of $33,731 (June 30, 2019: $nil) has been capitalized as part of the Coffey Lake contract asset. See Note 14 for additional information.

Other operating expenses are comprised of the following:

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Notes | 2020 | 2019 | 2020 | 2019 |
| Amortization of contract assets | 9 | (1,510) | - | $ (4,851) | $ - |
| Impairment of property and equipment | 10 | - | (8,671) | - | (36,294) |
| Amortization of ERO assets | 11 | (4,362) | (3,200) | (7,651) | (6,333) |
| Amortization of resource property lease costs | 11 | (2,779) | (2,779) | (5,559) | (5,559) |
| Change in estimate for ERO recognized in other operating expenses | 16 | - | - | - | (96,966) |
| Change in discount rate recognized in other operating expenses | 16 | (12,831) | (3,063) | (71,415) | (11,278) |
| Accretion of ERO liability | 16 | (11,230) | (7,712) | (21,727) | (16,695) |
| | | $ (32,712) | $ (25,425) | $ (111,203) | $ (173,125) |

Other non-operating income are comprised of the following:

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | Notes | 2020 | 2019 | 2020 | 2019 |
| Camp rental income | | 57,657 | 15,666 | $ 135,276 | $ 138,414 |
| Gain on acquisition of TerraShift | 4 | 126,148 | - | 126,148 | - |
| Other rental income | | - | - | - | 9,140 |
| Change in fair value of share purchase options | 20 | - | (63,216) | - | (88,896) |
| Share purchase option exercised | | - | (79,035) | - | (79,035) |
| Gain on disposal of property and equipment | | - | 6,700 | - | 6,700 |
| Foreign exchange loss | | - | (86) | - | (350) |
| | | $ 183,805 | $ (119,971) | $ 261,424 | $ (14,027) |

During the three and six months ended June 30, 2020, the Corporation rented the work camp at Poplar Creek for $57,657 and $135,276 respectively (June 30, 2019: $15,666 and $138,414 respectively) in camp rental income.

During the second quarter of 2020, the Corporation recorded a gain on the acquisition of TerraShift of $126,148 as described in Note 4.

## Note 22 – Supplemental Disclosures for the Consolidated Statements of Loss and Comprehensive Loss - continued

The following table shows the total employee benefit expenses for the period:

| | Notes | Three months ended June 30, 2020 | Three months ended June 30, 2019 | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|---|---|---|
| Employee benefit expenses | | $ 454,576 | $ 534,217 | $ 1,026,083 | $ 1,222,029 |

Employee benefit expenses include salaries, wages, bonuses, group benefit premiums, and Canada Pension Plan, Employment Insurance and Workers' Compensation Board contributions. Employee benefit expenses are included in both operating costs and general and administrative expenses in the consolidated statements of loss and comprehensive loss. Not included in the amount above is severance for the three and six months ended June 30, 2020 of $6,780 and $6,780 respectively (June 30, 2019: $nil and $8,608 respectively).

## Note 23 – Segmented Reporting

Reportable segments are determined based on the corporate structure and operations in accordance with the Corporation's accounting policies.

The "AMI RockChain" segment was disclosed in the December 2019 consolidated annual financial statements for the first time as the operations became material for disclosure in the fourth quarter of 2019. The "AMI Silica" segment was first disclosed in the December 2018 annual consolidated financial statements when the operations became material for disclosure. The "Corporate" segment is disclosed for reconciliation purposes only.

The summary of key financial information by reportable segment for the three and six months ended June 30, 2020 (along with comparative information for results by segment for the three and six months ended June 30, 2019) as well as the balance sheet information as at June 30, 2020 (along with comparative information for segment assets and liabilities information as at December 31, 2019) is as follows:

| | AMI Aggregates | | AMI RockChain | | AMI Silica | | Corporate | | Consolidation / elimination entries | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **For the three months ended June 30,** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Revenue: | | | | | | | | | | | | |
| Aggregate sales revenue | $ - | $ 980,405 | $ 59,071 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 59,071 | $ 980,405 |
| Management services revenue | 186,641 | - | - | - | - | - | - | - | - | - | 186,641 | - |
| Total income (loss) and comprehensive income (loss) | (63,918) | (300,916) | (132,012) | (79,663) | (8,633) | (130,950) | (595,543) | (799,118) | 126,148 | - | (673,958) | (1,310,647) |
| Amortization, depreciation, and depletion | (61,638) | (79,979) | (1,083) | (750) | - | - | (40,129) | (4,025) | - | - | (102,850) | (84,754) |
| Finance costs | (2,907) | (178) | - | - | - | - | - | - | - | - | (2,907) | (178) |
| Interest income | - | - | - | - | - | - | 3,145 | 34,316 | - | - | 3,145 | 34,316 |
| Income tax recovery (expense) | - | - | - | - | - | - | - | - | - | - | - | - |
| **For the six months ended June 30,** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Revenue: | | | | | | | | | | | | |
| Aggregate sales revenue | $ - | $ 980,405 | $ 548,089 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 548,089 | $ 980,405 |
| Management services revenue | 457,213 | 433,635 | - | - | - | - | - | - | - | - | 457,213 | 433,635 |
| Total income (loss) and comprehensive income (loss) | (90,919) | (580,136) | (239,029) | (124,150) | (99,620) | (334,525) | (1,186,218) | (1,328,795) | 126,148 | - | (1,489,638) | (2,367,606) |
| Amortization, depreciation, and depletion | (121,075) | (130,340) | (2,166) | (1,500) | - | - | (80,454) | (14,106) | - | - | (203,695) | (145,946) |
| Finance costs | (5,587) | (621) | - | - | - | - | - | - | - | - | (5,587) | (621) |
| Interest income | - | - | - | - | - | - | 10,417 | 55,110 | - | - | 10,417 | 55,110 |
| Income tax recovery (expense) | - | - | - | - | - | - | - | (1,825) | - | - | - | (1,825) |
| **As at** | **June 30, 2020** | **Dec. 31, 2019** | **June 30, 2020** | **Dec. 31, 2019** | **June 30, 2020** | **Dec. 31, 2019** | **June 30, 2020** | **Dec. 31, 2019** | **June 30, 2020** | **Dec. 31, 2019** | **June 30, 2020** | **Dec. 31, 2019** |
| Segment assets | $ 15,591,796 | $ 12,448,558 | $ 367,523 | $ 689,520 | $ 5,881,265 | $ 4,911,880 | $ 1,354,778 | $ 2,365,482 | $ (4,125,265) | $ (2,142,980) | $ 19,070,097 | $ 18,272,460 |
| Segment liabilities | 4,853,756 | 3,720,962 | 1,481,786 | 470,849 | 2,943,688 | 1,516,780 | 423,616 | 435,035 | (4,168,699) | (2,142,980) | 5,534,147 | 4,000,646 |

The income of $126,148 recorded in the second quarter of 2020 as a consolidation entry is due to the gain on acquisition of TerraShift. As at June 30, 2020, the AMI RockChain segment includes the net assets acquired in the TerraShift acquisition of $82,714, while the intangible assets acquired of $143,447 and elimination of the investment in TerraShift of $100,013 are included in the Consolidation / elimination entries column in the table above. See Note 4 for details.

## Note 24 – COVID-19

The Corporation faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. In December 2019, a novel strain of the coronavirus emerged in China and the virus has now spread across the world. The Corporation's business is being adversely impacted by the effects of the coronavirus.

The extent to which COVID-19 continues to impact the Corporation's business, including its operations and the market for its securities, will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include: the duration, severity and scope of the outbreak and the actions to contain or remedy the pandemic. In particular, the continuation of the pandemic could materially and adversely impact the Corporation's business including without limitation: employee health, workforce productivity, increased insurance premiums, limitations on travel, the availability of industry experts and personnel, potential restrictions to its projects, resource development program and the timing thereof, which are beyond the Corporation's control, and which may have a material or adverse effect on its business, financial condition and operations. The Corporation will continue to monitor and take corrective action in accordance with government guidelines to mitigate the impact on AMI's staff and business operations.

The Corporation has utilized many of the financial programs offered by the Canadian government to assist entities impacted by COVID-19, including the Canadian Emergency Wage Subsidy and the Canadian Emergency Business Account loan program. Furthermore, the Corporation has implemented various cost cutting initiatives to manage cash flow, including payroll reductions and extending the interest only payments on the existing bank loan with CWB. The Corporation continues to stay informed of the progress of the pandemic and is taking action wherever and whenever possible to mitigate the impact of the pandemic on the staff and operations of the Corporation.

The Corporation's other financial risks and capital risk management strategies are described in the Corporation's annual consolidated financial statements for the year ended December 31, 2019. These interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and other annual reporting documents prepared by the Corporation for the year ended December 31, 2019.