



# SELECT SANDS

## CORP.

### Management's Discussion and Analysis For the Three Months Ended March 31, 2021

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated interim financial statements for the three months ended March 31, 2021 of Select Sands Corp. ("We", "Select Sands" or the "Company"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been prepared as of May 28, 2021.

#### Nature of Operations and Going Concern

The Company's primary business is its advanced stage silica sand quarry and production facilities located in Arkansas, USA. The Company is focused on developing this business to enable long-term, profitable commercial silica sand sales to industrial and energy customers. Select Sands' goal is to be a premium silica sand supplier selling into the specialty industrial and oil & gas markets.

Select Sands was incorporated in Canada on July 31, 2006 pursuant to the *Business Corporations Act (British Columbia)*. Its corporate office and principal place of business is Suite 310, 850 West Hastings Street, Vancouver, British Columbia, Canada, V6C 1E1. The Company also maintains offices in Houston, Texas and Newark, Arkansas, U.S.A. The Company's wholly owned subsidiary Select Sands America Corp. actively operates the Company's silica sand business operations in Arkansas, USA. Select Sands shares trade on both the TSX Venture Exchange ("TSX-V") in Canada under symbol "SNS" as a Tier 2 company and in the U.S. on the OTCQB exchange under symbol "SLSDF".

The Company's condensed consolidated interim financial statements for the three months ended March 31, 2021 and 2020 have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

For the three months ended March 31, 2021, the Company continued to sell primarily 100 mesh frac sand as well as some 40/70 mesh. This created a situation where the demand for its sand products was below the Company's full production capacity resulting in sales of \$3,561,940 (2020 – \$3,590,857), a gross loss of \$35,615 (2020 – \$820,312), negative cash flow from operating activities of \$507,302 (2020 – \$3,744,296), a net loss of \$782,838 (2020 – \$1,477,219) and may not be able to continue to finance day to day activities through operations alone. The Company's continuation as a going concern is dependent upon achieving higher levels of sales, particularly 40/70 sand, and gross margin to maintain profitable operations and generate funds there from and/or raising equity capital or borrowings sufficient to meet current and future obligations. The Company has recently begun to realize sales of 40/70 sand which it cautiously expects to increase in the following quarters in 2021, although the Company cannot provide assurances of those sales. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash from operations, cash on hand, loans from financial institutions, the sale of non-core assets and if necessary, private placement of common shares. The Company's condensed consolidated interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

## **COVID-19 Pandemic**

During the year ended December 31, 2020, there was a global outbreak of a novel coronavirus identified as "COVID-19". On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

During the three months ended March 31, 2021 and year ended December 31, 2020, the Company actively pursued relief programs such as sick leave supplements and the Paycheck Protection Program ("PPP") loans available through the Small Business Administration in the USA as a result of the COVID-19 Pandemic.

In February 2021, the Company received a second loan in the amount of \$573,278 from the SBA's Paycheck Protection Program. At the time of this report, the application for the forgiveness of this loan is in process.

In April 2020, the Company received \$416,153 from the Paycheck Protection Program. During the fourth quarter of 2020, the Company was advised by its lending institution that it had successfully met all of the criteria necessary to have this PPP Loan forgiven. As a result, the Company recorded a gain on extinguishment of debt of \$416,153 on the PPP Loan for the year ended December 31, 2020.

## **Discussion of Ongoing Business Operations**

In Q1, 2021 shipments again continued to show marginal improvement with total frac and industrial sales increase of 13% over Q4 of 2021 at 59,856 tons despite some setbacks due to severe weather discussed below. Although some of our anticipated oilfield customers have been slow to restart operations, others have taken product deliveries.

On February 12, 2021, production, shipments and transload were temporarily shut down due to the unprecedented freezing weather in both Arkansas and South Texas (see also Winter Storm Impact on Operations). Oilfield fracking was halted or significantly slowed within the basin for at least one week, and more specifically, the Company's major customer halted operations. In Arkansas, a small contingent of Company employees stayed on to ensure equipment would not be impaired when operations resumed again. Subsequently, operations started a ramp-up cycle just over a week later.

By the end of February, our Arkansas operation was fully operational and continued to supply products in demand with shipments to the Eagle Ford Basin and other locations, while the in-basin distribution facility at George West, TX remains operating on a 24/7 basis.

As in many industries, a driver shortage is also being experienced across the petroleum industry and in our experience nowhere has the cost increase been greater than in last mile logistics. This significant cost increase has actually improved Select Sands' competitiveness where the Company's George West Transload facility is closer than other sand producer distribution sites. Not only does the cost per ton go down, but the shorter haul allows an increase in delivered product due to the shorter haul and greater number of trips in a day. Potential customers are now turning to the Company to reduce the haul to the wellhead.

Since the completion of the reconfiguration project in Arkansas, the mine gate unit production cost has significantly been reduced. On a cash basis, averaging Q4, 2020 and Q1 2021 versus Q1 of 2020 (before reconfiguration), the unit cost has been reduced approximately 20% on a per ton basis.

The Eagle Ford basin continues its recovery that started in Q4 of 2020 according to Lium LLC as reported by industry publication Infill Thinking in its May 4, 2020 issue. The Company is seeing other oilfield services companies planning to increase their presence in the basin.

Encouraging news from Research and Markets that represents itself as the "World's Largest Market Store" recently reported that the global proppant market is forecast to grow to USD 11,837.91 Million in 2025 at a CAGR of 9.2% from USD 7,612.38 Million in 2020.

Despite increased oil prices, frac sand pricing has been slow to recover and is not sustainable at these levels. Sales are coming in from a wider customer base as volumes from the Arkansas operations remain well under 50% capacity, while demand continues to increase giving ample space to increase future shipments. Spot sales pricing appears to have increased recently and we are cautiously optimistic that this will represent an opportunity for the remainder of the year.

Increased shipments are expected to continue with sales in the range of 70,000 and 85,000 tons in Q2, 2021.

### **Silica Sand Business**

The Company is mining its 520-acre site in Arkansas called the Sandtown quarry. Sandtown is a commercial silica producing quarry underlain by the Ordovician St. Peter Sandstone Formation. It has a competitive location advantage by being closer to the Texas/Louisiana oil/gas plays, Houston Port and Industrial Hub compared to Wisconsin-based sand mines.

The St. Peter Sandstone formation is host to a number of producing silica sand mines/quarries throughout the central U.S.A. The Sandtown quarry contains "Tier 1" quality commercial silica sand (also known as "Northern White" or "Ottawa White Sand") which it supplies to oil and gas operations in the US. Tier 1 commercial silica sand specifications are detailed in ISO 13503-2:2006/API RP 19C Recommended Practice for Measurement of Properties of Proppants Used in Hydraulic Fracturing and Gravel-Packing Operations. These properties include sand sphericity and roundness, crush (K Value), acid solubility, turbidity and SiO<sub>2</sub> content.

### **Oil & Gas Sector Sand**

The Company continues this year with 30/50, 40/70 and 100 mesh product offerings. The three products meet or exceed the API Tier-I specifications for frac sand.

The 100 mesh and 40/70 mesh silica sand products are the most commonly used proppant grades in the continental U.S for the unconventional hydrocarbon extraction process, commonly known as hydraulic fracturing or "fracking".

### **Plant Reconfiguration Project and Completion of the Purchase of its Diaz Rail Facility**

On January 15, 2020, the Company started a reconfiguration project to optimize and consolidate processing assets to lower costs of production and transportation.

During the pandemic and with the petroleum price downturn earlier in the year, the Company opted, as a precaution, to economize on the use of outside contractors for the reconfiguration project. Currently, all products are available for production with the new plants. Q3 and Q4 2020 demand was primarily in the 100 mesh product. The 40/70 has begun shipping again in Q1 2021.

## **Results of Operations for the Three Months Ended March 31, 2021 and 2020**

For the three months ended March 31, 2021, the Company generated a net loss of \$782,838 (three months ended March 31, 2020 ("2020") – \$1,477,219). Differences of note between the two periods are:

- The Company recorded total revenue of \$3,561,940 (2020 – \$3,590,857) primarily from silica sand sales.
- The Company recorded cost of goods sold of \$3,597,555 (2020 – \$4,411,169) primarily from silica sand sales. Included in cost of goods sold is \$621,694 (2020 – \$627,482) for employee compensation.
- Compensation and consulting decreased to \$167,339 (2020 – \$226,399) due to the Company employing fewer human resources for its sand operations and executive salary reductions compared to 2020.
- Interest on long-term debt increased to \$146,795 (2020 – \$78,528) due to the Company using more long-term debt to finance its heavy equipment, reconstruction loan, and other fixed asset acquisitions.

For the three months ended March 31, 2021, net property plant and equipment acquisitions totaled \$75,686 compared to \$1,399,949 in 2020.

## **Cash Flows for the Three Months Ended March 31, 2021 and 2020**

For the three months ended March 31, 2021, the Company used \$507,302 in operating activities compared to using \$3,744,269 in 2020. The decrease is mostly due to an increase in accounts receivable during the prior period as well as an increase in accounts payable and smaller net loss in the current period.

For the three months ended March 31, 2021, the Company received \$309,837 from investing activities compared to using \$1,697,726 in 2020. The Company spent \$75,686 on property, plant and equipment compared to \$1,399,949 spent in the prior period primarily for its plant reconfiguration project. Deposits increased by \$Nil while in 2020 the Company spent \$301,157 for the utilities at the Company's new Diaz Dry Plant. The Company received \$22,000 from the disposal of equipment compared to \$3,380 in the prior period. The Company received \$363,523 from the disposal of its investments (2020 - \$Nil).

For the three months ended March 31, 2021, the Company received \$121,014 from financing activities compared to using \$4,847,550 in 2020. The Company repaid \$51,116 on its line of credit (2020 – received \$2,181,794) and received \$572,548 in long-term debt for its operations (2020 - \$2,665,756 for operations and plant reconfiguration project). The Company made principal repayments of long-term debt totaling \$267,433 (2020 - \$Nil) and lease repayments of \$132,985 (2020 - \$Nil).

Cash decreased by \$78,327 in the current period, compared to a \$622,058 decrease in 2020.

## **Discussion of First Quarter 2021 Results**

The Company sold 59,970 tons of frac and industrial sand and recorded total revenues of \$3,561,940 during the first quarter. The Company's revenues were directly impacted by the COVID-19 Pandemic and the subsequent disruptions to the oil and gas industry. The Company ended the first quarter of 2020 with inventory valued at \$3,509,512 and accounts receivable from customers of \$1,374,635.

## **Winter Storm Impact on Operations**

During the month of February 2021, the Company's operations in Arkansas were hit by a severe winter storm. During this time, the Company was forced to cease operations. As a result of the storm and the extended period of freezing temperatures, the physical gas and power infrastructure was severely impaired. At the same time, demand for natural gas was higher than normal due to increased heating demand during the extremely cold weather. This considerable increase in demand, coupled with a severe reduction in supply, resulted in extremely high natural gas market prices during the period of the storm.

As a result of this winter storm event, the Company received a bill for its February 2021 natural gas consumption of \$373,043 where the bill was only \$49,548 in February 2020. The Company has a supply agreement with a natural gas company for the supply of natural gas to its sand processing plants in Arkansas. The supply agreement stipulates that the Company will be charged for a minimum usage at market rates each billing period, even if the Company does not consume the minimum usage. The Company did not consume any natural gas during the winter storm, because it was unable to operate due to the storm. Furthermore, the Company received a notice to curtail its natural gas consumption from its natural gas supplier during this same period and yet was still charged for the minimum monthly usage. As a result of the foregoing, the Company is disputing the amount of the February 2021 invoice. The natural gas supplier has agreed not to interrupt supply while the Company goes through the dispute process. The Company is currently seeking legal advice with respect to this matter.

## **2021 AGM Results**

At the Company's annual and special meeting of shareholders held February 10, 2021, each of Zigurds Vitols, Douglas Turnbull, John Kime, Daniel Gillett and Steven Goldman, management's director nominees, were elected as directors. In addition, Morgan & Company LLP was re-appointed as auditors of the Company. The resolution re-approving the stock option plan of the Company was also approved by shareholders.

## Summary of Quarterly Results

The following table sets forth selected quarterly financial information for the three months ended March 31, 2021 and each of the prior eight quarters.

Quarter Ending	Revenue	Net Income (Loss)	(Loss) Earnings per share
March 31, 2021	\$3,561,940	\$(782,838)	\$(0.01)
December 31, 2020	\$3,128,659	\$434,385*	\$0.01
September 30, 2020	\$2,942,727	\$(654,464)	\$(0.01)
June 30, 2020	\$38,973	\$(1,207,351)	\$(0.01)
March 31, 2020	\$3,590,857	\$(1,477,219)	\$(0.02)
December 31, 2019	\$280,419	\$(3,373,728)**	\$(0.04)
September 30, 2019	\$1,146,487	\$(1,992,381)***	\$(0.02)
June 30, 2019	\$1,367,450	\$(3,077,785)****	\$(0.03)
March 31, 2019	\$1,566,261	\$(806,546)	\$(0.01)

\* Net income includes \$416,153 gain for forgiven PPP loan and a one-time gain of \$280,300 on return of capital from investment in affiliate.

\*\* Net loss includes impairment of property, plant and equipment for \$952,313.

\*\*\* Net loss includes impairment of Bell Farm property for \$274,476.

\*\*\*\* Increase in net loss due to the Company taking a non-cash one-time charge derecognizing \$2,075,595 in deferred income taxes and continued lower sales.

## Non-IFRS Financial Measures

The following information is included for convenience only. Generally, a non-IFRS financial measure is a numerical measure of a company's performance, cash flows or financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with IFRS. EBITDA and Adjusted EBITDA are not recognized measures of financial performance (nor do they have standardized meanings) under IFRS. In evaluating non-IFRS financial measures, investors should consider that the methodology applied in calculating such measures may differ among companies and analysts.

The Company uses both IFRS and certain non-IFRS measures to assess operational performance and as a component of employee remuneration. Management believes certain non-IFRS measures provide useful supplemental information to investors in order that they may evaluate Select Sand's financial performance using the same measures as management. Management believes that, as a result, the investor is afforded greater transparency in assessing the financial performance of the Company. These non-IFRS financial measures should not be considered as a substitute for, nor superior to, measures of financial performance prepared in accordance with IFRS.

## EBITDA and Adjusted EBITDA

The Company defines EBITDA as net loss before finance costs, income taxes, depreciation and amortization and non-cash share-based compensation. The Company defines Adjusted EBITDA as net loss/ income before finance costs, income taxes, depreciation and amortization, non-cash share-based compensation, share of loss of equity investee, provision for impairment in investment in affiliate, provision for impairment of property, plant and equipment, loss on sale of property, plant and equipment, unrealized loss on investments, gain on return of capital from equity investee and gain on extinguishment of debt. Select Sands uses Adjusted EBITDA as a supplemental financial measure of its operational performance. Management believes Adjusted EBITDA to be important measures as they exclude the effects of items that primarily reflect the impact of long-term investment and financing decisions, rather than the performance of the Company's day-to-day operations. As compared to net income according to IFRS, this measure is limited in that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company's business, the charges associated with impairments, termination costs or Proposed Transaction costs. Management evaluates such items through other financial measures such as capital expenditures and cash flow provided by operating activities. The Company believes that these measurements are useful to measure a company's ability to service debt and to meet other payment obligations or as a valuation measurement.

<b>Reconciliation of Net Loss to EBITDA to Adjusted EBITDA</b>		
	<b>Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>Net Loss</b>	<b>\$ (782,838)</b>	<b>\$ (1,477,219)</b>
Add Back		
Depreciation and depletion	404,312	270,670
Interest on long-term debt	146,795	78,528
<b>EBITDA</b>	<b>\$ (231,731)</b>	<b>\$ (1,128,021)</b>
Add Back		
Gain on disposal of Investments	(26,817)	-
Unrealized gain on investments	(68,034)	-
Gain on sale of Property, plant and equipment	(475)	-
<b>Adjusted EBITDA</b>	<b>\$ (327,057)</b>	<b>\$ (1,128,021)</b>

## Liquidity

As of March 31, 2021, the Company had working capital deficiency of \$(2,599,154) including cash on hand of \$187,634.

## Share Capital

As of March 31, 2021 and December 31, 2020, there were 88,563,316 common shares issued and outstanding. The Company did not issue any common during the three months ended March 31, 2021 and year ended December 31, 2020. There are no warrants outstanding at March 31, 2021 and December 31, 2020. As of March 31, 2021, there are 4,145,000 options outstanding with a weighted-average exercise price of \$0.78 (March 31, 2020 – 4,995,000 at \$0.72).

## Long-Term Debt

	<b>March 31, 2021</b>	December 31, 2020
Note payable, dated October 26, 2018, payable in monthly installments of \$6,010, including interest at 5.99%, outstanding amounts on this note are due in full on October 26, 2023, secured by equipment.	<b>\$ 139,295</b>	\$ 153,100
Note payable, dated November 28, 2018, payable in monthly installments of \$5,705, including interest at 5.99%, outstanding amounts on this note are due in full on November 28, 2023, secured by equipment.	<b>137,155</b>	150,245
Note payable, dated December 2, 2017, payable in monthly installments of \$6,657, including interest at 3.90%, outstanding amounts on this note are due in full on December 12, 2022, secured by equipment.	<b>97,480</b>	113,181
Note payable, dated November 13, 2017, payable in monthly installments of \$5,059, including interest at 4.75%, outstanding amounts on this note are due in full on November 13, 2021, secured by equipment.	<b>54,338</b>	54,338
Note payable, dated November 3, 2017, payable in monthly installments of \$4,583, including interest at 4.75%, outstanding amounts on this note are due in full on November 3, 2021, secured by equipment.	<b>49,225</b>	62,279
Note payable, dated November 3, 2017, payable in monthly installments of \$4,463, including interest at 4.75%, outstanding amounts on this note are due in full on November 3, 2021, secured by equipment.	<b>47,931</b>	60,642
Note payable, dated May 16, 2018, payable in monthly installments of \$2,660, including interest at 7.79%, outstanding amounts on this note are due in full on May 16, 2022, secured by equipment.	<b>56,649</b>	63,435
Note payable, dated December 26, 2017, payable in monthly installments of \$5,500, including interest at 5.17%, outstanding amounts on this note are due in full on January 10, 2022, secured by equipment.	<b>30,007</b>	38,760
Note payable, dated June 29, 2017, payable in monthly installments of \$4,890, including interest at 5.80%, outstanding amounts on this note are due in full on December 29, 2021, secured by equipment.	<b>33,826</b>	41,982



	<b>March 31, 2021</b>	December 31, 2020
Note payable, dated February 28, 2020, payable in monthly installments of \$4,873, including interest at 4.74%, outstanding amounts on this note are due in full on March 1, 2025, secured by equipment.	<b>\$ 212,686</b>	\$ 224,690
Note payable, dated November 12, 2020, payable in monthly installments of \$7,968, including interest at 5.54%, outstanding amounts on this note are due in full on November 9, 2023, secured by equipment.	<b>229,268</b>	249,729
Note payable, dated December 17, 2020, payable in monthly installments of \$3,853, including interest at 4.99%, outstanding amounts on this note are due in full on June 17, 2025, secured by equipment.	<b>176,719</b>	185,995
Interest only construction loan payable for six months beginning on February 9, 2020 at 5.25%. Starting August 9, 2020, monthly payments are due in the amount of \$64,298 per month. Any outstanding amounts on this note are due in full on July 9, 2023, secured by property, plant, and equipment.	<b>4,365,604</b>	4,499,970
SBA Payroll Protection Program loan (See also Note 13d)	<b>573,278</b>	-
<b>Total</b>	<b>6,203,461</b>	5,898,346
<b>Less current maturities</b>	<b>(1,718,024)</b>	(1,145,476)
<b>Long-term debt</b>	<b>\$ 4,485,437</b>	\$ 4,752,870

In addition to the long-term debt instruments, the Company maintains a revolving line of credit which provides for maximum borrowings of \$5,000,000. Outstanding borrowings on the revolving line of credit were \$4,366,951 and \$4,418,067 at March 31, 2021 and December 31, 2020 respectively. The revolving line of credit was renewed in February 2021, requires monthly payments of interest at a fixed rate of 4.75% and expires on February 20, 2022.

Annual aggregate repayments of the long-term debt and revolving line of credit are as follows:

2021	\$ 867,254
2022	5,357,506
2023	4,208,133
2024	100,231
2025	37,288
	<b>\$ 10,570,412</b>

## Related Parties Transactions

As of the date of this report, the Company's officers and directors are as follows:

Name	Position
Zigurds Vitols	President, Chief Executive Officer and Director
Daniel Gillett	Director and Chair
John Kime	Director and Audit Committee Chair
Douglas Turnbull	Director
Steven Goldman	Director
Darren Urquhart	Chief Financial Officer

The following amounts were incurred with respect to officers and directors of the Company or corporations controlled by them:

	Three months ended	
	March 31, 2021	March 31, 2020
Zigurds Vitols – Salary	\$27,692	\$32,308
Doug Turnbull – Consulting fees	2,750	2,000
John Kime – Consulting fees	2,000	1,500
Dan Gillet – Consulting fees	2,000	7,500
Steven Goldman – Consulting fees	2,000	1,500
Darren Urquhart – Consulting fees	16,587	15,615
<b>Total compensation of officers and directors</b>	<b>\$53,029</b>	<b>\$60,423</b>

Note: Share based compensation is a non-cash expense for valuing stock option grants that is computed using the Black-Scholes Valuation Model.

The Company shares office space with Comstock Metals Ltd. which has a common director and officer. During the three months ended March 31, 2021, the Company recovered \$3,890 in shared office costs (2020 - \$3,293).

As at March 31, 2021, the Company had accounts payable and accrued liabilities to directors and officers in the amount of \$54,846 (2020 - \$14,417) for consulting fees and reimbursement of expenses.

The above transactions were in the normal course of operations and have been recorded at amounts agreed to by the related parties. All amounts either due from or due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

## Subsequent Event

On May 10, 2021, the Company entered into a loan agreement with its bank for \$600,000 to increase the Company's working capital. The loan matures on November 10, 2021 and bears interest at 5.0%.

## **Outstanding Share Data as of the Report Date**

The Company's authorized share capital consists of an unlimited number of common shares. As of the date of this report, there are an aggregate of 88,563,316 common shares issued, Nil warrants and 4,145,000 stock options outstanding.

## **Proposed Transactions**

The Company is continually reviewing potential acquisitions and joint venture transactions and opportunities that could enhance shareholder value. The Company is actively working on a number of potential M & A and joint venture opportunities, one or more of which are in advanced stages of discussions, and which management believes could be material for the Company. There is no assurance that any of these opportunities will be finalized.

## **Critical Accounting Estimates**

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Commencement of commercial production is an important "point in time" determination for accounting purposes and signifies the point in time at which a constructed asset is capable of operating in the manner intended by management. At this point in time, recognition of revenue and expenses from the operation commences for accounting purposes. The date of transition from pre-commercial production to production accounting is based on both qualitative and quantitative measures such as substantial physical project construction, sustained level of mining and sustained levels of processing activity.
- Management determines costs for stock-based compensation using market-based valuation techniques. The fair value of the share awards was determined at the date of grant using the Black-Scholes option pricing model. Assumptions were made, and judgment was used in applying the valuation model. The assumptions and judgments on the estimated future volatility of the Company's stock price and the expected forfeiture rate may have a very high degree of estimation uncertainty. Such judgments and assumptions are inherently uncertain and as such the grant date fair value estimates of stock-based compensation can be materially different from the fair values of the stock options when the stock options are exercised or expire in the future.
- The Company uses significant judgment in its assessment of impairment indicators on its equity-accounted investment and its related estimate of the recoverable amount of the investment.
- The Company uses significant judgment in its allocation of costs between inventory and cost of goods sold. The Company measures its remaining inventory at the end of each quarter and uses drones to assist in estimating quantities.

- The Company uses significant judgment in recognizing and derecognizing deferred income tax assets. Managements performs a “more likely than not” test to see if there is a greater than 50% chance that the Company will realize its deferred income tax assets in the future.

## **Risks and Uncertainties**

The Company is subject to a number of risks and uncertainties due to the nature of its business. The Company's activities expose the Company to various financial and operational risks that could have a significant impact on its level of operating cash flows in the future. Readers are advised to study and consider risk factors stressed below. The following are identified as main risk factors that could cause actual results to differ materially from those stated in any forward-looking statements made by, or on behalf of, the Company.

### ***Operational Risks***

The Company is subject to operational risk from such factors as personnel and/or environmental accidents at the plant or sand quarry; fire; title disputes; changes in supplier pricing; non-performance of obligations under existing agreements; technical difficulties including plant and equipment breakdown; loss of significant customers; access to water, fuel and electricity; problems with product transportation and logistics; legal action from persons or entities adversely impacted by the Company's business; the ability to obtain financing to expand and improve cost per ton efficiency; and plant and mine shutdown due to regulatory violations.

### ***Governmental Regulation***

Regulatory standards continue to change, making the review process longer, more complex and therefore more expensive. Sand mining and production on the Company's properties are affected by government regulations relating to such matters as environmental protection, health, safety and labour, mining law reform, restrictions on production, price control, tax increases, maintenance of claims, and tenure. There is no assurance that future changes in such regulations couldn't result in additional expenses and capital expenditures, decreasing availability of capital, increased competition, reserve uncertainty, title risks, and delays in operations. The Company relies on the expertise and commitment of its management team, advisors, employees and contractors to ensure compliance with current laws.

### ***Customer Demand***

The Company is subject to risk from falling customer demand for its products. Customer demand for silica sand can be influenced by demand for oil and gas products; industrial demand for silica sand; global, regional and seasonal economic, political and military events including recessions and wars; competition including pricing and availability of similar products from competitors; changes in technology; and changes in laws and regulations affecting the Company's customers.

### ***Financial Instruments and Risk Management***

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As of the date of this report and March 31, 2021, the Company's financial instruments which are measured at fair value on a recurring basis are cash and cash equivalents and available for sale investments. The available-for-sale investments are based on quoted prices. The carrying values of the Company's loans and receivables and financial liabilities were a reasonable approximation of fair value due to the short-term nature of their maturities.

The Company is exposed to potential loss from various risks including commodity price risk, interest rate risk, currency risk, credit risk and liquidity risk. Based on the Company's operations the liquidity risk and commodity price risk are considered the most significant. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

### ***Commodity Price Risk***

Market prices for silica sand products historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators.

### ***Liquidity Risk***

The liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through careful management of its financial obligations in relation to its cash position. Using budgeting processes, the Company manages its liquidity requirements based on expected cash flow to ensure there are adequate funds to meet the short-term obligations during the year, as well as capital expansion plans.

During the past year the Company has been able to maintain its liquidity position through cash flow from operations and cash on hand, as well as some bank loans. Assuming that frac sand sales continue to improve as anticipated, but is not assured, the Company believes it has sufficient funds to continue operations using cash flow from operations and bank loans to fund its operations through 2021. The Company may also raise funds through equity or other financings, as may be determined.

### ***Credit Risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed on demand.

Accounts receivable are subject to counter-party risk of not being collected. The Company manages credit risk of accounts receivable through its credit and collection policies and established allowances for doubtful accounts as required at each reporting period.

The Company had sales to one major customer (2020 – two major customers) of approximately 99.9% (2020– 90%) of total sales for the three months ended March 31, 2021. Approximately 99.5% (2020 – 83%) of outstanding accounts receivable is from the one major customer at March 31, 2021.

### ***Interest Rate Risk***

The Company's exposure to the risk of changes in market interest rates relates primarily to the \$5 million line of credit, which bears a floating interest rate of 4.75% per annum. As a result, the Company is subject to a moderate level of interest rate risk. All other financial assets and liabilities are non-interest bearing or bear interest at fixed rates.

### ***Competition***

The industry in which the Company operates is highly competitive. The Company faces strong competition from other companies in the industry. Many of these companies have greater financial resources, operational experience and technical capabilities than Select Sands. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected.

### ***Key Executives***

Select Sands is dependent on the services of key executives, including its directors and has a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of Select Sands, the loss of these persons or either company's inability to attract and retain additional highly skilled employees may adversely affect its business and future operations.

### ***Internal Controls and Procedures***

Management of the Company has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the financial statements of the Company do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented thereby, and (ii) the financial statements of the Company fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented. However, as a venture issuer, the certifying officers of the Company filing such financial statements do not make any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis disclosure controls and procedures, and internal controls over financial reporting, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### ***Lack of Trading***

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

### ***Volatility of Share Price***

Market prices for shares of TSX Venture Exchange listed companies are often volatile. Factors such as announcements of financial results, and other factors could have a significant effect on the price of the Company's shares.

## **Off-Balance Sheet Arrangements**

The Company has not entered into any off-balance sheet arrangements.

## **Approval**

The Board of Directors of Select Sands Corp. has approved the contents of this Management Discussion and Analysis as of the date of this report.

## **Additional Information**

Additional information relating to the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com) and also on the Company's website at [www.selectsands.com](http://www.selectsands.com)

## **Cautionary Note Regarding Forward Looking Statements**

*This MD&A includes some statements that may be considered "forward-looking statements". All statements in this discussion that address the Company's expectations about future revenues and sales volumes, cost reductions, capital acquisitions and corporate development are forward-looking statements. Although the Company believes the expectations presented in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration successes, availability of capital and financing, future sales and cost projections and general economic, market, and business conditions, as well as COVID-19 pandemic related business disruptions. Readers are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.*