



# SELECT SANDS

## CORP.

### Management's Discussion and Analysis For the Nine Months Ended September 30, 2020

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated interim financial statements for the nine months ended September 30, 2020 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 November 18, 2020.

#### 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 Corp. 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 nine months ended September 30, 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 nine months ended September 30, 2020, the Company has continued to experience decreased demand for its sand products below its full production capacity resulting in sales of \$6,572,557 (2019 – \$4,080,198), a gross loss of \$1,300,287 (2019 – \$1,064,075), negative cash flow from operating activities of \$3,852,108 (2019 – \$2,681,231), a net loss of \$3,339,034 (2019 – \$5,876,712) 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 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. 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 nine months ended September 30, 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.

The Company has been actively pursuing relief programs such as sick leave supplements and the Paycheck Protection Program loans available through the Small Business Administration in the USA. In April 2020, the Company received \$416,153 from the Payroll Protection Program available in the USA (see also Subsequent Event on page 10).

In Q3, shipments started to ramp up as oilfield services company's implemented procedures to safely operate in the pandemic environment. The Company's primary customer started shipments in July 1st and has continued through Q3 with scheduled activities in Q4. Some oilfield services company's have yet to restart activities, and we expect they may re-engage in the new year. The George West transload facility remains in full operation. The Arkansas operations is continuing to supply products in demand with shipments to the Eagle Ford Basin.

## **Discussion of Ongoing Business Operations**

The Company's reconfiguration project is scheduled to be completed during Q4. The new wet plant located at the Sandtown Quarry has started operations and is supplying the new dry plant located at the Diaz rail facility. As of the date of this report, the Diaz Dry Plant is processing 100 mesh product that is feeding the George West Transload Facility. The primary demand is for the company's 100 mesh product being shipped to its George West transload facility.

During Q2, the combined impacts of lower petroleum prices, that at one point were recorded at negative numbers for West Texas Intermediate (WTI) crude, saw a virtual shut down of frac activity in the Eagle Ford Basin. During Q3, the company resumed shipments, but some customers, primarily those with 40/70 demand, have been slow to re-engage.

Customer shipments started on July 1, 2020 and continued to ramp up during Q3. We expect shipments to remain at or close to the pre-COVID rates during Q4. Based on the current rate of shipments, the Company is expecting a Q4 range of customer shipments from 55,000 to 70,000 tons.

## **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 has enhanced its product offering this year by adding a 30/50 mesh silica sand product to its 40/70 and 100 mesh products. 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, 100 mesh production is in full production supplying product primarily to the company's major contract customer. Q3 and Q4 demand is expected to be primarily in the 100 mesh product category with 40/70 mesh starting to ship again in late Q4 and continue into 2021.

## Results of Operations for the Nine Months Ended September 30, 2020

For the nine months ended September 30, 2020, the Company generated a net loss of \$3,339,034 (nine months ended September 30, 2019 ("2019") – \$5,876,712). Differences of note between the two periods are:

- The Company recorded total revenue of \$6,572,557 (2019 – \$4,080,198) primarily from silica sand sales. The Company's Northern White Sand sales have increased significantly due to a new supply contract. While the Company saw significant sales in the first quarter of 2020, sales were negatively impacted during Q2 by the COVID-19 Pandemic and pricing/demand downturn in the oil and gas industry in the second quarter. In Q3, the Company saw its sales return to pre-COVID-19 levels.
- The Company recorded cost of goods sold of \$7,872,844 (2019 – \$5,144,273) primarily from silica sand sales. Included in cost of goods sold is \$1,385,331 (2019 – \$1,187,170) for employee compensation.
- Compensation and consulting decreased to \$580,073 (2019 – \$941,366) due to the Company employing fewer human resources for its sand operations compared to 2019 and executive salary reductions.
- Interest on long-term debt increased to \$294,419 (2019 – \$138,036) due to the Company using more long-term debt to finance its heavy equipment, reconstruction loan, and other fixed asset acquisitions.
- Selling, general and administrative expenses decreased to \$341,125 (2019 – \$621,986) due to the Company reducing costs due to lower activity.

For the nine months ended September 30, 2020, net property plant and equipment acquisitions totaled \$2,739,469 compared to \$292,667 in 2019.

## Cash Flows for the Nine Months Ended September 30, 2020

For the nine months ended September 30, 2020, the Company used \$3,852,108 in operating activities compared to using \$2,681,231 in 2019. The increase is mostly due to an increase in gross loss, accounts receivable and inventory during the current period that was partially offset by a decrease in operating expenses.

For the nine months ended September 30, 2020, the Company used \$2,896,253 in investing activities compared to using \$51,362 in 2019. The Company spent \$2,739,469 on property, plant and equipment for its plant reconfiguration project (2019 - \$113,666) and increased deposits by \$301,157 (2019 - \$Nil) due to paying deposits for the utilities at the Company's new Diaz Dry Plant. The Company received \$144,373 from the disposal of equipment compared to \$62,304 in the prior period.

For the nine months ended September 30, 2020, the Company received \$6,327,286 from financing activities compared to using \$710,689 in 2019. The Company received \$2,476,885 on its line of credit (2019 – \$Nil) and \$5,034,403 in long-term debt for its operations and plant reconfiguration project (2019 - \$Nil). The Company made principal repayments of long-term debt totaling \$1,184,002 which includes \$968,747 for the final payment on the Company's Diaz Rail Facility (2019 - \$710,689).

Cash decreased by \$465,423 in the current period, compared to a \$3,512,194 decrease in 2019.

## Discussion of Third Quarter 2020 Results

The Company recorded third quarter total revenues of \$2,942,727. The gross loss from sand operations including depreciation was \$195,514 for the quarter ended September 30, 2020. 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 third quarter of 2020 with inventory valued at \$2,389,307 and accounts receivable from customers of \$994,671.

## Summary of Quarterly Results

The following table sets forth selected quarterly financial information for the three months ended September 30, 2020 and each of the prior eight quarters.

Quarter Ending	Revenue	Net (Loss) Income	(Loss) Earnings per share
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)
December 31, 2018	\$913,482	\$(2,517,676)****	\$(0.03)
September 30, 2018	\$3,992,438	\$(136,140)	\$(0.00)
June 30, 2018	\$9,504,445	\$1,605,078	\$0.02

\* 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.

\*\*\*\* Increased loss due to lower sales during the period and recognition of \$668,024 loss in equity investee.

## 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 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.

### Reconciliation of Net Loss to EBITDA to Adjusted EBITDA

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Net Loss</b>	<b>\$(654,464)</b>	<b>\$ (1,992,381)</b>	<b>\$(3,339,034)</b>	<b>\$(5,876,712)</b>
Add Back:				
Depreciation and depletion	274,092	276,748	821,755	829,234
Share-based compensation	-	-	-	74,700
Interest on long-term debt	123,503	49,313	294,419	138,036
Deferred income tax expense	-	-	-	1,754,361
<b>EBITDA</b>	<b>\$ (256,869)</b>	<b>\$ (1,666,320)</b>	<b>\$(2,222,860)</b>	<b>\$(3,080,381)</b>
Add Back:				
Share of loss of equity investee	-	111,291	-	287,283
Gain on extinguishment of debt	-	-	-	(21,195)
<b>Adjusted EBITDA</b>	<b>\$ (256,869)</b>	<b>\$ (1,555,029)</b>	<b>\$(2,222,860)</b>	<b>\$(2,814,293)</b>

## Liquidity

As of September 30, 2020, the Company had working capital deficiency of \$(1,544,879) including cash on hand of \$685,900.

## Off-Balance Sheet Arrangements

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

## Share Capital

As of September 30, 2020 and December 31, 2019, there were 88,563,316 common shares issued and outstanding. The Company did not issue any common shares for private placement during the nine months ended September 30, 2020 and year ended December 31, 2019. There are no warrants outstanding at September 30, 2020 and December 31, 2019. As of September 30, 2020, there are 4,995,000 options outstanding with a weighted-average exercise price of \$0.72 (2019 – 5,245,000 at \$0.70).

## Long-Term Debt

	<b>September 30, 2020</b>	December 31, 2019
Financing agreement, dated April 1, 2017, with Newport Rail Co., for the rail loading facility with an option to purchase at the end of the lease, imputed interest at 4.5%, fixed annual payments of \$387,500, through March 2021, secured by certain assets of the Company.	\$ -	\$ 968,750
Note payable, dated October 26, 2018, payable in monthly installments of \$5,343, including interest at 6.00%, outstanding amounts on this note are due in full on July 26, 2023, secured by equipment.	<b>166,698</b>	190,515
Note payable, dated November 28, 2018, payable in monthly installments of \$5,092, including interest at 5.99%, outstanding amounts on this note are due in full on August 28, 2023, secured by equipment.	<b>163,140</b>	185,587
Note payable, dated December 2, 2017, payable in monthly installments of \$5,584, including interest at 3.90%, outstanding amounts on this note are due in full on September 12, 2022, secured by equipment.	<b>128,731</b>	158,055
Term loan, dated October 27, 2017, payable in monthly installments of \$14,710, including interest at 5.25%, outstanding amounts on this note are due in full on November 5, 2020, secured by equipment.	<b>29,227</b>	157,576
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 February 13, 2022, secured by equipment.	<b>82,978</b>	110,935
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 February 3, 2022, secured by equipment.	<b>75,170</b>	100,496

**Long-Term Debt** (Continued)

	<b>September 30, 2020</b>	December 31, 2019
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 February 3, 2022, secured by equipment.	<b>\$ 73,194</b>	\$ 97,855
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 February 16, 2023, secured by equipment.	<b>70,091</b>	81,431
Note payable, dated December 26, 2017, payable in monthly installments of \$3,073, including interest at 5.17%, outstanding amounts on this note are due in full on January 5, 2022, secured by equipment.	<b>47,398</b>	72,654
Note payable, dated June 29, 2017, payable in monthly installments of \$2,908, including interest at 5.79%, outstanding amounts on this note are due in full on March 29, 2022, secured by equipment.	<b>50,020</b>	65,067
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>236,552</b>	-
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>4,499,970</b>	-
Interest only line of credit loan payable at 5.25%, outstanding amounts on this note is due in full on February 20, 2021, secured by outstanding Accounts Receivables.	<b>3,105,010</b>	628,125
SBA Payroll Protection Program loan (see also Subsequent Event on page 10)	<b>416,153</b>	-
Total	<b>\$ 9,144,332</b>	\$ 2,817,046
Less current maturities	<b><u>(4,433,446)</u></b>	<u>(1,780,895)</u>
Long-term debt	<b><u>\$ 4,710,886</u></b>	<u>\$ 1,036,151</u>



Annual aggregate repayments of the long-term debt are as follows:

2020	\$	146,138
2021		4,133,335
2022		862,287
2023		741,678
2024		695,577
2025		2,565,317
	<b>\$</b>	<b>9,144,332</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:

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Zigurds Vitols – Salary	\$ 132,308	\$175,385
Zigurds Vitols – Share based compensation	-	9,388
Doug Turnbull – Consulting fees	8,750	23,500
Doug Turnbull – Share based compensation	-	7,537
John Kime – Consulting fees	6,000	22,550
John Kime – Share based compensation	-	7,510
Dan Gillet – Consulting fees	15,000	71,471
Dan Gillet – Share based compensation	-	10,520
Steven Goldman – Consulting fees	6,500	22,500
Steven Goldman – Share based compensation	-	10,520
Darren Urquhart – Consulting fees	46,525	54,920
Darren Urquhart – Share based compensation	-	3,809
Rasool Mohammad (Former Director and COO) – Salary	-	127,692
Rasool Mohammad (Former Director and COO) – Share based compensation	-	7,645
<b>Total compensation of officers and directors</b>	<b>\$ 215,083</b>	<b>\$ 554,947</b>
Total salaries and consulting fees	215,083	498,018
Total share based compensation	-	56,929
<b>Total compensation of officers and directors</b>	<b>\$ 215,083</b>	<b>\$ 554,947</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 nine months ended September 30, 2020, the Company recovered \$9,801 in shared office costs (2019 - \$22,790).

As at September 30, 2020, the Company had accounts payable and accrued liabilities to directors and officers in the amount of \$33,966 (2019 - \$10,447) 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.

### **Lawsuit**

A legal claim against the Company, its CEO and former COO was filed in 2018. During the year ended December 31, 2019, the legal claim was settled by all parties. The terms of the settlement remain confidential as of the date of this report, but were not material to the Company.

### **2019 AGM Results**

At the Company's annual and special meeting of shareholders held August 15, 2019, 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 not approved by shareholders. Existing stock option agreements remain in effect, but the Company cannot grant new stock options until a new stock option plan is approved by the Company's shareholders.

### **Subsequent Event**

The Company was advised by its lending institution that it had successfully met all of the criteria necessary to have its Paycheck Protection Program loan of \$416,153 made available through the Small Business Administration in the USA forgiven.

### **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 4,995,000 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. Management 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 September 30, 2020, 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. The Company intends to continue using cash flow from operations and bank loans to fund its operations through 2020.

### ***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 two major customers of approximately 88% of total sales for the nine months ended September 30, 2020. Approximately 78% of total sales for the nine months ended September 30, 2020 is from the largest customer. Approximately 10% of total sales for nine months ended September 30, 2020 are attributable to the other major customer. Approximately 81% of outstanding accounts receivable is from the largest customer at September 30, 2020.

### ***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 5.25% 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

### **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, 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.*