

# **CANADIAN PREMIUM SAND INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and nine months ended**

**June 30, 2020 and 2019**

**Dated August 13, 2020**

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*This Management's discussion and analysis ("MD&A") is dated August 13, 2020 and is management's assessment of the operations and the financial results together with future prospects of Canadian Premium Sand Inc. (the "Company" or "CPS") as at June 30, 2020 and for the three and nine months ended in comparison to the same period in 2019. This MD&A should be read in conjunction with the unaudited interim condensed financial statements and related notes for the three and nine months ended June 30, 2020 and 2019 and the audited financial statements and related notes for the years ending September 30, 2019 and 2018 and related notes, prepared in accordance with International Financial Reporting Standards ("IFRS").*

*All figures are in Canadian dollars unless stated otherwise.*

*This MD&A contains "forward-looking statements" or "forward-looking information" within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements") based on the Company's current expectations and projections. For information on the material risk factors and assumptions underlying such forward-looking statements, refer to "Forward-Looking Statements" included at the end of this MD&A.*

*Any technical information contained in this MD&A has been extracted or summarized based on the information contained in the independent Preliminary Feasibility Study ("PFS", the "Study" or the "Technical Report") and Mineral Resource update of Wanipigow Sand Project dated March 19, 2020, reviewed and approved by Roy Eccles, P. Geol. of APEX Geoscience Ltd. and Robert Farmer P. Eng. of John T. Boyd Company, each of whom is independent of the Company and a "qualified person" under National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). Readers are cautioned not to solely rely on the summary of this information but should read the PFS in its entirety which is available for review on the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **About Canadian Premium Sand Inc. and the Wanipigow Sand Project**

The Company was formed under the Business Corporations Act (Ontario) on September 21, 2005 by articles of incorporation and continued under the Canada Business Corporations Act in 2019. The Company trades on the TSX-V under the trading symbol "CPS" and is a reporting issuer in the provinces of Ontario, Alberta and British Columbia. The registered head office of the Company is in Calgary, Alberta.

The Company is an exploration stage company that is seeking to commercially develop a high grade silica sand deposit located approximately 160 kilometers northeast of Winnipeg, Manitoba primarily within the jurisdictional boundaries of the Incorporated Community of Seymourville and is adjacent to Hollow Water First Nation reserve lands (the "Wanipigow Sand Project" or "Project"). A small portion of the site area of the Wanipigow Sand Project is within the Community of Manigotagan.

The Wanipigow Sand Project consists of 41 contiguous quarry leases covering 2,148 hectares of land that grant the Company exclusive right to mine quarry minerals.

The Company has economic participation agreements with respect to the Wanipigow Sand Project with the Hollow Water First Nation and with the Incorporated Community of Seymourville (together, the "Economic Participation Agreements"). The Economic Participation Agreements are for the life of the Wanipigow Sand Project and reflect the parties' commitment and support for the Wanipigow Sand Project. The aggregate financial impact of the Economic Participation Agreements, combined with other contractual arrangements, are disclosed under the Commitments and Contingencies note in the financial statements.

The Company also has a Conditional Use Order from the Incorporated Community of Seymourville (the "Conditional Use Order"), approving the conditional use of lands within its jurisdictional boundaries for the Wanipigow Sand Project, including accessory uses, buildings and structures and an environmental license for the Wanipigow Sand Project, Environment Act License No. 3285 (the "Environmental License"), subject to commercially reasonable terms and conditions. A copy of License No. 3285 can be found at the following link:

<https://www.gov.mb.ca/sd/eal/registries/5991wanipigow/index.html>.

To develop the silica sand resource, the Company will need to secure funding to design, construct, commission, staff and operate its silica sand extraction and processing facilities. The silica sand in the quarry is a durable, high-purity quartz with rounded uniform grains. This high quality allows for a broad range of uses including fracture proppant for oil and gas recovery, glassmaking, metal casting and production, paint and coatings, ceramics and refractories, and water filtration. Details on the Wanipigow Sand Project can be found in the independent NI 43-101 Technical Report and Pre-Feasibility study (the “Technical Report”) available for review on the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Highlights for the Three and Nine Months Ended June 30, 2020**

With the Environmental License and Conditional Use Order, the Economic Participation Agreements and the updated Technical Report complete, the Company has achieved three significant milestones to advance the Wanipigow Sand Project. In addition, the Company completed several key activities during the three and nine months ended June 30, 2020 as follows:

- Excavated a bulk sample of Lower Black Island raw sand and shipped it to a potential client in Asia, who will assess Wanipigow sand for use in manufacturing ultra-clear glass;
- Completed a convertible debenture financing for total gross proceeds of \$1,975,000;
- Concluded and announced the results of the internal capital optimization review resulting in an estimated 39% reduction in capital costs as well as an estimated 37% reduction in average mine-gate operating cash costs;
- Completed and published an updated Technical Report showing a revised capital cost of \$124 million, a pre-tax internal rate of return of 52.2% and a pre-tax net present value using an 8% discount rate of \$397.5 million;
- Completed the clean-up of acreage cleared for the processing facility at the Wanipigow Sand Project site including delivery of non-commercial wood to local communities; and
- Commenced selling silica sand sourced from a Wisconsin mine, to customers in Western Canada, to generate revenue and develop a customer-base to support the proppant business case for developing the Wanipigow Sand Project.

Certain of the Company’s activities were hampered by the COVID-19 pandemic last quarter but with the province of Manitoba entering Phase 3 of its COVID-19 recovery plan, the Company has been able to resume work on key de-risking tasks.

## **Business Outlook**

The Company is now engaged in pursuing required regulatory approvals and land use agreements associated with the revised operational approach, refining logistics, design of facilities and infrastructure, as well as expanding the business plan to potentially include silica sand sales into the industrial market. Upon completion of this final phase of the Wanipigow Project de-risking process, the Company expects to bring the Project to a Final Investment Decision.

The current strained market conditions resulting from the oil price collapse and COVID-19 pandemic have adversely impacted third-party silica sand sales and the capital markets that would typically fund these types of projects. This could result in a delay in timing as to when the Company is able to raise the capital required to move the Project into the production phase. In the long term, the Company believes that there will be a recovery in consumption of petroleum products and balancing of petroleum related production which in turn will drive a recovery in

consumption levels of silica sand used as proppant for fracturing wells. In order to mitigate the uncertainty related to the recovery of the petroleum market, the Company is actively investigating the potential to sell a portion of its high-grade silica sand into the industrial glass manufacturing market in an effort to diversify its revenue stream.

The Company continues to communicate with capital providers and potential strategic partners for the purpose of funding the Wanipigow Sand Project. The Company is enthusiastic about moving the Project forward and is positioning itself to respond quickly to improvements in market conditions.

## Markets for the Company's Products

### Oil & Gas

Given the geographic location of the Wanipigow Sand Project and high quality of its silica sand, the oil and gas industry in the Western Canadian Sedimentary Basin and the Bakken Basin in North Dakota are anticipated to be the Company's primary and secondary oil and gas markets respectively for its silica sand. Each of these markets currently use silica sand as fracture proppant that is similar in quality to the Company's high purity Wanipigow silica sand. Consumption of the silica sand as fracture proppant is directly proportional to oil and gas drilling activity in the target regions. For the foreseeable future, drilling activity in these regions is expected to be significantly lower when compared to average activity levels experienced in the previous decade.

The Company has an operating cost advantage over the supply of similar high-quality silica sand that comes into Western Canada from Wisconsin due to the location of the Wanipigow Sand Project. When drilling activity levels improve, the Company will be well positioned to supply its silica sand to the oil and gas customers in Western Canada.

### Industrial

Preliminary market research has shown that industrial silica sand consumption has not been materially impacted by COVID-19 and that the industrial market is typically more stable than the oil and gas market. The physical attributes of the Wanipigow sand are suited to numerous industrial applications that require high purity silica sand. These markets include high quality industrial glass manufacturing of photovoltaic glass used in solar panels, borosilicate glass for test tubes and specialty glass used in consumer products such as cellular phones. As noted in the table below, high quality glass manufacturing requires silica sand that contains high silica and low iron content, similar to Wanipigow Sand.

Parameters	Wanipigow Sand <sup>1</sup>	Typical Requirement <sup>2</sup>
<b>Silica Content</b>	~ 99.6%	Optical glass 99.7% Borosilicate glass (vials) 99.6% Photovoltaic glass (solar) > 99.3% Specialty glass (phones) > 99.0%
<b>Iron Content<sup>3</sup></b>	~0.02% <sup>3</sup> <i>Processes for further iron content reductions are being investigated</i>	Optical glass 0.013% Borosilicate glass (vials) 0.010% Photovoltaic glass (solar) < 0.010% Specialty glass (phones) < 0.008%

<sup>1</sup>Above test results for Wanipigow Sand based on initial testing by an independent third-party laboratory in Alberta.

<sup>2</sup>Data gathered from British Standard 2975 for range of glass-making specifications.

<sup>3</sup> Silica sand is normally processed to reduce iron content to meet high quality glass manufacturing requirements. The

Wanipigow Sand measurement of 0.02% iron content in the above table was obtained from a third-party laboratory customarily focused on frac sand assessment. The Company is having its Wanipigow sand tested at an industrial minerals focused laboratory to determine the most cost-effective processing method to reduce iron content to meet the high-quality glass manufacturing specifications shown in the table above.

In addition to high quality glass making noted above, the Wanipigow Sand is also suitable for other industrial and residential uses such as float and general glass making, foundry molds, countertops and bath structures.

Silica sand from the area around Wanipigow (Black Island formation), has historically been used for glass making operations in Manitoba and Redcliff, Alberta. Ready access to high purity silica sand, natural gas and electrical power in southern Manitoba provides an exciting opportunity to develop an industrial silica product industry in the Province of Manitoba with the Wanipigow Project as a long-term supplier of raw material.

## Review of Operations for the Three and Nine Months Ended June 30, 2020 and 2019

### Overall Performance and Share Capital

	<b><i>For the three months ended June 30, 2020</i></b>	<i>For the three months ended June 30, 2019</i>	<b><i>For the nine months ended June 30, 2020</i></b>	<i>For the nine months ended June 30, 2019</i>
Net loss and comprehensive loss	<b>\$ (400,548)</b>	\$ (6,137,669)	<b>\$ (984,054)</b>	\$ (11,969,099)
Loss per share – basic and diluted	<b>\$ (0.02)</b>	\$ (0.29)	<b>\$ (0.05)</b>	\$ (0.56)
Issued and outstanding common shares	<b>21,244,460</b>	21,244,460	<b>21,244,460</b>	21,244,460

The Company had a net loss and comprehensive loss of \$400,508 or \$0.02 per share for the three months ended June 30, 2020 (\$6,137,669 or \$0.29 per share for the three months ended June 30, 2019) and a net loss and comprehensive loss of \$984,054 or \$0.05 per share for the nine months ended June 30, 2020 (\$11,969,099 or \$0.56 per share for the nine months ended June 30, 2019).

The net loss and comprehensive loss for the three and nine months ended June 30, 2020 compared to June 30, 2019 has decreased as a result of completing a significant number of the site evaluation activities in the prior year.

Once the evaluation stage is complete, the Company will seek funding. The Company has historically relied on a combination of convertible debt and equity financing to raise capital and will continue its attempts to do so. See additional discussion in the liquidity and capital resources section below.

On February 26, 2020 the Company announced it had closed its convertible debenture offering and proceeds of \$1,975,000 were received. Certain directors of the Company, being Lowell Jackson, John Assman, and Glenn Leroux, as well as its two significant shareholders, being Paramount Resources Ltd. and David Wilson, directly or indirectly participated in the Offering in the aggregate amount of \$1.975 million, thereby making the Offering a “related party transaction” as defined under Multilateral Instrument 61-101.

On December 12, 2019, the Board approved the issuance of 350,000 options under the existing stock option plan of which 260,000 of these options were expected to be granted to key management personnel defined as directors and named executive officers. These options were granted in March 2020.

As at August 13, 2020 the issued and outstanding common shares are 21,244,460.

**Sand Sales Operations**

During the nine months ended June 30, 2020, the Company commenced selling silica sand purchased from a Wisconsin mine, into the Western Canadian market.

	<i>For the three months ended June 30, 2020</i>	<i>For the three months ended June 30, 2019</i>	<i>For the nine months ended June 30, 2020</i>	<i>For the nine months ended June 30, 2019</i>
	\$	\$	\$	\$
Sand sales revenue	-	-	<b>1,143,918</b>	-
Cost of sales	-	-	<b>1,044,056</b>	-
<b>Gross profit</b>	-	-	<b>99,862</b>	-
<b>Volumes in metric tonnes</b>	-	-	<b>13,335</b>	-

The Company's third-party silica sand sales have been negatively impacted by the significant decline in oil prices and COVID-19 pandemic. The Company is in regular communication with customers to understand future drilling activity levels. These discussions, in combination with third-party party oil price forecasts, indicate some improvement in market activity levels as the year progresses. As a result, the Company believes it is in a strong position to mitigate its downside exposure to the \$235,000 of silica sand inventory it holds in a Grande Prairie transload and remains optimistic that the sand inventory will be sold before the end of 2020. Silica sand sales activity in 2021 will be dependent on the timing and scale of improvement seen in drilling and completions activity in Western Canada.

**Selling, General and Administrative Expenses**

The following table disaggregates the selling, general and administrative expenses for the three and nine months ended June 30, 2020 and 2019:

	<b>Three months ended June 30,</b>		<b>Nine months ended June 30,</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	\$	\$	\$	\$
Employee compensation and benefits	<b>51,278</b>	119,135	<b>226,941</b>	251,458
Professional fees	<b>111,332</b>	116,872	<b>438,532</b>	495,246
Office	<b>18,992</b>	88,451	<b>105,991</b>	162,587
Shareholder information	<b>1,296</b>	2,294	<b>35,028</b>	35,785
<b>Total selling, general and administrative expenses</b>	<b>182,898</b>	326,752	<b>806,492</b>	945,076

Selling, general and administrative expenses were \$182,898 and \$806,492 for the three and nine months ended June 30, 2020 compared to \$326,752 and \$945,076 for the three and nine months ended June 30, 2019. The Company has taken measures to lessen the impact of the current economic environment which include reducing executive employee compensation and consulting fees, negotiating rent reductions on office space and decreasing travel and office expenditures for the three and nine months ended June 30, 2020 compared to 2019.

### Exploration and Evaluation Expenditures

The exploration and evaluation expenditures of the Company during the periods presented, relate solely to the Wanipigow Sand Project and are broken down by category as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Advance royalty payments	50,000	50,000	100,000	100,000
Acquisition and participation costs	25,708	304,676	28,358	566,615
Environmental & logistics consulting	10,083	1,070,676	43,139	2,675,308
Field office expenses	5,566	219,334	71,009	865,759
Labour	30,503	79,959	347,975	256,966
Plant design, drilling, feasibility	3,712	3,839,936	86,842	5,972,053
Equipment rental and site supplies	6,399	13,122	266,151	35,045
Electrical and internet upgrade	-	42,488	12,803	189,242
Depreciation	9,641	2,752	34,112	2,752
Decommissioning	16,162	-	16,162	-
<b>Total Wanipigow Sand Project expenditures</b>	<b>157,774</b>	<b>5,622,943</b>	<b>1,006,551</b>	<b>10,663,740</b>

The cumulative exploration and evaluation expenditures for the Wanipigow Sand Project are \$19,231,911.

Total exploration and evaluation costs were lower for the three and nine months ended June 30, 2020 compared to 2019. The current period costs primarily relate to an optimization review of the capital and operating costs of the Wanipigow Sand Project including updating the Technical Report as well as clean-up activities relating to clearing the site for future operations. The prior period costs included obtaining acquisition and participation agreements, permits, the initial NI 43-101 Technical Report and Pre-Feasibility study, core hole drilling and hydrological studies with respect to advancing the Wanipigow Sand Project.

### Share-Based Compensation

Share-based compensation expense was \$13,135 for the three months ended June 30, 2020 (\$211,678 for the three months ended June 30, 2019) and \$220,989 for the nine months ended June 30, 2020 (\$417,919 for the nine months ended June 30, 2019). Share-based compensation expense is based on the value and timing of grants of stock options. There were 350,000 new option grants and 120,000 options forfeited in the nine months ended June 30, 2020 compared to no new grants or forfeitures for the three months ended June 30, 2020.

### Foreign Exchange (Gain) Loss

There was a foreign exchange gain for the three months ended June 30, 2020 of \$(68,971) and a foreign exchange loss for the nine months ended June 30, 2020 of \$67,924 relating to foreign exchange fluctuations on US dollar denominated accounts payable and accruals as well as US dollar denominated revenue and expenses relating to silica sand sales compared to nil in the three and nine months ended June 30, 2019.

### Net Loss on Disposal of Assets

The Company disposed a Kubota utility vehicle and two vehicle leases resulting in a loss on disposal, net of the gain on settlement of the lease liability, of \$21,118 in the nine months ended June 30, 2020 compared to \$nil in the prior periods.

### Impairment

The sales price of silica sand has declined due to a decrease in drilling activity in Western Canada as a result of the significant decline in oil prices and the COVID-19 pandemic. Therefore, the Company recognized a \$35,543 impairment of inventory for the three and nine months ended June 30, 2020 (\$nil for the three and nine months ended June 30, 2019).

### Other Income

During the nine-month period ended June 30, 2020, the Company negotiated a reduction of a trade payable with a major supplier and recognized other income of \$1,152,025.

### Net Finance Costs (Income)

The Company had net finance costs of \$62,459 for the three months ended June 30, 2020 (\$(23,704) net finance income for the three months ended June 30, 2019) and \$77,324 net finance costs for the nine months ended June 30, 2020 (\$(57,636) net finance income for the nine months ended June 30, 2019). The increase in net finance costs is largely attributable to accrued interest on the convertible debentures as well as a decrease in interest rates earned on demand deposits with financial institutions.

### Selected Quarterly Financial Data

(unaudited)

	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2019	September 30, 2018
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>	-	912,813	231,105	-	-	-	-	-
<b>Gross profit</b>	-	79,449	20,413	-	-	-	-	-
<b>Net (loss) income and comprehensive (loss) income<sup>1</sup></b>	<b>(400,548)</b>	131,883	(715,389)	(1,542,055)	(6,137,574)	(3,482,849)	(2,348,676)	(1,804,909)
<b>Net (loss) income per share basic and diluted</b>	<b>\$(0.02)</b>	\$0.01	\$(0.03)	\$(0.07)	\$(0.29)	\$(0.16)	\$(0.11)	\$(0.09)
<b>Total assets<sup>1</sup></b>	<b>2,041,568</b>	2,626,823	1,474,152	2,244,459	3,604,808	6,572,512	8,950,300	10,623,302

<sup>1</sup>The change in net (loss) income and comprehensive (loss) income and total assets quarter over quarter is primarily a result of the timing and amount of exploration and evaluation expenditures incurred to progress the Wanipigow Sand Project except for the

*quarter ended March 31, 2020 which benefitted from \$1.152 million of other income related to a negotiated settlement of accounts payable with one of its suppliers.*

## **Liquidity and Capital Resources**

The Company is in the exploration and evaluation phase of its Wanipigow Sand Project. During the nine months ended June 30, 2020, the Company commenced selling silica sand sourced from a Wisconsin mine, to customers in Western Canada, resulting in gross profit for the nine months ended June 30, 2020 of \$99,862. There have been no sales since March 2020 due to the significant decrease in oil prices and the COVID-19 pandemic causing a reduction in drilling activity in Western Canada. The Company intends to continue to grow sales volumes to both generate operating cash flow and develop a sales channel and logistics network, to support the development of the Wanipigow Sand Project. However, given the challenging market conditions resulting in severe cutbacks to oil and gas drilling, the timing and pace of future sand sales is uncertain. As a result, the Company remains dependent on external financing to fund its activities.

These financial statements have been prepared in accordance with IFRS on the basis of accounting principles applicable to a going concern, which assume the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those presented in these financial statements.

Substantially all of the Company's efforts have been devoted to the financing, exploration and evaluation of the Company's resource properties, and securing regulatory approvals to carry out the Wanipigow Sand Project. The Company released the updated NI 43-101 Technical Report and Pre-Feasibility study in March 2020. Management has completed a thorough review of the plant design and logistics including refining the operational effectiveness of the plant design and optimizing the capital required to bring the Wanipigow Sand Project into operation. This review resulted in an \$80 million reduction in the estimated capital required to bring the project into production. The Company is currently focused on refining the logistics, design and associated operational elements of a producing silica sand quarry, expanding the potential customer base into the industrial markets and initiating discussions with capital providers and potential strategic partners to provide funding for the Project. Once these activities are complete, the Company believes it will be positioned to make a final investment decision and actively seek funding.

As at June 30, 2020, the Company had a deficit of \$27,430,074 (September 30, 2019 - \$26,446,020), cash of \$1,719,904 (September 30, 2019 - \$1,834,466), accounts payable and accruals and current lease liabilities of \$3,065,172 (September 30, 2019 - \$4,571,866), and commitments for the acquisition of quarry leases and participation agreements for the twelve-month period to June 30, 2021 of \$158,280. For further details see Commitments and Contingencies section below and Going Concern Note 1(b) in the financial statements.

The Company's continued existence is dependent upon the preservation of its interest in the Company's quarry leases, continued enhancement of the economic feasibility of the Project and successful pursuit of additional financing to fund future operations of the Wanipigow Sand Project. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Management's intention is to pursue additional financing in the future to fund the further development of the Wanipigow Sand Project. Significant challenges in raising new capital through the equity and debt markets exist compounded by the unprecedented business climate created by the COVID-19 pandemic and significant declines in oil prices. It is uncertain how long these events will continue to impact the economy and the Company's ability to secure financing. If the Company is unsuccessful in obtaining additional sources of financing when needed and on acceptable terms, the going concern assumption may not be appropriate and adjustments would be necessary to

the carrying value of assets and liabilities and reported expenses. Such adjustments could be material.

### **Transactions with Related Parties**

The related parties are directors and officers of the Company and entities over which executive management and directors have control or significant influence. The amounts are for services rendered during the year and arose as a result of transactions entered with the related parties in the ordinary course of business. As at August 13, 2020; the directors and officers of the company are:

John Assman	Director
Todd Garman	Director
Lowell Jackson	Chairman & Director
Rodrigo Sousa	Director
Richard D. Williams	Corporate Secretary and Director
Glenn Leroux	President & Chief Executive Officer and Director
Anshul Vishal	Vice President of Business Development

Director, Tom MacInnis, resigned effective March 30, 2020 to pursue other opportunities.

The following outlines transactions during the three and nine months ended June 30, 2020 and 2019 with related parties:

- Certain directors of the Company, being Lowell Jackson, John Assman, and Glenn Leroux, and its two significant shareholders, being Paramount Resources Ltd. and David Wilson, directly or indirectly participated in the Offering of Convertible Debentures in the aggregate amount of \$1,975,000, thereby making the Offering a “related party transaction” as defined under Multilateral Instrument 61-101.
- The Company commenced purchasing frac sand from a third party and selling to a Company in which Director Todd Garman, is the President. For the three and nine months ended June 30, 2020, revenue recorded is \$nil and \$1,043,527, (three and nine months ended June 30, 2019 - \$nil). There is \$nil balance receivable in relation to this sand sales revenue as at June 30, 2020.
- On April 4, 2018, the Company subleased office space based on market value at that date, to Central Timmins Exploration Corp. (“CTEC”). Charles Gryba, the Company’s former President, was a director of CTEC at that time. The sublease term is until July 31, 2020 which coincides with the date the head lease expires and the payments to be received by the Company are \$48,000 per year.
- The Company entered into consulting arrangements with a one-year term, to provide specific services related to progressing the Wanipigow Sand Project, with entities that are wholly owned by Robert Archibald, former Chief Operating Officer of the Company. These arrangements were terminated effective June 12, 2019. Fees paid to these entities for the three and nine months ended June 30, 2020 total \$nil (three and nine months ended June 30, 2019 - \$304,518 and \$1,104,136 respectively).
- The Company incurred \$nil in the three and nine months ended June 30, 2020 (three and nine months ended June 30, 2019 - \$1,384 and \$16,403 respectively) in legal fees to Blaney McMurtry LLP where Nadim Wakeam, former Assistant Corporate Secretary, is a partner. The fees were based on normal market rates.

## Commitments and Contingencies

The Company is committed to payments under the terms of quarry leases, royalty and participation agreements and provincial statutes as follows:

As at June 30, 2020	Payments due by period			Total
	Less than 1 year	1-3 years	4 -5 years	
	\$	\$	\$	\$
Quarry lease agreements <sup>1</sup>	58,280	174,840	116,560	349,680
Royalty and participation agreements <sup>2</sup>	100,000	325,000	-	425,000
<b>Total commitments</b>	<b>158,280</b>	<b>499,840</b>	<b>116,560</b>	<b>774,680</b>

<sup>1</sup> Beyond five years, the Company is committed to annual quarry lease payments of \$27 per hectare. The Company currently has 2,148 hectares under lease.

<sup>2</sup> Once commercial production commences, quarterly royalty and participation payments commence less any reductions related to advanced royalty payments already made.

### Royalty and Economic Participation Agreement Commitments

The Company has economic participation agreements with respect to the Wanipigow Sand Project with Hollow Water First Nation and the Incorporated Community of Seymourville (together, the "Economic Participation Agreements"). The Economic Participation Agreements are for the life of the Wanipigow Sand Project and reflect the parties' non-financial commitment and support for the Wanipigow Sand Project. The Company has agreed to certain participation payments over the life of the project. In prior periods, the Company entered into various contractual agreements relating to the acquisition of title of quarry leases that included advance and future royalty payments.

The commitments that the Company has made in respect of the participation and quarry lease agreements include advance royalty and participation payments totaling 50,000 semi-annually and a \$325,000 lump sum in the fiscal year in which commercial production commences.

These royalty and participation agreements also commit the Company to quarterly payments once production commences, totaling \$3.30 per tonne silica sand sold as fracture proppant, \$2.80 per tonne of silica sand sold and \$0.50 per tonne of construction aggregates sold as well as a further royalty payment of \$1.00 per tonne of silica sand sold as fracture proppant, \$0.50 per tonne of silica sand sold for industrial purposes and \$0.50 per tonne for construction aggregates sold relating to tonnes mined and sold on the nine quarry leases acquired from Gossan Resources Limited.

In addition, the Manitoba government will charge a royalty of \$0.50 per tonne on any silica sand production from quarry leases for silica sand greater than 95% silica content, using a conversion factor of 1.78 tonnes per cubic meter.

### Reduction in Future Royalty Commitments

When the Company starts commercial production of silica sand, it is entitled to recover \$1.3 million paid at the time of signing a quarry lease agreement, plus 9% interest compounded annually, before the associated production royalty commences.

The Company makes semi-annual advance royalty payments of \$50,000 in accordance with one of its quarry lease agreements. These advance royalty payments can be deducted from future production royalties owing once commercial production commences. The Company also has the option to re-acquire 50% of the production royalty under the agreement for \$1,500,000 within the first three years of achieving initial production. This can be extended a further two years by increasing the payment to \$2,000,000.

### **Future Royalty Income**

On January 8, 2018, the Company completed the sale of its Timmins mineral exploration properties to Central Timmins Exploration Corp. ("CTEC"). Under the arrangement the Company received a Net Smelter Royalty (the "NSR") that varies from 1% to a maximum of 2%, depending upon the claims and the pre-existing NSR burden once the Timmins properties achieve commercial production. The NSR payable to the Company is capped at \$5,000,000.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Fair Value of Financial Instruments**

The fair values of cash and cash equivalents, trade and other receivables, and accounts payable and accruals included in the statement of financial position approximate their carrying amount due to the short-term maturity of these instruments.

The fair value of the capital lease obligations, long-term borrowings and the liability component of the convertible debentures is determined based on discounted cash flows, including interest at current rates for similar instruments.

The Company analyzes financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

#### **i) Credit Risk**

The Company's credit risk is primarily attributable to cash and cash equivalents and trade and other receivables included in current assets. For the nine months ended June 30, 2020, one customer accounted for 91% of the Company's revenue (\$nil revenue for the nine months ended June 30, 2019).

Cash and cash equivalents consist of bank deposits, which are held by a Canadian chartered bank, and management believes the risk of loss is remote. The Company's trade and other receivables are normally collected within a 60 – 90 day period.

The Company's maximum exposure to credit risk as at June 30, 2020 is the carrying value of cash and cash equivalents and receivables of \$1,726,966 (September 30, 2019 - \$2,181,947).

**ii) Liquidity Risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due and ensuring an adequate supply of funds to enable the Company to carry out its intended programs. As at June 30, 2020, the Company had a cash balance of \$1,719,904 (September 30, 2019 - \$1,834,466) to settle current liabilities of \$3,065,172 (September 30, 2019 - \$4,571,866) and commitments for the 12-month period to June 30, 2021 of \$158,280. All of the Company's financial trade liabilities have contractual maturities of less than one year and are subject to normal trade terms. For further details see liquidity and capital resources section above and Going Concern Note 1.2 in the financial statements.

**iii) Interest Rate Risk**

The Company's interest rate risk relates to interest-bearing cash deposits. At June 30, 2020 the Company holds interest-bearing cash balances of \$1,478,883 (September 30, 2019 - \$1,785,800).

**iv) Foreign Currency Risk**

The Company is exposed to foreign currency exchange risk as the Company undertakes certain transactions in US dollars. The Company has not entered into any derivative financial instruments to manage exposures to currency fluctuation.

As at June 30, 2020, with other variables unchanged, a 10% strengthening (weakening) of the Canadian dollar against the US dollar would have decreased (increased) net loss by approximately \$182,000. Included in accounts payable and accruals at June 30, 2020 is USD \$1,337,878 (September 30, 2019 - USD \$1,673,044).

**Critical Accounting Estimates**

The preparation of the interim condensed financial statements requires management to make certain significant accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgment and estimates have been made in preparing the financial statements and their effect are disclosed in Note 2.3 of the Company's annual audited financial statements for the year ended September 30, 2019 except as noted below.

- Inventory is evaluated to ensure it is carried at the lower of cost and net realizable value based on historical usage patterns and customer demand. Significant or unanticipated changes in business conditions could impact the magnitude and timing of impairment recognized.
- Right-of-use-assets lease terms consider the non-cancellable period along with facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Lease liabilities incremental borrowing rate is based on judgements about the economic environment in which the Company operates. Actual results could differ significantly as a result of these estimates and judgments.

- The fair value of the liability component of convertible debentures utilizes observable market data, including interest rates. As a result of changes in key assumptions, actual amounts may vary significantly from estimated amounts.

## **Recent Accounting Pronouncements**

The Company adopted IFRS 16, Leases (“IFRS 16” or the “New Standard”) effective October 1, 2019 which replaced IAS 17, Leases (“IAS 17”). The New Standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Company elected the modified retrospective transition approach, which provides lessees a method for recording existing leases at adoption with no restatement of prior period financial information. Under this approach, a lease liability was recognized at October 1, 2019 in respect of leases previously classified as operating leases, measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate where the implicit rate in the lease is not readily determinable at transition. The right-of-use assets were measured at amounts equal to the respective lease liabilities, subject to certain adjustments allowed under IFRS 16. The Company elected to utilize practical expedients permitted under the New Standard for low-value asset leases and short-term leases which are expensed as incurred.

Adoption of the new standard at October 1, 2019 resulted in the recording of right-of-use assets and lease liabilities of \$101,684 related to property and vehicles. The implicit and incremental borrowing rate used to determine the lease obligation at adoption is approximately 8%. The right-of-use assets recognized were measured at amounts equal to the lease obligation. The new standard did not materially impact net loss or cashflows for the nine months ended June 30, 2020.

## **Adoption of New Accounting Policies**

The Company adopted the following new policies in the period as follows:

- 1) The new lease accounting standard IFRS 16 was effective on October 1, 2019 and resulted in the following new accounting policies:

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company.

Lease liabilities are initially measured at the present value of unpaid lease payments, less any lease incentives. Lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Lease payments are discounted using the Company’s incremental borrowing rate where the rate implicit in the lease is not readily determinable. Payments are applied against the lease obligation and interest expense is recognized on the lease obligations using the effective interest method.

Right-of-use assets are initially measured at the amount of the lease liability, plus any lease payments made at or before the commencement date, any initial direct costs, and estimated cost for dismantling or restoring the asset. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for certain measurements of the lease liability.

Lease payments on short-term leases or leases on which the underlying asset is of low value are accounted for as expenses on a straight-line basis in net loss.

- 2) During the nine months ended June 30, 2020, the Company commenced selling silica sand into the Western Canadian market, resulting in inventory, revenue, and cost of goods sold. The following policies were adopted during the period in relation to this new sales activity:

a) Inventory

Sand inventory is stated at the lower of cost or net realizable value using the average cost method. The net realizable value of inventory is the estimated selling price in the ordinary course of business less estimated costs of completion and costs to sell. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. The key assumptions require the use of management judgement regarding reliability of evidence available and are reviewed on a quarterly basis. Write-downs of inventory resulting from net realizable value impairments are reported as a component of operating expenses.

b) Revenue Recognition

Sand sales revenue consists of selling of silica sand into the Western Canadian market. The Company's performance obligations relate primarily to the delivery of these products to our customers, with each separate shipment representing a separate performance obligation. Revenue is recognized at the point in time when the customer obtains control of the product. Control is achieved when the shipment reaches the destination transload facility, the Company has a present right to payment for the product, significant risks and rewards of ownership have transferred to the customer according to contract terms and there is no unfulfilled obligation that could affect the customer's acceptance of the product.

- 3) During the three and nine months ended June 30, 2020, the Company received an interest free loan under the Canada Emergency Business Account program. The loan was initially recognized at fair value and subsequently it will be carried at amortized cost. The resulting benefit from the interest free period of the government loan is recognized as deferred income and will be amortized into net loss on a systematic basis over the period in which the Company recognizes the costs for which the grant was intended.

## **Risks and Uncertainties**

The COVID-19 pandemic and significant decline in oil prices increases the Company's exposure to many of the risks described below including, but not limited to, the ability to obtain sufficient financing to advance the Project and remain a going concern.

There is a risk that the COVID-19 pandemic and the response thereto, may result in a prolonged continuation of; adverse oil prices, increased volatility in financial markets and foreign currency exchange rates, significantly depressed share prices, health restrictions or guidelines adversely affecting the ability of the Company or third parties to efficiently conduct operations and/or an overall slowdown in the Canadian and global economies. These and other risks associated with the COVID-19 pandemic could result in events and circumstances that have a material adverse impact on the Company's business, financial condition and results of operations.

The course of the COVID-19 pandemic remains highly uncertain. The extent to which COVID-19 impacts the Company's business, financial condition and results of operations will depend on future developments which are currently unknown and are difficult to predict, including, but not limited to; the duration and severity of the pandemic, the impact of the pandemic on economic growth and oil and gas prices and, financial and capital markets and governmental responses and restrictions. The adverse impacts of the COVID-19 pandemic may be more significant in upcoming financial periods as compared with the nine months ended June 30, 2020. Even after the COVID-19 pandemic has subsided, the Company may continue to experience materially adverse effects as a result of the pandemic's global economic impact.

### **General Risks/No History of Operations**

The Company is an exploration stage company and does not hold any interest in any property which is in commercial production nor does it have a history of operations. The Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on an investment for investors in the common shares and the Company's likelihood of success must be considered in light of its early stage of operations.

The Company's viability lies in its ability to develop and generate revenue out of the Wanipigow Sand Project. Revenues, profitability and cash flow will be dependent on the Company's ability to successfully finance, construct and operate the Wanipigow Sand Project and will then be influenced by the demand and price for silica sand which are affected by numerous factors beyond the Company's control.

The Wanipigow Sand Project is in the exploration stage. As such, the Company is dependent on further external financing to continue to advance the Project. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and attempt to raise additional funds as needed. The Company will continue to incur losses until quarry-related operations successfully reach commercial production levels and generate sufficient revenue to fund continuing operations.

The development of the Wanipigow Sand Project is subject to a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future.

### **Failure to Meet Production Targets and Cost Estimates**

The development of the Wanipigow Sand Project is premised on future production and capital cost estimates. If commercial production commences, actual production and costs may vary from the estimates for a variety of reasons such as estimates of grade, recovery, tonnage, dilution, waste, quality and other characteristics of the actual silica sand quarried, revisions to quarry or processing plant plans, risks and hazards associated with quarry operations, adverse weather conditions, unexpected labor shortages or strikes, equipment failures and other interruptions in production capabilities.

If commercial production begins, production costs may also be affected by increased stripping costs, labor costs, raw material costs, inflation and fluctuations in currency exchange rates. Failure to achieve production targets or cost estimates could have a material adverse impact on the Corporation's sales, profitability, cash flow and overall financial performance.

### **Industry Risks**

The Company is subject to numerous risk factors that may affect its business prospects in the future. These include risks inherent to exploration, development and processing companies, dependence on key personnel, commodity prices, and availability of capital, environmental, regulatory and permitting risks, acquisition risks, competition and potential risks relating to land titles. There are certain risk factors that could have material effects on the Company that are not quantifiable at present due to the nature of the Company's stage of operation, industry segment and other considerations.

### **Additional Capital Risk**

The exploration, development and processing activities of the Company will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of the Wanipigow Sand Project. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financings will be favorable to the Company. In addition, low commodity prices or lack of demand for silica sand may affect the Company's ability to obtain financing.

### **Development and Operating Risk**

The development of new projects and ultimate operation of new projects such as the Wanipigow Sand Project involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to development and processing, any of which could result in work stoppages, damage to property, and possible environmental damage. Development of the Company's Project will require successfully obtaining financing. Mineral development and processing involve a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's silica sand development and processing activities will result in successful operations. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its development programs, which may be affected by a number of factors.

### **Business Risk**

The success of the operations and activities of the Company is dependent to a significant extent on the efforts and abilities of its management, outside contractors, experts and other advisors. Investors must be willing to rely to a significant degree on management's discretion and judgment, as well as the expertise and competence of the outside contractors, experts and other advisors. The Company does not have a formal program in place for succession of management and training of management. The loss of one or more of the key employees or contractors, if not replaced on a timely basis, could adversely affect the Company's operations and financial performance.

### **Commodity Price Risk**

The price of the Company's common shares, its financial results, and exploration and development activities have been, or may in the future be, adversely affected by declines in the price of oil and gas and/or silica sand. Oil, natural gas and silica sand prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, international supply and demand, speculative activities and increased production due to new project developments, improved production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from quarrying and from the sale of silica sand utilized by the oil and natural gas industry or interests related thereto. The effect of these factors on the price of silica sand, and therefore the economic viability of any of the Company's Wanipigow Sand Project cannot accurately be predicted.

### **Environmental Risk**

All phases of the Company's operations are subject to various federal, provincial, municipal, and international laws and statutory instruments governing the use of lands and protection of the environment, which may be modified from time to time. These laws, among other things, govern air and water quality standards, land reclamation requirements, transportation, storage and the disposal of hazardous waste. Environmental legislation may over time require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. To the Company's knowledge, there are no material liabilities to date which relate to environmental risks or hazards.

### **Risks Related to Quarry Operations and Other Regulations**

The Company and its prospective customers are subject to extensive environmental, health and safety regulations that impose, and will continue to impose, significant costs and liabilities. In addition, future regulations, or more stringent enforcement of existing regulations, could increase those costs and liabilities, which could adversely affect the Company's results of operations. Silica-related legislation, health issues and litigation could have a material adverse effect on the Company's business, reputation or results of operations.

### **Silica Sand Business and Competition Risks**

The silica sand industry is intensely competitive in all its phases, and the Company competes with many companies possessing greater financial resources and technical capabilities. An increase in the supply of silica sand, having similar characteristics as the silica sand the Company plans to produce, could make it more difficult for the Company to execute contracts on favorable terms or at all. Federal, provincial and local legislative and regulatory initiatives relating to hydraulic fracturing and the potential for related litigation could result in increased costs, additional operating restrictions or delays for our customers. Changes in technology or legislation could cause a decline in the demand for silica sand and negatively impact our business, financial condition and results of operations.

### **Land Title Risk**

The Company has not sought formal title opinions on its quarry lease interests in Canada. Any of the Company's properties may be subject to prior unregistered agreements or transfers or Indigenous land claims and title may be affected by undetected defects. The Company has no present knowledge of any material defect in the title of any of the properties in which the Company has or may acquire an interest.

### **Limitation of Controls and Procedures**

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements, and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate do not make any representations relating to the establishment and maintenance of:

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

The issuer'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 DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **Forward-Looking Statements**

Certain statements contained in this MD&A constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and the Company's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "estimates", "forecasts", "intends", "anticipates", "believes", "plans", "seeks", "projects" or variations of such words and phrases, or state that certain actions, events or results "may" or "will" be taken, occur or be achieved. Such forward-looking statements reflect the Company's beliefs, estimates and opinions regarding its future growth, results of operations, future performance (both operational and financial), and business prospects and opportunities at the time such statements are made, and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change. Forward-looking statements are necessarily based upon a number of estimates and assumptions made by the Company that are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Forward-looking statements are not guarantees of future performance. In particular, this MD&A contains forward-looking statements pertaining, but not limited, to: the design and operation of the Wanipigow Sand Project; the ability to transport silica sand to market from the Wanipigow Sand Project and the ultimate uses of such sand; the benefits to be derived from the Economic Participation Agreements including anticipated economic and social benefits and opportunities, including employment, contracting and training initiatives; the plans with respect to financing ongoing operating activities; the timing and approval or permitting process with respect to the Wanipigow Sand Project; the intention to use cash on hand and proceeds from future equity issuances to fund the Company's operations and future development plans; industry activity levels; industry conditions pertaining to the silica sand industry; the ability of and manner by which the Company expects to meet its capital needs; and the Company's objectives, strategies and competitive strengths.

By their nature, forward-looking statements involve numerous current assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to differ materially from those anticipated by the Company and described in the forward-looking statements.

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: the ability to obtain the necessary stakeholder, regulatory and environmental approval and external funding to advance the development of the Wanipigow Sand Project; no material capital project and financing cost overrun or delay related to the construction of the Wanipigow Sand Project; the ability to continue to consult with, and address feedback received from interested stake holders including the Hollow Water First Nation and surrounding communities; environmental risks and regulations; future global economic and financial conditions; future commodity prices; operating costs; that the regulatory environment in which the Company operates will be maintained in the manner currently anticipated by the Company; future exchange and interest rates; geological and engineering estimates in respect of the Company's silica sand quantities; the recoverability of the Company's silica sand and its quality as Tier 1 sand; the accuracy and veracity of information and projections sourced from third parties respecting, among other things, future industry conditions and product demand; demand for horizontal drilling and hydraulic fracturing and the maintenance of current techniques and procedures, particularly with respect to the use of silica sand; the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which the Company conducts its business and any other jurisdictions in which the Company may conduct its business in the future; future capital expenditures to be made by the Company; future sources of funding for the Company's capital program; the Company's future debt levels; the impact of competition on the Company; and the Company's ability to obtain financing on acceptable terms.

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; effects of fluctuations in

the price of proppants; risks related to indebtedness and liquidity, including the Company's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which the Company operates; changes in the technologies used to drill for and produce oil and natural gas; the Company's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of the Company to comply with unexpected costs of government regulations; liabilities resulting from the Company's operations; the results of litigation or regulatory proceedings that may be brought against the Company; uninsured and underinsured losses; risks related to the transportation of the Company's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of the Company; the ability of the Company to retain and attract qualified management and staff in the markets in which the Company operates; labor disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavorable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; and the use and suitability of the Company's accounting estimates and judgments.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in its forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will materialize or prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers should not place undue reliance on forward-looking statements. These statements speak only as of the date of this MD&A. Except as may be required by law, the Company expressly disclaims any intention or obligation to revise or update any forward-looking statements or information whether as a result of new information, future events or otherwise.

Any financial outlook and future-oriented financial information contained in this MD&A regarding prospective financial performance, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action based on management's assessment of the relevant information that is currently available. Projected operational information contains forward-looking information and is based on a number of material assumptions and factors, as are set out above. These projections may also be considered to contain future oriented financial information or a financial outlook. The actual results of the Company's operations for any period will likely vary from the amounts set forth in these projections and such variations may be material. Actual results will vary from projected results. Readers are cautioned that any such financial outlook and future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein. The forward-looking information and statements contained in this document speak only as of the date hereof and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.