

CANADIAN PREMIUM SAND INC.

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

For the three and nine months ended

June 30, 2020 and 2019

NOTICE TO READER

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

The accompanying unaudited interim condensed financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of unaudited interim condensed financial statements by an entity's auditor.

| As at | Note | June 30, 2020 | September 30, 2019 |
|---|------|--------------------|--------------------|
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,719,904 | 1,834,466 |
| Trade and other receivables | | 7,062 | 347,481 |
| Inventory | 4 | 234,855 | - |
| Prepaid expenses and deposits | | 14,973 | 23,977 |
| Total current assets | | 1,976,794 | 2,205,924 |
| Property, plant, and equipment | 6 | 27,787 | 38,535 |
| Right of use assets | 7 | 36,987 | - |
| Total assets | | 2,041,568 | 2,244,459 |
| Liabilities and shareholders' (deficit) equity | | | |
| Current liabilities | | | |
| Accounts payable and accruals | | 3,025,698 | 4,571,866 |
| Current portion of lease liabilities | 8 | 39,474 | - |
| Total current liabilities | | 3,065,172 | 4,571,866 |
| Lease liabilities | 8 | 21,204 | - |
| Long-term borrowings | 9 | 40,000 | - |
| Convertible debentures | 10 | 1,893,909 | - |
| Decommissioning provision | 11 | 95,263 | 78,399 |
| Total liabilities | | 5,115,548 | 4,650,265 |
| Shareholders' (deficit) equity | | | |
| Capital stock | 12 | 22,546,331 | 22,546,331 |
| Share-based compensation reserve | | 1,714,872 | 1,493,883 |
| Convertible debentures - equity component | 10 | 94,891 | - |
| Deficit | | (27,430,074) | (26,446,020) |
| Total shareholders' (deficit) equity | | (3,073,980) | (2,405,806) |
| Total liabilities and shareholders' (deficit) equity | | 2,041,568 | 2,244,459 |

Nature of Operations and Going Concern (Note 1(b))
Commitments and Contingencies (Note 19)

Approved by the Board of Directors

"Rodrigo Sousa"

Director

"Richard Williams"

Director

| | Note | Three months ended June 30, | | Nine months ended June 30, | |
|---|------|-----------------------------|-------------|----------------------------|--------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | \$ | \$ | \$ | \$ |
| Sand sales revenue | 15 | - | - | 1,143,918 | - |
| Cost of sales | 16 | - | - | 1,044,056 | - |
| Gross profit | | - | - | 99,862 | - |
| Selling, general and administrative | 16 | 182,898 | 326,752 | 806,492 | 945,076 |
| Exploration and evaluation expenditures | 5 | 157,774 | 5,622,943 | 1,006,551 | 10,663,740 |
| Share-based compensation | 12 | 13,135 | 211,678 | 220,989 | 417,919 |
| Foreign exchange (gain) loss | | (68,971) | - | 67,924 | - |
| Loss on disposal of assets | 6,7 | 17,710 | - | 21,118 | - |
| Impairment | 4 | 35,543 | - | 35,543 | - |
| Loss from operations | | (338,089) | (6,161,373) | (2,058,755) | (12,026,735) |
| Other income | 17 | - | - | (1,152,025) | - |
| Net finance costs (income) | | 62,459 | (23,704) | 77,324 | (57,636) |
| Loss before income taxes | | (400,548) | (6,137,669) | (984,054) | (11,969,099) |
| Income tax (recovery) expense | | - | - | - | - |
| Net loss and comprehensive loss | | (400,548) | (6,137,669) | (984,054) | (11,969,099) |
| Loss per share – basic and diluted | | (0.02) | (0.29) | (0.05) | (0.56) |
| Weighted average number of shares outstanding - basic and diluted | | 21,244,460 | 21,244,460 | 21,244,460 | 21,244,460 |

| | Note | Capital stock | | Share-based compensation reserve | Convertible debentures | Deficit | Total |
|---|------|-------------------|-------------------|----------------------------------|------------------------|---------------------|--------------------|
| | | Number of shares | Amount | | | | |
| | | | \$ | \$ | \$ | \$ | \$ |
| Balance at October 1, 2018 | | 21,244,460 | 22,546,331 | 847,241 | - | (12,934,866) | 10,458,706 |
| Share-based compensation | 12 | - | - | 417,919 | - | - | 417,919 |
| Net loss for the period | | - | - | - | - | (11,969,099) | (11,969,099) |
| Balance at June 30, 2019 | | 21,244,460 | 22,546,331 | 1,265,160 | - | (24,903,965) | (1,092,474) |
| Balance at October 1, 2019 | | 21,244,460 | 22,546,331 | 1,493,883 | - | (26,446,020) | (2,405,806) |
| Share-based compensation | 12 | - | - | 220,989 | - | - | 220,989 |
| Convertible debentures - equity component | 10 | | | | 94,891 | - | 94,891 |
| Net loss for the period | | - | - | - | - | (984,054) | (984,054) |
| Balance at June 30, 2020 | | 21,244,460 | 22,546,331 | 1,714,872 | 94,891 | (27,430,074) | (3,073,980) |

| | Note | Three months ended June 30, | | Nine months ended June 30, | |
|---|------|-----------------------------|--------------------|----------------------------|--------------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | \$ | \$ | \$ | \$ |
| Operating activities | | | | | |
| Net loss for the period | | (400,548) | (6,137,669) | (984,054) | (11,969,099) |
| Adjusted for the following: | | | | | |
| Depreciation | 6,7 | 9,641 | 2,752 | 34,112 | 2,752 |
| Share-based compensation | 12 | 13,135 | 211,678 | 220,989 | 417,919 |
| Interest and accretion | | 63,935 | - | 90,962 | - |
| Foreign exchange (gain) loss | | (56,497) | - | 78,231 | - |
| Net loss on disposal of assets | 6,7 | 17,710 | - | 21,118 | - |
| Decommissioning | 11 | 16,162 | - | 16,162 | - |
| Impairment | 4 | 35,543 | - | 35,543 | - |
| Other income | 17 | - | - | (1,152,025) | - |
| Net changes in non-cash working capital | | (92,223) | 2,796,629 | (389,902) | 4,301,460 |
| Net cash used in operating activities | | (393,142) | (3,126,610) | (2,028,864) | (7,246,968) |
| Investing activities | | | | | |
| Purchase of property, plant and equipment | 6 | - | - | - | (44,040) |
| Net cash used in investing activities | | - | - | - | (44,040) |
| Financing activities | | | | | |
| Proceeds from convertible debentures, net of issuance costs | 10 | - | - | 1,902,196 | - |
| Proceeds from long-term borrowings | 9 | 40,000 | - | 40,000 | - |
| Payment of lease | | (18,208) | - | (27,894) | - |
| Net cash from financing activities | | 21,792 | - | 1,914,302 | - |
| Decrease in cash and cash equivalents | | (371,350) | (3,126,610) | (114,562) | (7,291,008) |
| Cash and cash equivalents at beginning of period | | 2,091,254 | 6,383,461 | 1,834,466 | 10,547,859 |
| Cash and cash equivalents at end of period | | 1,719,904 | 3,256,851 | 1,719,904 | 3,256,851 |
| Supplemental disclosure of cash flow information: | | | | | |
| | | \$ | \$ | \$ | \$ |
| Cash interest received | | 1,948 | 23,704 | 13,638 | 57,636 |
| Cash interest paid | | (266) | - | (1,922) | - |

1. NATURE OF OPERATIONS AND GOING CONCERN

(a) General

Canadian Premium Sand Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) as Claim Post Resources Inc. on September 21, 2005. On November 15, 2018, the Company changed its name to Canadian Premium Sand Inc. and consolidated its outstanding common shares on a 15:1 basis. On February 25, 2019 the Company was continued under the *Canada Business Corporations Act*.

The Company's common shares trade on the TSX-V under the trading symbol "CPS". The Company is a reporting issuer in the provinces of Ontario, Alberta and British Columbia.

The Company's head and principal office is located at Suite 400, 522 – 11th Avenue S.W., Calgary, Alberta T2R 0C8.

The Company is an exploration stage company in the process of determining the most operationally and capital efficient way to commercially develop its silica sand deposit near Seymourville, Manitoba (the "Wanipigow Sand Project"). Once determined, the Company will seek all necessary third-party approvals and external funding to design, construct, commission, staff and operate a silica sand extraction and processing facility.

(b) Going concern

These financial statements have been prepared in accordance with International Financial Reporting Standards ("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 an updated NI 43-101 Technical Report and pre-feasibility study in March 2020. Management has completed a thorough review of the plant design and operational parameters including streamlining the plant configuration and material handling logistics. This revised design optimized the capital required to bring the Wanipigow Sand 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 ("FID") 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 (*Note 19*).

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 the 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,

1. NATURE OF OPERATIONS AND GOING CONCERN - CONTINUED

(b) Going concern (continued)

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.

(c) Basis of presentation

These unaudited interim condensed financial statements were prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). They do not include all disclosures that would otherwise be required for full annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended September 30, 2019.

These interim condensed financial statements are presented in Canadian Dollars, which is the functional currency of the Company, and have been prepared on a historical cost basis, except for certain financial instruments and share-based compensation transactions that have been measured at fair value. Certain figures have been reclassified to conform to the current presentation of these financial statements.

These interim condensed financial statements were authorized for issuance by the Board of Directors of the Company on August 13, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

(a) Significant accounting policies

The significant accounting policies adopted in the preparation of these interim condensed financial statements are the same as those set out in the annual audited financial statements for the year ended September 30, 2019. Unless otherwise stated, these policies have been consistently applied to all periods presented.

(b) Significant accounting estimates and judgments

The preparation of the interim condensed financial statements in compliance with IAS 34 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

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS - CONTINUED

(b) Significant accounting estimates and judgments (continued)

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 the 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.

3. RECENT ACCOUNTING PRONOUNCEMENTS AND ADOPTION OF NEW ACCOUNTING POLICIES

(a) 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.

(b) Adoption of new accounting policies

The Company adopted new accounting policies during the period as follows:

- i) 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

3. RECENT ACCOUNTING PRONOUNCEMENTS AND ADOPTION OF NEW ACCOUNTING POLICIES - CONTINUED

(b) Adoption of new accounting policies (continued)

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.

- ii) During the nine-month period 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 ended June 30, 2020 in relation to this new sales activity:

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 judgment 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.

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.

- iii) 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.

Three and Nine Months Ended June 30, 2020 and 2019

4. INVENTORY

The Company's inventory is comprised of sand purchases including transportation and custom fees.

| As at | June 30, 2020 | September 30, 2019 |
|-------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Balance, beginning of period | - | - |
| Purchases | 1,314,454 | - |
| Expensed in cost of sales | (1,044,056) | - |
| Impairment | (35,543) | - |
| Balance, end of period | 234,855 | - |

Due to the significant decline in oil prices, the COVID-19 pandemic, and related demand reductions, an impairment charge of \$35,543 was recognized to write-down inventory to net realizable value for the three and nine months ended June 30, 2020 (\$nil for the three and nine months ended June 30, 2019).

5. EXPLORATION AND EVALUATION EXPENDITURES

Wanipigow Sand Project

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 on the Project.

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:

| | Note | Three months ended June 30, | | Nine months ended June 30, | |
|--|------|-----------------------------|-----------|----------------------------|------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | \$ | \$ | \$ | \$ |
| Advance royalty payments | 19 | 50,000 | 50,000 | 100,000 | 100,000 |
| Acquisition and participation costs | 19 | 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 | 6,7 | 9,641 | 2,752 | 34,112 | 2,752 |
| Decommissioning | 11 | 16,162 | - | 16,162 | - |
| Total Wanipigow Sand Project expenditures | | 157,774 | 5,622,943 | 1,006,551 | 10,663,740 |

Three and Nine Months Ended June 30, 2020 and 2019

5. EXPLORATION AND EVALUATION EXPENDITURES - CONTINUED

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

6. PROPERTY, PLANT, AND EQUIPMENT

| | Vehicles |
|---------------------------------|---------------------|
| | \$ |
| Cost | |
| Balance at October 1, 2018 | - |
| Additions | 44,040 |
| Balance at September 30, 2019 | 44,040 |
| Additions | 13,625 ¹ |
| Disposals | (20,963) |
| Balance at June 30, 2020 | 36,702 |
| Accumulated depreciation | |
| Balance at October 1, 2018 | - |
| Additions | 5,505 |
| Balance at September 30, 2019 | 5,505 |
| Depreciation | 7,340 |
| Disposals | (3,930) |
| Balance at June 30, 2020 | 8,915 |
| Carrying amounts | |
| At September 30, 2019 | 38,535 |
| At June 30, 2020 | 27,787 |

¹During the nine-month period ended June 30, 2020, the Company completed a non-cash transaction and swapped a utility vehicle for a used truck resulting in a loss on disposal of \$3,408. The transaction was recorded at fair value.

Three and Nine Months Ended June 30, 2020 and 2019

7. RIGHT OF USE ASSETS

| | Property | Vehicles | Total |
|---------------------------------|---------------|----------|---------------|
| | \$ | \$ | \$ |
| Cost | | | |
| Balance at October 1, 2019 | 55,480 | 46,204 | 101,684 |
| Disposals | - | (46,204) | (46,204) |
| Balance at June 30, 2020 | 55,480 | - | 55,480 |
| Accumulated depreciation | | | |
| Balance at October 1, 2019 | - | - | - |
| Depreciation | 18,493 | 8,279 | 26,772 |
| Disposals | - | (8,279) | (8,279) |
| Balance at June 30, 2020 | 18,493 | - | 18,493 |
| Carrying amounts | | | |
| At October 1, 2019 | 55,480 | 46,204 | 101,684 |
| At June 30, 2020 | 36,987 | - | 36,987 |

During the nine-month period ended June 30, 2020, the Company terminated two vehicle leases resulting in a loss on disposal, net of the gain on settlement of the lease liability of \$17,710.

8. LEASE LIABILITIES

| As at | June 30, 2020 |
|--|---------------|
| | \$ |
| Balance at October 1, 2019 | 101,684 |
| Interest expense | 7,120 |
| Principal and interest payments | (11,276) |
| Disposals | (36,850) |
| Balance at June 30, 2020 | 60,678 |
| Current portion of lease liabilities | 39,474 |
| Non-current portion of lease liabilities | 21,204 |

The Company incurs lease payments related to property and vehicles. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate duration for the related leased assets. The Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments at an implicit and incremental borrowing rate of approximately 8%.

9. LONG-TERM BORROWINGS

In May 2020, the Company secured a \$40,000 interest-free loan through the Canada Emergency Business Account (CEBA) program to support the business during the COVID-19 pandemic. No principal payments are required until December 2022. Repayment of the balance of the loan on or before December 31, 2022 will result in loan forgiveness of 25 percent or \$10,000 of the loan. After 2022, any unpaid balances will be converted to a three-year term at a 5% interest rate.

10. CONVERTIBLE DEBENTURES

On February 26, 2020, the Company closed a non-brokered private placement (the "**Offering**") of secured convertible debentures (the "**Convertible Debentures**") for total gross proceeds of \$1,975,000 at a price of \$1,000 and integral multiples thereof per Convertible Debenture. The Convertible Debentures bear interest at 12% per annum, compounded quarterly from their date of issuance and payable in arrears on maturity. No interest payments will be made until such date. The Convertible Debentures will mature on the date that is four years from the date of issuance (the "**Maturity Date**"). The Convertible Debentures and accrued interest thereon are convertible into common shares ("**Common Shares**"), at the holder's option, at a price of \$0.75 per Common Share (the "**Conversion Price**"), subject to adjustment in certain events, at any time prior to the Maturity Date.

On or after February 26, 2022 and prior to their Maturity date, the Convertible Debentures may be redeemed by the Company, in whole or in part, at any time the daily volume weighted average trading price is \$1.20 per Common Share or more over a 30 consecutive trading day period. The Convertible Debentures may be redeemed for either a cash payment or by issuing Common Shares at a deemed price of \$0.75 per Common Share that is equal to all outstanding principal and accrued interest up to the redemption date or any combination thereof, on not less than 30 days' notice to the Convertible Debenture holders.

The Convertible Debentures are a secured obligation of the Company which will rank senior to all present and future indebtedness that is not senior indebtedness which will involve the grant by the Company of a fixed and floating charge over all of its present and after acquired property. If a change of control of the Company occurs prior to the Maturity Date, unless the holder elects in writing to convert the Convertible Debentures into Common Shares, the Company will repay in cash upon the closing of such change of control all outstanding principal and accrued interest under each Convertible Debenture plus a change of control premium equal to an additional 3% of the outstanding principal sum under such Convertible Debenture.

Three and Nine Months Ended June 30, 2020 and 2019

10. CONVERTIBLE DEBENTURES - CONTINUED

The Convertible Debentures represent a compound financial instrument that contains a host debt contract and multiple embedded derivatives. The net proceeds received from the issue of the Convertible Debentures have been split between the financial liability and equity components as follows:

| | |
|---|------------------|
| | \$ |
| Proceeds from issue of convertible debentures | 1,975,000 |
| Transaction costs | (72,804) |
| Net proceeds from issue of convertible debentures | 1,902,196 |
| Equity component | 98,523 |
| Transaction costs relating to equity component | (3,632) |
| Amount classified as equity at June 30, 2020 | 94,891 |
| Liability component | 1,876,477 |
| Transaction costs relating to liability component | (69,172) |
| Accrued interest and accretion (effective interest rate of 15.1%) | 86,604 |
| Carrying amount of liability component at June 30, 2020 | 1,893,909 |

The initial fair value of the liability portion of the Convertible Debentures was determined using the prevailing market interest rate of 14% for similar non-convertible instruments at the issue date. The liability is subsequently recognized on an amortized cost basis using the effective interest rate method until extinguished upon conversion, redemption, or maturity of the Convertible Debentures. The remainder of the proceeds is allocated to the equity component recognized in shareholder's equity, and not subsequently remeasured.

11. DECOMMISSIONING PROVISION

| As at | June 30, 2020 | September 30, 2019 |
|-------------------------------|---------------|--------------------|
| | \$ | \$ |
| Balance, beginning of period | 78,399 | - |
| Liabilities incurred | - | 78,399 |
| Change in discount rate | 16,162 | - |
| Accretion | 702 | - |
| Balance, end of period | 95,263 | 78,399 |

The estimated cash flows required to settle the provision have been discounted using a rate of approximately 0.99% and an inflation rate of 1.9% at June 30, 2020 (September 30, 2019 – 1.75%; 1.9% respectively). These obligations are expected to be settled in approximately 25 years.

Three and Nine Months Ended June 30, 2020 and 2019

12. CAPITAL STOCK

(a) Authorized

The Company is authorized to issue an unlimited number of common shares. The shares have no par value. All issued shares are fully paid.

(b) Issued and outstanding common shares

| | Number of Shares | Amount |
|--|------------------|--------------|
| Balance at September 30, 2018 and 2019 | 21,244,460 | \$22,546,331 |
| Balance at June 30, 2020 | 21,244,460 | \$22,546,331 |

(c) Stock options

The Company maintains a stock option plan (the "Stock Option Plan") which was approved by the shareholders of the Company. The Stock Option Plan is a "rolling" plan under which up to 10% of the issued and outstanding common shares of the Company from time to time, subject to adjustment in certain circumstances, may be issued.

The options issued to date vest 1/3 on grant date and 1/3 on the anniversary date of the grant over a two-year period and expire three to five years from the issue date.

The compensation expense that has been recognized in net loss for the three and nine months ended June 30, 2020 is \$13,135 and \$220,989 respectively (three and nine months ended June 30, 2019 - \$211,678 and \$417,919 respectively). The corresponding amounts have been recognized in share-based compensation reserve.

A summary of the stock options issued and outstanding and changes during the nine months ended June 30, 2020 and for the year ended September 30:

| As at | June 30, 2020 | | September 30, 2019 | |
|------------------------------------|-------------------|---------------------------------|--------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | \$ | | \$ |
| Outstanding at beginning of period | 1,036,666 | 1.31 | 586,666 | 1.28 |
| Granted | 350,000 | 0.35 | 516,667 | 1.34 |
| Forfeited | (120,000) | 1.12 | (66,667) | 1.28 |
| Outstanding at end of period | 1,266,666 | 1.06 | 1,036,666 | 1.31 |
| Exercisable at end of period | 874,444 | 1.19 | 518,889 | 1.30 |

Three and Nine Months Ended June 30, 2020 and 2019

12. CAPITAL STOCK – CONTINUED

(c) Stock options (continued)

In March 2020, 350,000 options were granted under the existing stock option plan of which 260,000 of these options were granted to key management personnel defined as directors and executive officers. On March 30, 2020, a director resigned and forfeited 120,000 options.

The weighted average grant date fair value of options granted during the nine months ended June 30, 2020 is \$0.34 per option (Nine months ended June 30, 2019 – \$1.92) using the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility. The Company applied the following assumptions in determining the fair value of options for grants during the periods ended:

| Nine months ended June 30, | 2020 | 2019 |
|----------------------------|------|------|
| Expected life (years) | 5 | 3 |
| Expected volatility | 193% | 215% |
| Risk-free interest rate | 1.1% | 1.4% |
| Dividend yield | 0.0% | 0.0% |

The following table summarizes information about stock options outstanding at June 30, 2020:

| Options outstanding | | | | Options exercisable | |
|---------------------|--------------------|---------------------------------|---------------------------------|---------------------|------------------------------------|
| Exercise price | Number outstanding | Weighted average remaining life | Weighted average exercise price | Number exercisable | Weighted average exercisable price |
| \$ | | | \$ | | \$ |
| 0.35 | 330,000 | 4.67 | 0.35 | 110,000 | 0.35 |
| 1.10 | 400,000 | 1.97 | 1.10 | 266,667 | 1.1 |
| 1.28 | 420,000 | 0.57 | 1.28 | 420,000 | 1.28 |
| 2.18 | 116,666 | 1.27 | 2.18 | 77,777 | 2.18 |
| 0.35 - 2.18 | 1,266,666 | 2.15 | 1.06 | 874,444 | 1.19 |

13. CAPITAL MANAGEMENT

The Company includes shareholders' (deficit) equity in the definition of capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties and to ensure it continues as a going concern. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

All the properties in which the Company currently has an interest are in the exploration stage with no operating revenues. In February 2020, the Company closed the Offering of Convertible Debentures whereby the net proceeds will be used for the continued development of the Company's Wanipigow Sand Project and for general working capital purposes.

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 decline in oil prices as well as the COVID-19 pandemic. 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.

The Company has historically relied on equity financing to raise capital and will continue its attempts to do so. Although the Company was successful in securing debt and equity financing in recent periods, there are significant challenges in raising new capital through the equity and debt markets, especially in the unprecedented business climate created by the COVID-19 pandemic. It is uncertain how long this pandemic driven recession will continue. As such, there is no way for Management to accurately predict the pace of economic recovery with any degree of confidence nor when the Company will be able to raise additional funds to support further development of the Wanipigow Sand Project.

Management controls its capital structure through detailed forecasting and budgeting, as well as established policies and processes over monitoring expenditures. The Company has no financial covenants. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the capital management policy from the prior period.

14. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL AND OTHER RISK

(a) Fair value

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.

14. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL AND OTHER RISK – CONTINUED

(a) Fair value (continued)

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.

(b) 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).

(c) 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 the Company's financial trade liabilities have contractual maturities of less than one year and are subject to normal trade terms. See Going Concern *Note 1(b)*.

(d) 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).

(e) 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).

Three and Nine Months Ended June 30, 2020 and 2019

15. REVENUE

During the nine-month period ended June 30, 2020, the Company commenced selling silica sand purchased from a mine in Wisconsin, to customers in Western Canada, resulting in \$nil revenue for the three months ended June 30, 2020 and \$1,143,918 for the nine months ended June 30, 2020 compared to \$nil in the prior periods.

The ability to generate sales since March 2020 has been impacted by the significant decline in oil prices combined with the COVID-19 pandemic.

16. COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of sales for the three and nine months ended June 30, 2020 is \$nil and \$1,044,056 respectively (three and nine months ended June 30, 2019 - \$nil) and is comprised of sand purchases including transportation and custom fees as well as third party transload fees.

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

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

17. OTHER INCOME

During the nine months 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 (nine months ended June 30, 2019 - \$nil) in the statement of net loss.

18. DUE TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

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 into with the related parties in the ordinary course of business.

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 respectively (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. The payments to be received by the Company related to this sublease 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 CDN \$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 are based on normal market rates.

19. 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 ¹ | 58,280 | 174,840 | 116,560 | 349,680 |
| Royalty and participation agreements ² | 100,000 | 325,000 | - | 425,000 |
| Total commitments | 158,280 | 499,840 | 116,560 | 774,680 |

¹ 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.

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

19. COMMITMENTS AND CONTINGENCIES - CONTINUED**(a) 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. Participation and advance royalty payments made during the period are recorded in exploration and evaluation expenditures (*Note 5*).

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 metre.

(b) 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 at an increased cost of \$2,000,000.

(c) 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