CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED
DECEMBER 31, 2019 AND 2018

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Independent auditor's report

To the Shareholders of Source Energy Services Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Source Energy Services Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of operations and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Reynold Tetzlaff.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 5, 2020

SOURCE ENERGY SERVICES LTD.
Consolidated Statement of Financial Position

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

As at December 31,	Note	2019	2018
Assets			
Current assets			
Cash		$ —	$ 4,574
Accounts receivable	4(c)	49,538	24,533
Prepaid expenses		2,554	8,545
Inventories	6	60,930	67,353
Total current assets		113,022	105,005
Deferred income tax asset	10	30,574	13,343
Mineral resources	7	—	31,054
Property, plant and equipment	8	296,933	370,939
Right-of-use assets	9	56,136	—
Total assets		$ 496,665	$ 520,341
Liabilities and equity			
Current liabilities			
Accounts payable and accruals	4(d)	$ 44,082	$ 35,989
Contract liabilities	17	2,035	2,744
Derivative liabilities	4(b)	—	760
Lease liabilities	12	19,706	516
Decommissioning provision	13	1,603	2,011
Total current liabilities		67,426	42,020
Lease liabilities	12	40,319	1,053
Long-term debt	11	178,840	146,930
Contract liabilities	17	1,125	3,155
Derivative liabilities	4(b)	—	566
Deferred income tax liabilities	10	—	6,733
Decommissioning provision	13	9,646	15,218
Total long-term liabilities		229,930	173,655
Total liabilities		$ 297,356	$ 215,675
Shareholders' equity			
Shareholders' equity	14	$ 397,911	$ 399,511
Contributed surplus		7,910	7,554
Accumulated deficit		(205,947)	(117,425)
Cumulative translation adjustment		2,004	16,162
Shareholders' equity		201,878	305,802
Non-controlling interests	14	(2,569)	(1,136)
Total equity		$ 199,309	$ 304,666
Total liabilities and equity		$ 496,665	$ 520,341

See accompanying notes to the consolidated financial statements.

Commitments and contingencies (Note 19)

Approved on behalf of the Board of Directors:

signed "Stew Hanlon"
Stew Hanlon
Director

signed "Brad Thomson"
Brad Thomson
Director

SOURCE ENERGY SERVICES LTD.
Consolidated Statement of Operations and Comprehensive Income (Loss)

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

	Note		2019		2018
Sales					
Sand revenue	17	$	281,866	$	342,428
Wellsite solutions	17		46,208		67,264
Terminal services	17		4,882		5,335
Total sales			332,956		415,027
Cost of sales	18	$	253,302	$	325,738
Cost of sales - depreciation and depletion			42,043		20,274
Gross margin		$	37,611	$	69,015
Operating expense	18	$	20,710	$	18,388
General & administrative expense	18		12,247		14,935
Depreciation			16,212		12,009
Income (loss) from operations		$	(11,558)	$	23,683
Other expense (income):					
Finance expense	20	$	28,060	$	20,961
Share-based compensation expense	15		203		2,403
Loss on asset disposal			161		4,640
Gain on derivative liability	4(b)		(1,326)		(1,503)
Other income			(927)		(532)
Other expense	21		15,954		—
Impairment expense	7, 8		61,215		—
Foreign exchange gain			(1,002)		(590)
Total other expense			102,338		25,379
Loss before income taxes		$	(113,896)	$	(1,696)
Income taxes					
Deferred tax expense (recovery)	10	$	(23,941)	$	1,169
Total income taxes			(23,941)		1,169
Net loss		$	(89,955)	$	(2,865)
Net loss attributable to shareholders			(88,522)		(2,213)
Net loss attributable to non-controlling interests			(1,433)		(652)
Total net loss		$	(89,955)	$	(2,865)
Other comprehensive income (loss)					
Foreign currency translation adjustment (subject to recycling)			(14,158)		24,520
Consolidated comprehensive income (loss) (revised - Note 2)		$	(104,113)	$	21,655
Income (loss) per share (in dollars)					
Basic	16	$	(1.47)	$	(0.04)
Diluted	16	$	(1.47)	$	(0.04)

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.
Consolidated Statement of Changes in Equity

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

	Note	Common share capital Number of Shares	Common share capital $	Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
Balance at December 31, 2018		**62,237**	**$ 399,511**	**$ 7,554**	**$ 16,162**	**$ (117,425)**	**$ (1,136)**	**$ 304,666**
Unrealized foreign exchange loss					(14,158)			**(14,158)**
Share-based compensation expense	15			356				**356**
Repurchase and cancellation of shares under NCIB	14	(1,284)	(1,600)					**(1,600)**
Net loss						(88,522)	(1,433)	**(89,955)**
Balance at December 31, 2019		**60,953**	**$ 397,911**	**$ 7,910**	**$ 2,004**	**$ (205,947)**	**$ (2,569)**	**$ 199,309**

	Common share capital Number of Shares	Common share capital $	Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
Balance at December 31, 2017	**62,852**	**$ 400,812**	**$ 5,432**	**$ (8,358)**	**$ (115,212)**	**$ (484)**	**$ 282,190**
Unrealized foreign exchange income				24,520			**24,520**
Share-based compensation expense			2,122				**2,122**
Repurchase and cancellation of shares under NCIB	(615)	(1,301)					**(1,301)**
Net loss					(2,213)	(652)	**(2,865)**
Balance at December 31, 2018	**62,237**	**$ 399,511**	**$ 7,554**	**$ 16,162**	**$ (117,425)**	**$ (1,136)**	**$ 304,666**

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.
Consolidated Statement of Cash Flows

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

	Note	2019	2018
Cash Flows Provided by Operating Activities			
Net loss		$ (89,955)	$ (2,865)
Adjusted for the following:			
Depreciation and depletion		58,255	32,283
Share-based compensation	15	203	2,403
Loss on sale of assets		161	4,640
Write-off of damaged Fox Creek assets under construction	21	4,155	—
Finance expense	20	28,060	20,961
Write-down of assets	8	9,869	—
Impairment	7, 8	61,215	—
Deferred income taxes	10	(23,941)	1,169
Unrealized gain on derivative liability		(1,326)	(1,503)
Gain on lease modification		(66)	—
Satisfaction of performance obligations, net of proceeds on contract liabilities	17	(2,453)	5,026
Payments for share-based compensation		(60)	(371)
Payments on foreign exchange collars		—	(87)
Payments made for decommissioning provision	13	(2,665)	(2,142)
Net changes in non-cash working capital	5	(5,671)	16,324
Cash flows provided by operating activities		$ 35,781	$ 75,838
Investing Activities			
Purchase of property, plant and equipment		(19,669)	(67,978)
Proceeds on disposal of property, plant and equipment		12	2,373
Net changes in non-cash working capital	5	21	(3,713)
Cash flows used in investing activities		$ (19,636)	$ (69,318)
Financing Activities			
Proceeds on long-term debt		68,002	112,409
Repayments on long-term debt		(38,805)	(146,698)
Repurchase and cancellation of shares under NCIB	14	(1,600)	(1,301)
Proceeds on senior secured notes		—	50,378
Repayment of finance lease obligations	12	(23,118)	(1,148)
Financing expense paid		(25,198)	(15,586)
Cash flows used in financing activities		$ (20,719)	$ (1,946)
Increase (decrease) in cash		$ (4,574)	$ 4,574
Cash and cash equivalents, beginning of year		4,574	—
Cash and cash equivalents, end of year		$ —	$ 4,574

Supplementary information for cash flows from operating activities			
Interest paid		(24,896)	(15,196)

See accompanying notes to the consolidated financial statements.

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. and its subsidiaries ("Source" or the "Company") is a logistics company that focuses on the production and distribution of high quality Northern White frac sand, as well as the distribution of other bulk completion materials not produced by Source. Source provides its customers with an end-to-end solution for frac sand supported by its Wisconsin mines and processing facilities, its Western Canadian terminal network and its "last mile" logistics capabilities. Source also provides storage and logistics services for other bulk oil and gas well completion materials and has developed Sahara, a proprietary wellsite mobile sand storage and handling system. The Company's head and principal office is located at 500, 438 – 11th Avenue SE, Calgary, Alberta, T2G 0Y4.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at March 5, 2020, the date of the final approval of the financial statements by the Board of Directors.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and liabilities to estimated fair value.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity.

Allowance for doubtful accounts

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored. A provision for doubtful accounts is established based on the expected credit loss model under IFRS 9.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against obsolete or damaged inventories and charged to cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Depreciation and depletion

The amounts recorded for depreciation of property and equipment are based on estimates of the useful lives of the assets and residual values. This estimated residual value and useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

Mineral resources were depleted using the unit-of-production method based on indicated and inferred resources. Depletion was recorded on a per tonne basis as the reserves were mined.

Decommissioning liabilities

The amounts recorded for decommissioning liabilities are based on the Company's mining activities and the estimated costs to abandon and reclaim the land and facilities, the estimated time period in which these costs will be incurred in the future and the discount and inflation rates. Any changes to these estimates could change the amount of decommissioning liability and may materially impact the consolidated financial statements in future periods.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. Legislation and regulations in the various jurisdictions that the Company operates in are subject to change and differing interpretations require management judgment. Income tax filings are subject to audits, re-assessments and changes in facts, circumstances and interpretations of the standards could result in a material change in the Company's provision for income taxes. As such, income taxes are subject to measurement uncertainty.

Share-based compensation

The fair value of stock options to purchase Common Shares is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected unit life, estimated forfeitures, and estimated volatility of Source. The liability-settled compensation plans include restricted share units ("RSU"), performance share units ("PSU") and deferred share units ("DSU"). At the annual general meeting on May 3, 2018, the Shareholders approved a long-term incentive program that provides for the settlement of RSUs and PSUs in Common Shares or cash. DSUs, RSUs and PSUs can be settled for cash payments and accordingly are considered a liability-settled award for accounting purposes.

Cash-generating units

The determination of cash-generating units ("CGUs") is based on management's judgment regarding geographical proximity, shared equipment, and mobility of equipment. Management has determined that the Company's operations represent one CGU.

Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Embedded derivatives

An embedded derivative is a component of a contract that modifies the cash flows of the contract. Embedded derivatives are separated from the contract and accounted for as derivative liabilities or assets. Embedded derivatives are measured at fair value through profit or loss. The fair value of the derivatives may be based on prices or valuation techniques that require inputs that are not based on observable market data.

Fair value of assets and liabilities acquired in a business combination

Values are allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items is ultimately based on management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party information and assessments. Any excess of the cost of the acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

Comparative figures

Certain prior year amounts have been reclassified to conform to current year presentation. The prior year consolidated comprehensive income (loss) line amount was revised due to an addition error. Certain prior year amounts within operating expenses and general and administrative expenses have been reclassified to conform to current year presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventories represent unprocessed mined sand, work in process and sand available for shipment, as well as spare parts and supplies. The Company values inventory at the lower of cost or net realizable value.

Cost is determined using the weighted average cost method. Cost includes the cost of mining of the sand as well as the direct labor costs, utility costs, transportation costs, and other processing costs to wash and dry the sand, as well as depreciation directly attributable to production equipment and depreciation of capitalized stripping activities.

Net realizable value is the estimated selling price less applicable selling expenses. When the weighted average cost of inventories exceeds the net realizable value, inventory is written down to the net realizable value. All write-downs are charged to cost of goods sold. The amount of the write-down may be reversed (up to original amount of the write-down) when there is a change in the economic circumstances.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Each entity of the consolidated statements is measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements of the entities that have a different functional currency are translated into Canadian dollars. Assets and liabilities are translated at the rate of exchange at the statement of financial position date, revenue and expenses are translated at the average exchange rate for the period (as this is considered a reasonable approximation of actual rates), and gains and losses in translation are recognized in shareholders’ equity as a cumulative translation adjustment.

Foreign currency transactions in entities that have Canadian dollars as the functional currency are translated into the functional currency using the exchange rate prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency translation and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity’s functional currency are recognized in the consolidated statements of operations and comprehensive income (loss).

Mineral resources

Mineral resources were recognized at cost, which approximates the estimated fair value as of the date of the acquisition. Fair value at the acquisition date was determined by estimating the present value of the raw resources over the life of the mine. These cash flows were discounted at a rate based on the time value of money and risks specific to the Company.

Property, plant and equipment

All costs directly associated with the purchase and development of property, plant and equipment are capitalized and reflected at cost less accumulated depreciation and net impairment losses. Costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statements of operations and comprehensive income (loss) as incurred.

Exchanges or swaps of property, plant and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in the consolidated statements of operations and comprehensive income (loss).

Depreciation of property, plant and equipment is provided using the straight line method at the following annual rates approximating their estimated useful lives in years:

Buildings	20
Equipment	7 - 20
Vehicles	5 - 7
Computer hardware and software	3 - 5

Depreciation of an asset or an asset under construction begins when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component where applicable.

The Company adheres to IFRIC 20 “stripping costs in the production phase of a surface mine”. During the production phase of the mine, stripping costs incurred that provide access to a component of reserves that will be produced in future periods and that would not have otherwise been accessible are capitalized. The costs qualifying for capitalization are those costs directly incurred to perform the stripping activity that improves access to the resource body. The stripping activity asset is included as part of the carrying amount of the mining property. Capitalized stripping costs are amortized on a straight-line basis over the production period they relate to.

Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets, other than deferred tax assets, are reviewed for indicators of impairment at each reporting period. If indicators of impairment exist, the recoverable amount of the assets is estimated. For purposes of assessing impairment, property, plant and equipment and intangibles are grouped into CGUs, defined as the lowest levels for which there are separately identifiable independent cash inflows.

The recoverable amount of a CGU is the greater of its fair value less costs to dispose and its value in use. Fair value is determined to be the amount for which the asset would be sold in an arm’s length transaction between knowledgeable and willing parties. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses are recognized in consolidated statements of operations and comprehensive income (loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Leases

On January 1, 2019, the Company adopted IFRS 16 *Leases* ("IFRS 16"), which replaced IAS 17 *Leases.* The Company used the modified retrospective approach where it recognized the right-of-use ("RoU") assets and lease liabilities at the present value of the remaining lease payments, which were discounted using the Company's incremental borrowing rate of 8% as of January 1, 2019. Each lease payment is allocated between the liability and finance expense. The Company used the following practical expedients permitted by IFRS 16:

- the use of a single discount rate for a portfolio of leases with similar characteristics;
- the accounting for leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases for certain classes of assets;
- the accounting for lease payments as expenses on leases for which the underlying asset is of low dollar value;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate a lease; and
- the Company will not apply any grandfathering practical expedients.

RoU assets are measured at cost which includes the following:

- the amount of the initial measurement of the lease liability;
- lease payments made at or before the commencement date, less any lease incentives received; and
- initial direct costs.

RoU assets are depreciated over the shorter of an asset's useful life and the lease term on a straight-line basis. The Company's lease contracts may contain termination, renewal, and/or purchase options which are evaluated by the Company on a regular basis. The majority of renewal options available extend lease terms from one to five years and are accounted for when the Company is reasonably certain that it will exercise one of these options.

The Company enters into short-term and long-term lease arrangements for freight cars and locomotives, vehicles and equipment and real estate. The Company determines whether or not the contract contains a lease at inception. Payments associated with short-term leases for certain classes of assets and leases of low-value assets are recognized on a straight-line basis in the consolidated statement of operations and comprehensive income (loss) in the period in which they are incurred.

Provisions and contingent liabilities

Provisions are recognized by the Company when all of the following apply: (i) it has a legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of economic resources will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of that obligation. The obligation is not recorded and is disclosed as a contingent liability if any of the following apply: (i) it is not probable that an outflow will be required, (ii) the amount cannot be estimated reliably, or (iii) the existence of the outflow can only be confirmed by the occurrence of a future event.

Decommissioning provision

Decommissioning provision is recognized for decommissioning and restoration obligations associated with the Company's mining reserves. The best estimate of the expenditure required to settle the present obligations at the statement of financial position date is recorded on a discounted basis using the pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the provision is added to the carrying amount of the associated property, plant and equipment asset and is depreciated over the useful life of the asset. The provision is accreted over time through charges to finance expenses. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related assets. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded liability and the actual costs incurred are recorded as a gain/loss in the consolidated statements of operations and comprehensive income (loss).

Income taxes

Current and deferred income tax expenses are recognized in the consolidated statements of operations and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income taxes for current and prior periods are measured at the amount expected to be payable or recoverable from the taxation authorities based on the income tax rates enacted at the end of the period.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the carrying amounts used for taxation purposes. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all temporary differences deductible to the extent future recovery is probable. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be generated to allow for all or part of the asset to be recovered. Deferred income tax balances are calculated using enacted or substantively enacted tax rates. Deferred income tax balances are adjusted to reflect changes in income tax rates that are enacted or substantively enacted with the adjustment being recognized in the period the change occurs, except items recognized in equity.

Deferred tax assets and liabilities are offset if both of the following thresholds are met: (i) there is a legally enforceable right to offset, and (ii) the deferred tax assets and liabilities either relate to income taxes levied by the same taxation authority on the same taxable entity, or the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on different taxable entities where such different taxable entities either intend to settle current tax liabilities and assets on a net basis, or will have their tax assets and liabilities realized simultaneously.

Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination when, at the time of the transaction, such deferred income tax does not affect either accounting income or taxable income.

Revenue recognition

The Company's revenue, which is comprised principally of sand sales and other services, is generally subject to contractual arrangements, which specify price and general terms and conditions. The Company recognizes sand sales when the contractual obligations are satisfied (typically when control of the product is transferred), while also considering if it has retained any material involvement in the sand being sold and if the revenue and costs related to the sale can be measured reliably. The Company has long-term revenue contracts in place with certain customers that include take-or-pay commitments over the term of the contracts, where the Company recognizes revenue as the product is sold, or in accordance with the terms of the contracts. Revenue for third party sand and chemical distribution is recognized based on contractual arrangements or when services have been completed. Revenue for wellsite solutions is recognized when services are provided. Revenue for rental of storage facilities is recognized on a monthly basis.

The Company offers certain arrangements whereby a customer can purchase products and services together. Where such bundled arrangements exist, the amount of the transaction price allocated to each performance obligation is based upon the relative stand-alone selling prices of each distinct product or service in the contract. The best evidence of a stand-alone selling price is the observable price of a product or service when the Company sells that product or service separately in similar circumstances and to similar customers.

When a stand-alone selling price is not directly observable, the Company estimates using the residual approach method to determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone contract with a customer.

Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the consolidated statements of operations and comprehensive income (loss), using the effective interest method.

Finance expense comprises interest expense on borrowings, costs incurred to obtain financing and impairment losses recognized on financial assets. Amounts paid to financial institutions for the purpose of borrowing funds are capitalized upon recognition and are offset against the outstanding obligation to the financial institution. These costs are amortized over the remaining term of the facility placed.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company has one operating segment.

Earnings (loss) per share

Earnings (loss) per share is calculated by dividing the profit or loss attributable to common and Class B shareholders of the Company by the weighted average number of common shares and Class B shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted earnings per share. All options are considered anti-dilutive when the Company is in a loss position.

Basis of consolidation

The consolidated financial statements include the accounts of Source Energy Services Ltd. and its subsidiaries, which are entities over which Source has control. Control exists when the Company is exposed to, or has right to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Source, and the accounting policies are aligned with the policies adopted by Source. All intercompany balances and income and expenses have been eliminated upon preparation of the consolidated financial statements. All subsidiaries are 100% owned, with the exception of Source Energy Services Canada LP, which has a 3.74% non-controlling interest.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

Share-based payments

The Company's Share-based Compensation Plan (the "Plan"), effective as of April 13, 2017, is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase common shares to a maximum number equal to 10% of the issued and outstanding common shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's shares on the date of the grant.

At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest.

The fair value of options is measured by using the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires the input of highly subjective assumptions. Expected volatility of the stock is based on a combination of the historical stock price of the Company and comparable companies in the industry. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada's Canadian Bond Yields with a remaining term equal to the expected life of the options used in the Black-Scholes valuation model.

The Company has also granted DSUs, RSUs and PSUs to directors and certain employees. The DSUs, RSUs and PSUs are expected to be settled for cash payment and accordingly are considered a liability settled award for accounting purposes.

Financial Instruments

The Company classifies and measures Financial Assets as follows:

Classification

The Company classifies its financial assets in the following measurement categories:

i. those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
ii. those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. The Company reclassifies debt investments and financial assets when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining their fair value. Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Company classifies its financial assets:

i. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss,
ii. Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as a separate line item in profit or loss, and
iii. Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or less. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

Newly Adopted Accounting Policies

Leases

On January 1, 2019, the Company adopted IFRS 16, which replaced IAS 17 *Leases.* The Company used the modified retrospective approach where it recognized the RoU assets and lease liabilities at the present value of the remaining lease payments, which were discounted using the Company's incremental borrowing rate of 8% as of January 1, 2019. Each lease payment is allocated between the liability and finance expense.

There was no impact to lessor accounting from the adoption of IFRS 16. The Company has updated its accounting policy for leases to reflect the adoption of IFRS 16.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. Further quantitative disclosures are included throughout these consolidated financial statements. The Company employs risk management strategies and polices to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the asset backed loan ("ABL") facility approximates its carrying value as it bears interest at market floating rates consistent with market rates for similar debt. Based on the closing market price at December 31, 2019, the fair value of the senior secured notes is $76,489 ($49 dollars per $100 dollars).

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

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

Level 1: Values based on unadjusted quoted prices in active markets for identical assets or liabilities, accessible at the measurement date.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is classified as Level 3 if one or more of its unobservable inputs may significantly affect the measurement of its fair value. Appropriate inputs are chosen so that they are consistent with market evidence or management judgment. Due to the unobservable nature of the inputs, there may be uncertainty about the value of Level 3 financial instruments.

	Carrying		Fair Value	
December 31, 2019	**amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at amortized cost:				
$157.71M of Senior Secured First Lien Notes	$ 150,028	$ 76,489	$ —	$ —
Lease liabilities – current	$ 19,706	$ —	$ 19,706	$ —
Lease liabilities – long-term	$ 40,319	$ —	$ 40,319	$ —

	Carrying		Fair Value	
December 31, 2018	**amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at fair value through profit and loss:				
Derivative liability (asset)	$ 1,326	$ —	$ 2,336	$ (1,010)
Financial liabilities at amortized cost:				
$157.71M of Senior Secured First Lien Notes	$ 146,869	$ 153,767	$ —	$ —
Lease liabilities – current	$ 516	$ —	$ 516	$ —
Lease liabilities – long-term	$ 1,053	$ —	$ 1,053	$ —

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's accounts receivable are due from purchasers of proppants and logistics services and are subject to normal industry credit risk.

The Company's revenues are generally derived from a group of large and reputable oilfield exploration and production companies and oilfield services customers. Orders for proppants are subject to the Company's credit and collection programs. The five largest customers account for 81% of the revenue for the year ended December 31, 2019, with the three largest making up 69% of revenue (year ended December 31, 2018, five customers accounted for 84%, three customers accounted for 74%). Three of those customers, respectively (two for the year ended December 31, 2018), account for 10% or more of total revenue individually in the year ended December 31, 2019.

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is materially mitigated by the size and reputation of the companies to which they extend credit. As at December 31, 2019 and December 31, 2018, the Company's trade receivables, net of loss allowances, were comprised of the following:

As at December 31,	2019	2018
Not yet due	$ 28,261	$ 18,172
0 – 30 days	19,596	3,832
31 – 60 days	697	2,092
61 – 90 days	857	415
91+ days	127	22
Total trade receivables	**$ 49,538**	**$ 24,533**

The Company's maximum exposure to credit risk is the fair value of accounts receivable on the balance sheet. The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on the lifetime expected loss provision. The Company uses an allowance matrix to estimate the credit losses of trade receivables from customers. The matrix considers historical default rates as well as the days past due.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

As shown by the matrix below, a loss allowance of $80 is recorded as at December 31, 2019:

December 31, 2019	Total	Not yet due	0-30 days	31-60 days	61-90 days	91+ days
Gross carrying amount	$ 49,618	$ 28,290	$ 19,636	$ 698	$ 865	$ 129
Expected loss rate		0.10%	0.20%	0.25%	1.00%	1.25%
Loss allowance	**$ 80**	**$ 28**	**$ 39**	**$ 2**	**$ 9**	**$ 2**

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk includes preparing operating and capital budgets and forecasts and monitoring performance against the budgets and forecasts. The Company may seek additional financing based on the results of these processes. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations, foreign currency fluctuations and global economic conditions.

The financial liabilities on the consolidated statement of financial position consist of accounts payable and accrued liabilities, lease liabilities, long-term debt and senior secured notes. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future debt and equity financings. The Company also has a credit facility to facilitate the management of liquidity risk.

The Company's contractual cash outflows relating to financial liabilities are outlined in the table below:

As at December 31, 2019	Total	2020	2021	2022	2023	2024	2025 and beyond
Accounts payable and accruals	$ 44,082	$ 44,082	$ —	$ —	$ —	$ —	$ —
Lease liabilities(1)	$ 64,252	$ 20,606	$ 15,530	$ 12,064	$ 5,278	$ 3,361	$ 7,413
Credit facilities(2)	$ 28,657	$ —	$ 28,657	$ —	$ —	$ —	$ —
Contract liabilities	$ 3,160	$ 2,035	$ 1,125	$ —	$ —	$ —	$ —
Notes payable(1)	$ 190,104	$ 16,560	$ 173,544	$ —	$ —	$ —	—

Notes:
(1) Includes interest for future periods.
(2) The timing and amount of interest payments on such balances will fluctuate depending on balances outstanding and applicable interest rates.

(e) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Company's net earnings or the value of financial instruments and are largely outside the control of the Company. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits while maximizing returns. Primary market risks are as follows:

Foreign currency risk

The Company is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing of inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2019 are $31,413 (December 31, 2018 - $14,348) and $31,938 (December 31, 2018 - $24,467) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) by $1,002 for the year ended December 31, 2019 ($516 in 2018).

The Company has a customer contract that was renegotiated in November 2019. The previous contract included foreign exchange rate collars that were adjusted if the daily US dollar to Canadian dollar closing exchange rate fell below 1.25 or exceeded 1.40. The embedded derivative was separated from the contract and accounted for as a derivative asset or liability at fair value through profit or loss. The fair value of the derivative was based on valuation techniques that are not based on observable market data including the notional value of the contract, the US dollar discount curve obtained from Bloomberg, the US dollar to Canadian dollar foreign exchange forward curve and the US dollar to Canadian dollar spot rate obtained from Thomson Reuters. The fair value of the derivative asset as at December 31, 2019 is $nil (December 31, 2018 - $1,010).

During the second quarter of 2018, the Company entered into the following foreign exchange rate collars to help mitigate the risk associated with the embedded derivative contained in the above noted customer contract. The fair value of the derivative is based on the US dollar to Canadian dollar foreign exchange forward curve. The collars were wound up and settled in January 2020.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Notional amount of Contract (per month)	Exchange rate floor	Notional amount of Contract (per month)	Exchange rate ceiling	Contract expiry
USD $1,500	1.25	USD $3,000	1.36	January 2020
USD $1,500	1.25	USD $3,000	1.40	January 2020

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility. The Company is exposed to interest rate price risk on the long-term debt that bears interest at floating rates. The net effect of each 1% change in market interest rates would impact the related interest expense (income) for the Company's floating rate borrowings by $290 at December 31, 2019 and $nil at December 31, 2018. The Company had no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2019 and December 31, 2018.

(f) Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain shareholder and creditor confidence and to provide a platform to create value for its common shareholders. The Company's management is responsible for managing the Company's capital and does so through regular reviews of financial information including budgets and forecasts. The Company's directors are responsible for overseeing this process. The Company considers its capital structure to include equity, senior secured notes and its credit facilities.

The Company monitors capital based on its current working capital, available bank line, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company's management and approved by the Company's Board of Directors.

In order to maintain or adjust the capital structure, the Company may issue share capital, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt or equity financing is impacted by external conditions, including global economic conditions. The Company continually monitors economic and general business conditions.

The Company's share capital is not subject to external restrictions; however, the amount of the bank operating facility available for use is determined by levels of accounts receivable and inventory.

The Company is subject to externally imposed capital requirements for the ABL facility, requiring the Company to maintain a springing fixed charge ratio of 1.25:1 to be measured when Source's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. The fixed charge coverage ratio is defined as the ratio of (i) earnings before interest, tax, depreciation and amortization for the twelve calendar months ending at such fiscal quarter end less unfinanced capital expenditures, cash taxes and distributions to shareholders and (ii) the interest expense paid in cash plus the amount of debt which has a scheduled due date or is otherwise required to be repaid or paid for the twelve calendar months ending at such fiscal quarter end. In February 2020 an amendment to the ABL was completed, effective January 1, 2020, which included a reduction of the springing fixed charge ratio to 1.10:1 for all periods ending on or before December 31, 2020. Refer to Note 24 for additional information related to the amendment. As of December 31, 2019, the excess availability was 28% and the fixed charge coverage ratio was 1.26:1.

The Company's capital management policy has not changed during the years ended December 31, 2019 or December 31, 2018.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the years ended December 31, 2019 and 2018 were as follows:

As at December 31,		2019		2018
Accounts receivable	$	(24,878)	$	31,905
Prepaid expenses and deposits		2,864		(3,034)
Inventory		7,605		(10,371)
Accounts payable and accrued liabilities		8,738		(2,176)
Changes in non-cash working capital	**$**	**(5,671)**	**$**	**16,324**

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Changes in non-cash investing assets and liabilities for the years ended December 31, 2019 and 2018 were as follows:

As at December 31,		**2019**		**2018**
Accounts payable and accrued liabilities	$	21	$	(3,713)
Changes in non-cash working capital	**$**	**21**	**$**	**(3,713)**

		Senior Secured Notes		**ABL facility**
As at December 31, 2018	$	146,869	$	(477)
Cash changes:				
Proceeds		—		68,002
Repayments		—		(38,805)
Non-cash and other changes:				
Accretion		3,159		222
Unrealized foreign exchange gain		—		(152)
Financing costs incurred		—		(133)
As at December 31, 2019	**$**	**150,028**	**$**	**28,657**

6. INVENTORIES

Inventory consists of three main classifications:

As at December 31,		**2019**		**2018**
Unprocessed sand and work in progress	$	32,358	$	37,944
Sand available for shipment		24,060		25,142
Spare parts and supplies		4,512		4,267
Total inventories	**$**	**60,930**	**$**	**67,353**

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is the depreciation expense related to sand producing properties of $14,080 as at December 31, 2019 (December 31, 2018 - $8,514). The total amount of inventory expensed through cost of sales during the year ended December 31, 2019 was $207,778 (December 31, 2018 - $255,827). Sand inventory of $627 was written off as a result of the damaged assets that were under construction at Fox Creek (refer to Note 21 for further detail related to these assets under construction). Under the normal course of operations, no inventory write-downs or reversals of prior write-downs were recorded during the years ended December 31, 2019 and 2018.

7. MINERAL RESOURCES

As at December 31,		**2019**		**2018**
Balance, beginning of year	$	31,054	$	31,506
Depletion		(1,169)		(1,554)
Impairment		(28,977)		—
Exchange differences		(908)		1,102
Balance, end of year	**$**	**—**	**$**	**31,054**

Mineral resources were acquired as part of the asset purchase for certain assets and operations of Preferred Proppants, LLC. Depletion is based on the units of production method. During the year ended December 31, 2019, as a result of continued weakened activity levels across the Western Canadian Sedimentary Basin ("WCSB"), the Company carried out an assessment of the recoverable value of its operations. An impairment charge of $28,977 was taken in the consolidated statement of operations and comprehensive income against these assets. Refer to Note 8 for additional information related to the recoverability assessment and the impairment loss recognized.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Total
Cost					
Balance as at December 31, 2017	$ 186,109	$ 134,357	$ 5,254	$ 50,029	$ 375,749
Additions	4,502	5,119	335	55,589	65,545
Disposals	(4,670)	(2,995)	(69)	(1,510)	(9,244)
Completed construction in progress	21,374	38,142	225	(59,741)	—
Transfers	—	(9)	—	—	(9)
Exchange differences	13,509	10,116	260	1,972	25,857
Balance as at December 31, 2018	$ 220,824	$ 184,730	$ 6,005	$ 46,339	$ 457,898
Additions(1)	(1,994)	537	149	19,666	18,358
Disposals	—	(351)	(2)	—	(353)
Completed construction in progress	7,666	22,359	301	(30,326)	—
Transfers	—	(101)	—	—	(101)
Write-off of damaged Fox Creek assets under construction(2)	—	—	—	(10,071)	(10,071)
Write-down of assets	(12,701)	(3,487)	(2)	—	(16,190)
Exchange differences	(7,894)	(6,671)	(164)	(1,050)	(15,779)
Balance as at December 31, 2019	**$ 205,901**	**$ 197,016**	**$ 6,287**	**$ 24,558**	**$ 433,762**

Notes:
(1) The negative addition is due to the change in estimate of the decommissioning provision on adoption of IFRS 16.
(2) Refer to Note 21 for additional detail related to these assets under construction.

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Total
Accumulated depreciation					
Balance as at December 31, 2017	$ (23,429)	$ (28,544)	$ (3,887)	$ —	$ (55,860)
Depreciation	(11,192)	(16,697)	(527)	—	(28,416)
Disposals	323	1,234	30	—	1,587
Transfers	—	9	—	—	9
Exchange differences	(1,832)	(2,208)	(239)	—	(4,279)
Balance as at December 31, 2018	$ (36,130)	$ (46,206)	$ (4,623)	$ —	$ (86,959)
Depreciation	(11,457)	(15,642)	(763)	—	(27,862)
Write-down of assets	4,732	1,588	1	—	6,321
Impairment	(16,787)	(15,320)	(131)	—	(32,238)
Disposals	—	121	1	—	122
Transfers	—	158	—	—	158
Exchange differences	1,541	1,938	150	—	3,629
Balance as at December 31, 2019	**$ (58,101)**	**$ (73,363)**	**$ (5,365)**	**$ —**	**$ (136,829)**
Carrying amounts					
December 31, 2018	$ 184,694	$ 138,524	$ 1,382	$ 46,339	$ 370,939
December 31, 2019	**$ 147,800**	**$ 123,653**	**$ 922**	**$ 24,558**	**$ 296,933**

Assets under construction represent facilities that are being built at period end. Assets under construction are not amortized until the asset is deemed to be ready for use. Once deemed ready for use, the assets under construction will be allocated to their corresponding capital asset group and commence depreciating.

During the year ended December 31, 2019, the Company determined that its previously closed terminal facility located in Berthold, North Dakota no longer aligns with its strategic focus relative to its terminal network across the WCSB resulting in the write-down of this facility to its residual land value, determined to be $3,382. The write-down recognized in income (loss) for the year was $9,713 on assets included in land and building and equipment and vehicles in the consolidated statement of operations and comprehensive income (loss).

As at September 30, 2019, as a result of continued weakened activity levels across the WCSB and difficult capital markets, the Company carried out an assessment of the recoverable value of its operations. A discounted cash flow analysis over five years was completed using a discount rate tied to its current cost of capital. The discounted cash flow projections were based on cash flow forecasts, trailing twelve-month earnings before interest, taxes, depreciation and amortization, historical experience, actual operating results and industry trends and forecasts. Key assumptions included a terminal growth rate of 2% and a discount rate of 14.5%. The total impairment recognized during the year was $61,215 (December 31, 2018 - $nil), of which $28,977 related to mineral resource assets (refer to Note 7) and $32,238 was included in property, plant and equipment. Management updated the model as at December 31, 2019 with similar assumptions used as at September 30, 2019 and concluded no further impairment was required. At December 31, 2019, the Company performed a sensitivity analysis and noted that a decline in EBITDA of 3% or an increase of 10% in discount rates would not result in further impairment losses.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

9. RIGHT-OF-USE ASSETS

	Land & Building	Equipment & Vehicles	Rail cars	Total
Cost				
Balance as at January 1, 2019	$ 7,409	$ 10,224	$ 58,438	$ 76,071
Additions	879	6,640	1,387	8,906
Expired leases	(92)	(1,857)	(2,532)	(4,481)
Exchange differences	(28)	(487)	(2,643)	(3,158)
Balance as at December 31, 2019	**$ 8,168**	**$ 14,520**	**$ 54,650**	**$ 77,338**
Accumulated depreciation				
Balance as at January 1, 2019	$ —	$ —	$ —	$ —
Depreciation	(1,678)	(9,289)	(15,135)	(26,102)
Expired leases	92	1,857	2,532	4,481
Exchange differences	3	153	263	419
Balance as at December 31, 2019	**$ (1,583)**	**$ (7,279)**	**$ (12,340)**	**$ (21,202)**
Carrying amounts				
January 1, 2019	$ 7,409	$ 10,224	$ 58,438	$ 76,071
December 31, 2019	**$ 6,585**	**$ 7,241**	**$ 42,310**	**$ 56,136**

10. INCOME TAXES

During the second quarter of 2019, the Government of Alberta enacted new legislation to reduce the provincial corporate income tax rate from 12% to 8%. Under the new legislation, the tax rate will decline by 1% each year over the next four taxation years beginning July 1, 2019, resulting in a combined federal and provincial corporate tax rate of 23% by 2022. The Company anticipates that most of its existing deferred income tax assets and liabilities will reverse at an effective tax rate of approximately 23%.

The following table reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 26.5% (2018 - 27%) for the periods indicated:

	2019	2018
Loss before income taxes	$ (113,896)	$ (1,696)
Statutory income tax rate	26.50%	27.00%
Expected income taxes	(30,182)	(458)
Increase (decrease) in taxes from:		
Non-deductible expenses	389	646
Share based compensation	33	570
Unrealized foreign exchange and derivatives	(393)	511
Prior period adjustments	206	—
Unrecognized deferred tax assets	3,490	(521)
Provincial tax rate change	2,803	—
Rate differential on foreign activities	(621)	680
Other	334	(259)
Total income tax expense (recovery)	**$ (23,941)**	**$ 1,169**

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

Significant components of deferred income tax include:

As at December 31,		**2019**		**2018**
Difference between tax and reported amounts for depreciable assets	$	(4,482)	$	(22,175)
Finance fees		2,275		3,945
Foreign exchange on loans		6,064		2,831
Tax loss carryforwards recognized		23,618		16,027
Decommissioning provision		2,720		4,206
Mine development costs		879		902
Other		(500)		874
Deferred income tax asset	**$**	**30,574**	**$**	**6,610**

The movements in deferred tax balances during the period are as follows:

As at December 31,		**2019**		**2018**
Opening deferred tax asset	$	6,610	$	8,009
Recognized in net income		23,941		(1,169)
Exchange differences		23		(230)
Closing deferred tax asset	**$**	**30,574**	**$**	**6,610**

The deferred income tax assets (liabilities) by jurisdiction are:

As at December 31,		**2019**		**2018**
Canada		20,133		13,343
Foreign		10,441		(6,733)
Deferred income tax asset	**$**	**30,574**	**$**	**6,610**

The Company has Canadian and foreign non-capital losses as at December 31, 2019 of $56,230 (December 31, 2018 - $29,929) and $37,807 (December 31, 2018 - $27,880), respectively. Canadian and foreign losses expire beginning in 2037.

11. LONG-TERM DEBT

As at December 31,		**2019**		**2018**
$157.71M of Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	$	150,028	$	146,869
ABL due December 2021. Interest is based on floating rates dependent upon the amount of the facility used		29,046		—
Unamortized debt issuance costs for the ABL		(389)		(477)
Other long-term debt		155		538
Balance as at December 31, 2019	**$**	**178,840**	**$**	**146,930**
Less: current portion		—		—
Long-term portion	**$**	**178,840**	**$**	**146,930**

On December 8, 2016, the Company issued $130,000 Senior Secured First Lien Notes and an additional $50,000 Senior Secured First Lien Notes on May 31, 2018 (collectively, the “Notes”), which bear interest at 10.5% per annum and mature December 15, 2021. The Notes are secured by a fixed and floating charge over all assets of the business except accounts receivable and inventory, over which the Notes have a second charge. The May 31, 2018 notes were issued at a premium price of $105.75 per $100 to reflect the market premium at which the original December 8, 2016 notes were trading.

The Notes contain prepayment options, where the Company can redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering by Source at a redemption price of 110.5% of the principal amount. The Company could have also redeemed all or part of the Notes at any time prior to December 15, 2018 for 100% of the principal, accrued and unpaid interest, and the applicable premium as defined in the agreement. After December 15, 2018, the Notes may be redeemed in whole or in part at the applicable percentage (2018 - 107.875%, 2019 - 103.9375%, 2020 - 100%), plus accrued and unpaid interest. The prepayment options have been classified as derivative liabilities and are measured at fair value through profit or loss. As of December 31, 2019 the value of the derivative liabilities have been recorded as $nil (December 31, 2018 - $nil). Changes in fair value of the derivative liability are recorded through the consolidated statement of operations and comprehensive income (loss). The Company has recorded a fair value gain of $nil on the prepayment option as of December 31, 2019 (December 31, 2018 - $361).

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

As of May 18, 2018, the ABL was increased from $70,000 to $88,000. On June 20, 2019, the ABL was further amended to extend the term for another year to mature on December 8, 2021 and added a US$5 million standby letter of credit that does not affect the facility's borrowing base. The ABL is secured by a floating first lien charge on the accounts receivable and inventory of the Company under a general business security agreement and a second lien charge on all other assets of the business. The facilities bear interest based on the bank's prime lending rate, banker's acceptances or LIBOR rates, plus an applicable margin depending on the amount of excess availability. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories and, at December 31, 2019, $29,046 is drawn under this facility (less unamortized finance costs of $389 for a net balance of $28,657) (December 31, 2018 - $nil). Any excess cash on hand is applied against amounts drawn on the ABL. The amount committed to supporting letters of credit under the facility was $17,535 at December 31, 2019 (December 31, 2018 - $19,516). The borrowing base is updated monthly, with $18,430 of remaining availability at December 31, 2019 (December 31, 2018 - $36,228).

The ABL includes a springing fixed charge ratio of 1.25:1 to be measured when the Company's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. In February 2020 an amendment to the ABL was completed, effective January 1, 2020, which included a reduction of the springing fixed charge ratio to 1.10:1 for all periods ending on or before December 31, 2020. Refer to Note 24 for additional information related to the amendment. As of December 31, 2019, the excess availability was 28% and the fixed charge coverage ratio was 1.26:1.

Interest on the above facility amounted to $3,004 for the year ended December 31, 2019 (December 31, 2018 - $2,334). Interest on the Notes amounted to $16,556 for year ended December 31, 2019 (December 31, 2018 - $14,382). Effective interest rate for the year ended December 31, 2019 is 11.9% (December 31, 2018 - 11.9%).

12. LEASE LIABILITIES

As at December 31,		2019
Balance as at December 31, 2018	$	1,569
Additions on adoption of IFRS 16		76,071
Additions during period		9,472
Lease modifications		(668)
Lease payments		(23,118)
Changes in F/X rate		(3,301)
Balance as at December 31, 2019	**$**	**60,025**
Less: current portion		(19,706)
Long-term portion	**$**	**40,319**

The Company incurs lease payments related to rail cars, equipment and vehicles, office buildings and surface leases. Lease liabilities are measured at the present value of the remaining lease payments at the incremental borrowing rate of 8%. Leases with a lease term of twelve months or less for certain classes of assets and low-value assets of $329 were expensed to operating or general and administrative expense in 2019. The Company recognized $5,181 of interest on lease payments for the year ended December 31, 2019.

The following table reconciles the operating lease commitments disclosed as at December 31, 2018 to the present value of the remaining lease payments as at January 1, 2019:

Operating lease commitments disclosed as at December 31, 2018	$	81,909
Discount from application of the incremental borrowing rate as at January 1, 2019		(10,875)
Initial direct costs recognized on adoption of IFRS 16		5,246
Adjustments for subleases and short-term leases recognized on a straight-line basis as expense		(209)
Lease liabilities on adoption of IFRS 16	**$**	**76,071**

13. DECOMMISSIONING PROVISION

As at December 31,		**2019**		**2018**
Balance, beginning of year	$	17,229	$	14,663
Liabilities incurred		1,541		3,470
Liabilities settled		(2,665)		(2,142)
Accretion		190		360
Changes in estimate(1)		(4,333)		(314)
Changes in F/X rate		(713)		1,192
Balance, end of year	**$**	**11,249**	**$**	**17,229**
Less: current portion	$	(1,603)	$	(2,011)
Long-term portion	**$**	**9,646**	**$**	**15,218**

Note:
(1) The change in estimate of the decommissioning provision is due to the adoption of IFRS 16.

The Company's decommissioning provision relates to reclamation of land and facilities where its mines operate. Management estimates the costs to abandon and reclaim its properties based on current reclamation technology, acres disturbed and the estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provision has been discounted using a risk-free rate of 1.61% at December 31, 2019 (December 31, 2018 - 1.98%). These obligations are to be settled based on the economic lives of the underlying assets, currently estimated to be between 8 and 20 years.

14. SHAREHOLDERS' EQUITY

The Company has issued and outstanding common and Class B shares. The 1,300,154 Class B shares are held by SES Sand Holdings US, a subsidiary of TriWest Capital Partners ("TriWest") which is a related party, who own 3.74% of the shares of Source Energy Services Canada LP, a subsidiary of Source, and may be converted at the option of the holder into common shares of Source on a one for one basis. Class B shares are entitled to vote at shareholder meetings, but are not entitled to dividends from Source. However, they are entitled to an equivalent distribution on a per share basis from Source Energy Services Canada LP. As at December 31, 2019, TriWest owned 27.36% of the outstanding shares of Source.

Normal Course Issuer Bid

On March 14, 2019, the Company announced an amendment to its existing Normal Course Issuer Bid ("NCIB"). Previously, Source had purchased and canceled the maximum of 615,000 common shares for a total consideration of $1,301 at a weighted average price per share of $2.115, before broker commission. The amended NCIB, which commenced on March 20, 2019, permitted Source to purchase up to an additional $1,600 of common shares. For the year ended December 31, 2019 , Source purchased 1,283,981 shares for cancellation at a weighted average price per share of $1.2461.

(stated in thousands, except share and per share amounts)		**2019**		**2018**
Number of common shares repurchased		1,283,981		615,000
Weighted average price per share	$	1.2461	$	2.115
Amount of repurchase	**$**	**1,600**	**$**	**1,301**

The following table outlines the issued and outstanding shares as at December 31, 2019:

	Number of shares		**Amount**
Balance as at December 31, 2018	62,236,866	$	399,511
Shares repurchased and canceled under NCIB	(1,283,981)		(1,600)
Balance as at December 31, 2019	**60,952,885**	**$**	**397,911**

15. SHARE-BASED COMPENSATION

The Plan, effective as of April 13, 2017, is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase common shares to a maximum number equal to 10% of the issued and outstanding common shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's shares on the date of the grant.

The options issued to date were granted in connection with the IPO and therefore vest 1/3 on the grant date and 1/3 on the anniversary date of the grant over a two-year period and expire 5 years from the issue date. Future grants may not follow this vesting profile.

	Options outstanding ('000s)	Range of exercise price
Outstanding at December 31, 2017 and 2018	2,581	$10.50
Granted	—	—
Exercised	—	—
Canceled	(2,065)	$10.50
Forfeited	—	—
Expired	—	—
Outstanding at December 31, 2019	**516**	**$10.50**

The stock options were valued using the Black-Scholes option pricing model, using the following inputs:

Forfeiture rate (%)	5%
Volatility (%)	33%
Risk free interest rate (%)	0.5%
Dividend yield (%)	0%
Option life	5 years

The liability settled compensation plans include RSUs, PSUs and DSUs. The following table provides a summary of the status of the Company's liability settled compensation plans and changes during the year ended December 31, 2019:

(number of units)	RSU	PSU	DSU
Balance at December 31, 2017	101,009	40,394	51,426
Granted	436,501	312,434	75,000
Exercised	(44,054)	(15,733)	(8,571)
Forfeited	(33,103)	(8,388)	-
Balance as at December 31, 2018	460,353	328,707	117,855
Granted	872,601	320,145	361,524
Exercised	(156,899)	(5,236)	(21,071)
Forfeited	(208,875)	(209,278)	—
Balance as at December 31, 2019	**967,180**	**434,338**	**458,308**
Vested as at December 31, 2019	**—**	**—**	**—**

The RSUs will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from issue date. Subject to achievement of performance criteria set out by the Board of Directors, the PSUs awarded will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from the issue date. The RSUs and PSUs may be settled in cash or shares and accordingly are considered a liability settled award for accounting purposes.

The DSUs vest and are expensed over the earlier of three years or when a director or other participant ceases in their role and are payable only when a director or participant leaves the Company. The DSUs are expected to be settled for cash payment and accordingly are considered a liability settled award for accounting purposes.

Total share-based compensation expense for the share-based payment plans for the year ended December 31, 2019 was $203 (December 31, 2018 - $2,403).

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

16. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the year ended December 31, 2019 was based on the earnings (loss) available to holders of common shares of $(88,522) (December 31, 2018 - $(2,213)), and a weighted average number of common shares outstanding for the year ended December 31, 2019 of 60,086,671 (December 31, 2018 - 61,478,796).

	2019	2018
Common shares outstanding, beginning of year	60,936,712	61,551,712
Weighted average shares repurchased and canceled under NCIB	(850,041)	(72,916)
Weighted average common shares outstanding, end of year	**60,086,671**	**61,478,796**
Common shares issuable pursuant to conversion option of Class B shares(1)	—	—
Weighted average number of diluted common shares outstanding, end of year	**60,086,671**	**61,478,796**

Note:
(1) Only attributable to NCI shareholders when in an income position.

Diluted earnings (loss) per share

Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive options as well as exchangeable shares are ignored in calculating diluted earnings per share. The exchangeable shares were not considered dilutive at December 31, 2019 as the Company was in a loss position.

17. REVENUE

The following table presents the Company's sales, disaggregated by revenue source:

	2019	2018
Revenue from contracts with customers:		
Sand revenue	$ 281,866	$ 342,428
Wellsite solutions	44,158	66,564
Terminal services	2,869	3,447
Total revenue from contracts with customers	$ 328,893	$ 412,439
Storage facilities(1)	4,063	2,588
Total revenue	**$ 332,956**	**$ 415,027**

Note:
(1) Storage facilities includes revenue for proppant storage at terminals as well as longer term Sahara rentals.

Contract Liabilities

The Company entered into an agreement with one of its customers, effective January 1, 2018, where the Company received $14,761 (US$11,505) as a prepayment for future purchases of proppant. In consideration of the prepayment, the price per metric tonne to the customer was reduced for each tonne of sand sold to the customer. The cash price per tonne is also reduced for each tonne of sand sold to or pumped by the customer.

The Company expects the period between the transfer of the promised goods to the customer and payment by the customer to exceed one year. As such, the Company has adjusted the transaction price for the time value of money.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

The following table provides a summary of the contract liability as of December 31, 2019:

As at December 31,		2019		2018
Balance, beginning of year	$	5,899	$	278
Cash proceeds		—		14,761
Satisfaction of performance obligations		(2,453)		(9,735)
Non-cash interest incurred		—		1,846
Non-cash interest income		(286)		(1,251)
Balance, end of year	**$**	**3,160**	**$**	**5,899**
Less: current portion		(2,035)		(2,744)
Long-term portion		**1,125**		**3,155**

Minimum revenue estimated to be recognized based on take-or-pay commitments in long-term sales contracts as at December 31, 2019:

2020	$	7,204
2021		7,350
2022		600
2023		600
2024		300
Total	**$**	**16,054**

18. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the consolidated statement of operations and comprehensive income (loss) using the function of expense method whereby expenses are classified according to their function within the Company. This method was selected as it is more closely aligned with the Company's business structure. The Company's functions under IFRS are as follows:

- Cost of sales;
- Operating; and
- General & administrative.

Cost of sales includes direct operating costs (including product costs, direct labour and overhead costs) and depreciation on assets relating to operations. Additional information on the nature of expenses is as follows:

	2019				2018(1)			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$ 207,767	$ —	$ —	$ 207,767	$ 255,670	$ —	$ —	$ 255,670
Salary costs	11,282	8,003	7,946	27,231	10,127	6,383	7,912	24,422
Equipment costs	2,308	1,375	16	3,699	2,323	2,146	—	4,469
Transportation costs	31,264	—	—	31,264	54,544	—	—	54,544
Facility costs	681	3,236	169	4,086	3,074	2,526	1,955	7,555
Selling costs	—	8,096	53	8,149	—	7,333	(128)	7,205
Administration costs	—	—	4,063	4,063	—	—	5,196	5,196
Total	**$ 253,302**	**$ 20,710**	**$ 12,247**	**$ 286,259**	**$ 325,738**	**$ 18,388**	**$ 14,935**	**$ 359,061**

Note:
(1) Certain prior year amounts have been reclassified to conform to current year presentation.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

19. COMMITMENTS AND CONTINGENCIES

The Company has various commitments regarding physical natural gas contracts. The agreements expire between June 2020 and March 2023. Estimated annual commitments are as follows:

2020	$	1,237
2021		1,216
2022		1,216
2023		320
Total	**$**	**3,989**

In the ordinary course of conducting business, the Company occasionally becomes involved in legal proceedings relating to contracts, environmental issues or other matters. While the amount of any proceeding or litigation is inherently uncertain, management of the Company believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Company.

20. FINANCE EXPENSE

		2019		2018
Interest expense	$	24,169	$	17,103
Accretion		3,578		3,469
Finance expense		313		389
Total	**$**	**28,060**	**$**	**20,961**

21. OTHER EXPENSE

In May 2019, an incident occurred during the construction of assets to provide additional storage capacity at the Company's Fox Creek terminal facility. The incident resulted in the dismantlement of all assets related to the additional storage units, as well as incremental costs associated with the recovery and cleanup related to the incident. An investigation is underway to determine the cause of the failure of the equipment and an insurance claim has been filed by the Company pursuant to the outcome of the investigation. For the year ended December 31, 2019, the Company recovered $8,527 in interim insurance proceeds related to the incident.

During the year ended December 31, 2019, the Company determined that the terminal facility located in Berthold, North Dakota no longer aligned with its strategic focus. As a result, this facility was written down to its respective land value (refer to Note 8 for additional information related to this write-down).

A breakdown of the costs included in the consolidated statement of operations and comprehensive income (loss) is as follows:

		2019		2018
Write-off of damaged assets under construction	$	10,071	$	—
Other costs		4,541		—
Interim insurance proceeds(1)		(8,527)		—
Total costs related to Fox Creek incident		**6,085**		**—**
Write-down of assets(2)		9,869		—
Total other expense	**$**	**15,954**	**$**	**—**

Notes:
(1) Includes $2,610 of insurance proceeds related to the cleanup and recovery costs and $5,916 related to the construction costs of the dismantled assets.
(2) Includes write-down related to the Berthold terminal facility and $156 related to other assets.

(All amounts are in thousands of Canadian dollars, unless otherwise noted)

22. OPERATING SEGMENTS

The Company has operations in both the United States and Canada; the two geographic segments are summarized in the table below:

Total Sales	Canadian Operations	United States Operations	Corporate[(1)]	Total
2019	**$ 332,428**	**$ 528**	**$ —**	**$ 332,956**
2018	$ 402,863	$ 12,164	$ —	$ 415,027

Total Assets	Canadian Operations	United States Operations	Corporate[(1)]	Total
December 31, 2019	**$ 162,428**	**$ 299,922**	**$ 34,315**	**$ 496,665**
December 31, 2018	$ 143,138	$ 356,160	$ 21,043	$ 520,341

Note:
(1) The Corporate Segment does not represent an operating segment and is included for informational purposes only.

23. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation comprised:

	2019	2018
Short-term employment benefits	2,858	2,177
Share-based payment	371	2,407
Post-employment benefits	58	—
Total	3,287	4,584

There were no related party transactions during the year ended December 31, 2019.

24. SUBSEQUENT EVENTS

In February 2020 the Company's ABL facility was amended, effective January 1, 2020, to reflect a reduction in the springing fixed charge ratio from 1.25:1 to 1.10:1 to be measured monthly for the twelve consecutive periods ending December 31, 2020. At all times thereafter, the calculation reverts to the original requirement of 1.25:1 to be measured when the Company's excess availability is less than 20% of the borrowing base and the operating facility. The amendment also included minor revisions to the borrowing base formula for amounts committed to supporting letters of credit under the facility.