

Source Energy Services Reports Q4 2019 and Year End Results

Calgary, Alberta (March 5, 2020) **TSX: SHLE**

Source Energy Services Ltd. ("Source") is pleased to announce its 2019 financial results and achievements.

HIGHLIGHTS

2019 was a challenging year for the oilfield services industry in the Western Canadian Sedimentary Basin ("WCSB"), as exploration and production ("E&P") companies wrestled with lower commodity prices and significant investor pressure to keep capital spending within available cashflows, resulting in substantial spending decreases on both drilling and completion activities. Despite this backdrop, some of the key achievements realized for the fourth quarter and year ended December 31, 2019 were as follows:

Fourth Quarter

- recorded Adjusted EBITDA⁽¹⁾ was \$9.2 million which was \$12.4 million higher than the \$(3.2) million of Adjusted EBITDA loss in the three months ended December 31, 2018;
- achieved 51% growth in sand sales volume when compared with the fourth quarter of 2018;
- recorded new daily throughput record for both Sahara and terminals which that saw Source deliver over 16,000 MT in a single day;
- decreased costs of sales by 4% through cost saving initiatives and operational optimization;
- increased wellsite solutions revenue by \$1.9 million, or 27%, compared to the fourth quarter of 2018, reflecting the increasing demand for Source's full logistics services; and
- recorded an increase of 47.4 million MTs of indicated resource at the Blair facility.

Full Year 2019

- grew market share in the WCSB, with a 3% decline in sales into the WCSB, as opposed to an industry-wide decline in completion activities of approximately 20%;
- distributed total volumes through Source's WCSB terminal network of 2,325,742 MT;
- delivered 84% of sand volumes under contracts with customers that require reliable supply delivered at increasingly higher daily volumes;
- renewed supply contracts with three of our major customers;
- advanced Source's diversification strategy, recognizing in-year revenue and entering into contracts for the 2020 year for the transloading of pipe and magnetite;
- achieved Adjusted EBITDA⁽¹⁾ of \$48.6 million;
- realized gross margin of \$37.6 million and Adjusted Gross Margin⁽¹⁾ of \$79.7 million; and
- realized a net loss of \$90.0 million or \$(1.47) per share including non-cash pre-tax charges for impairment and asset write-down of \$71.1 million.

Note:

(1) Adjusted EBITDA and Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS, see "Non-IFRS Measures" below.

RESULTS OVERVIEW

(\$000's, except MT and per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2019	2018 ⁽⁵⁾	2019	2018 ⁽⁵⁾
Sand volumes (MT)⁽¹⁾	479,017	373,171	2,233,034	2,560,855
Sand revenue	58,401	45,459	281,866	342,428
Wellsite solutions	9,235	7,299	46,208	67,264
Terminal services	1,006	1,307	4,882	5,335
Sales	68,642	54,065	332,956	415,027
Cost of sales	51,669	47,109	253,302	325,738
Cost of sales – depreciation and depletion	6,351	3,253	42,043	20,274
Cost of sales	58,020	50,362	295,345	346,012
Gross margin	10,622	3,703	37,611	69,015
Operating expenses	5,423	7,230	20,710	18,388
General & administrative expenses	2,712	3,225	12,247	14,935
Depreciation	4,020	3,083	16,212	12,009
Income (loss) from operations	(1,533)	(9,835)	(11,558)	23,683
Total other expense⁽²⁾⁽⁴⁾	670	5,336	102,338	25,379
Income (loss) before income taxes	(2,203)	(15,171)	(113,896)	(1,696)
Current income tax recovery	—	—	—	—
Deferred income tax expense (recovery)	416	(366)	(23,941)	1,169
Net loss	(2,619)	(14,805)	(89,955)	(2,865)
Net loss per share (\$/share)	(0.05)	(0.02)	(1.47)	(0.04)
Diluted net loss per share (\$/share)	(0.05)	(0.02)	(1.47)	(0.04)
Adjusted EBITDA ⁽³⁾	9,184	(3,230)	48,626	58,972
Sand revenue sales/MT	121.92	121.82	126.23	133.72
Gross margin/MT	22.17	9.92	16.84	26.95
Adjusted Gross Margin ⁽³⁾	16,973	6,956	79,654	89,289
Adjusted Gross Margin/MT ⁽³⁾	35.43	18.64	35.67	34.87
Percentage of mine gate sand volumes	0%	15%	0%	10%
Percentage of sand volumes sold in the WCSB	100%	85%	100%	90%
Sales mix impact of mine gate sales/MT	\$—	\$5.33	\$—	\$2.70
Impact of Preferred Acquisition inventory acquired at fair value/MT	\$—	\$—	\$—	\$0.74

Notes:

- (1) One MT is approximately equal to 1.102 short tons.
- (2) The average Canadian to US dollar exchange rate for the three months and year ended December 31, 2019 was \$0.7576 and \$0.7536, respectively (2018 - \$0.7575 and \$0.7721, respectively).
- (3) Adjusted EBITDA and Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS. See "Non-IFRS Measures" below.
- (4) Reflects write-down of unutilized assets and a pre-tax impairment charge partially offset by a partial recovery of costs associated with the incident at Fox Creek.
- (5) Prior year operating expenses and general and administrative expenses have been reclassified to conform to current year presentation.

Q4 2019 RESULTS

Sand sales volumes in the WCSB for the three months ended December 31, 2019 increased by 51% compared to the fourth quarter of 2018 despite the volatile operating environment and the continued slowdown in activity levels in the WCSB. Sand sales in the fourth quarter of 2018 included 55,372 MT of United States ("US") mine gate sales. Sand revenue increased by 28% and total sales revenue increased 27% compared to the three months ended December 31, 2018. The increase reflects a surge in activity as E&P companies looked to Source to satisfy the demand for reliable, high-volume supply delivered in a short period of time as they exhausted available in-year capital. This year-end burst of activity allowed Source to showcase its capabilities as it set multiple daily throughput records which topped off at delivery of over 16,000 MT of sand to wellsites in the WCSB on December 14, 2019. Sand pricing for the fourth quarter of 2019 was consistent with that seen in 2018.

Wellsite solutions revenue increased by \$1.9 million, or 27%, for the three months ended December 31, 2019 compared to the fourth quarter of 2018, due to the higher volumes realized and reflecting the increasing demand for Source's logistics services. Sahara revenue also increased, as the available fleet of eight units were 40% utilized for the three months ended December 31, 2019 compared to the 37% utilization rate of a five-unit Sahara fleet for the three months

ended December 31, 2018. Sahara unit utilization reached its peak in December 2019 when the six Canadian units were fully utilized.

Cost of sales, excluding depreciation and depletion, increased in aggregate by 10% in the quarter primarily due to higher sales volumes, but cost of sales, excluding depreciation and depletion, decreased on a per tonne basis by approximately 15%. The increase in cost of sales was partly offset by a reduction in production costs as well as lower logistics costs due to improved efficiencies and focused optimization efforts.

Gross margin and Adjusted Gross Margin increased by \$6.9 million and \$10.0 million, respectively, compared to the fourth quarter of 2018, with a 28% increase in sales volumes and a \$0.10 per MT increase in sand sales price driving the increase. Gross margin and Adjusted Gross Margin were also impacted by the IFRS accounting changes implemented in January 2019, with the removal of the heavy equipment and rail car leases from cost of sales. No mine gate sales occurred in the fourth quarter of 2019, compared to an impact to gross margins of \$5.33 per MT from these sales in the fourth quarter of 2018.

On a quarter-over-quarter basis, operating and general and administrative expenses for the three months ended December 31, 2019 were lower by 4% after normalizing for the 2018 fourth quarter reclass of certain selling costs previously absorbed in cost of sales. Workforce optimization efforts implemented in the third quarter of 2019 drove a reduction in salaries cost, which was offset by an increase in incentive compensation.

For the three months ended December 31, 2019, Adjusted EBITDA was \$9.2 million which was \$12.4 million, or 384%, higher than the \$(3.2) million of Adjusted EBITDA loss in the three months ended December 31, 2018. Higher sales volumes, as noted above, contributed to the increase. Diversification initiatives, launched in 2019, also favorably impacted Adjusted EBITDA.

Liquidity and Capital Resources

The Company has a banking operating facility, comprised of an asset backed loan facility ("ABL") and a standby letter of credit facility (collectively, with the ABL, the "Credit Facility"). As of December 31, 2019, Source had \$28.7 million drawn under its ABL. The Credit Facility was also being used to support \$17.5 million of letters of credit leaving \$18.4 million of available liquidity. Source is subject to externally imposed capital requirements for the Credit Facility, requiring Source Energy Services Canada LP 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. In January 2020 an amendment to the ABL was completed, including a reduction of the fixed charge ratio to 1.10:1 for all periods ending on or before December 31, 2020. As of December 31, 2019, the excess availability was 28% and the fixed charge coverage ratio was 1.26:1.

As of December 31, 2019, Source Energy Services and its subsidiaries were compliant with all covenants of the Credit Facility.

Capital expenditures <i>(\$000's, except MT and per unit amounts)</i>	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Terminal expansion	(5,788)	3,326	4,272	16,180
Wellsite solutions	293	6,608	5,115	16,750
Production expansion	784	7,159	6,561	28,315
Overburden removal	779	1,862	3,672	6,331
Other	23	144	49	402
Capital expenditures	(3,909)	19,099	19,669	67,978

In the fourth quarter of 2019, capital expenditures were \$(3.9) million, \$23.0 million lower than the same period last year. The reduction reflects the reduced spend due to the completion of processing equipment improvements and Sahara units completed in 2018, partially offset by \$5.9 million of interim insurance proceeds received related to the Fox Creek terminal expansion project.

Source previously announced that capital spending for 2020 was expected to be limited to \$5.6 million. Previous investment in processing assets and logistics infrastructure will allow for modest capital expenditures through 2020 and beyond even as industry activity returns to more normalized levels.

BUSINESS OUTLOOK

Through 2019, Source was impacted by low activity levels across the WCSB. This decline in activity levels was due to an uncertain economic and regulatory environment, fluctuating commodity pricing and constrained takeaway capacity.

Despite the challenging operating environment, Source grew market share in 2019, with Source's year-over-year decline in WCSB volumes significantly lower than the overall decline in completion activity levels across the WCSB. Source continues to address the competitive market and manage margins through an ongoing focus on operating cost efficiencies, further diversification of revenue streams and broadening its service platform through the delivery of other service offerings at the wellsite to help reduce the impact of commodity cycles.

Source entered 2020 with five significant E&P customers under long-term contractual arrangements. These contracted sales are in addition to sales to other E&P companies that wish to direct-source sand on a non-contract basis, as well as traditional sales to pressure pumping customers. While Source's total sales volumes have decreased from 2018, existing direct sales contracts are expected to help Source continue growing its market share through 2020.

Source has also seen E&P companies drive additional efficiencies in their completion programs by completing fracs over much shorter periods of time. In some cases, timelines for frac programs have reduced by as much as 50%. In order to be successful supporting these accelerated programs, larger volumes of frac sand need to be available over shorter periods of time. Source's terminal network and logistics capabilities have become a key component in the success of accelerated frac programs, further enhanced by the delivery capability of the Sahara units. Additionally, Source continues to focus on improving logistics for other items needed at the wellsite, in response to customer requests to expand our service offerings.

With 2020 under way, commodity price volatility reflects an uncertain demand for oil and natural gas in 2020, Source remains cautiously optimistic that activity levels for the year will remain relatively flat to 2019. Beyond 2020, we continue to be excited about the longer-term industry prospects with anticipated improved pipeline and other transportation capacity and the longer-term impacts of increased demand for LNG on WCSB activity levels. Analysis of pipeline egress capacity, coal to natural gas power generation conversions and the potential for additional hydrocarbon shipments by rail support the Company's expectation that activity levels should substantially increase in the coming years. Source believes its direct sales contracts and proven service levels will enable it to navigate a challenging operating environment until activity levels increase. Source is ideally positioned to serve the increase in demand for frac sand and logistics services as activity levels rebound. Source also continues to develop opportunities to further utilize its existing Western Canadian terminals to provide additional diversification of its business. Over the longer-term, Source anticipates that these new terminal services will be a meaningful part of its business.

UPDATED NI 43-101 TECHNICAL REPORTS FOR THE MINERAL PROJECTS IN WISCONSIN, UNITED STATES

Source is pleased to announce that it has filed with the applicable Canadian securities regulatory authorities updated National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") technical reports for each of its three mineral projects in Wisconsin, United States (collectively, the "Technical Reports").

The Technical Reports have each been prepared with an effective date of December 31, 2019 and were updated as part of an annual assessment that accounts for conventional mining depletion of the mineral resources and include updated production records. The updated resources do not represent a 100% or greater change in the total mineral resources.

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no guarantee that all or any part of the mineral resource will be converted into a mineral reserve. Source has not based its production decisions and ongoing mine production on mineral reserve estimates, preliminary economic assessments, pre-feasibility studies or feasibility studies. As a result, there may be an increased uncertainty of achieving any particular level of recovery of minerals or the cost of such recovery and historically projects without any mineral reserves have increased uncertainty and risk of failure.

Further details with respect to the scientific and technical information contained in this press release are available in the Technical Reports, which are available under the Company's SEDAR profile at www.sedar.com.

All scientific and technical information in this press release was prepared in accordance with the standards of the Canadian Institute of Mining, Metallurgy and Petroleum and NI 43-101 and was compiled, reviewed, verified and reported by Roy Eccles, M. Sc., P. Geol. who is the Qualified Person for the purpose of NI 43-101.

FOURTH QUARTER CONFERENCE CALL

A conference call to discuss Source's fourth quarter financial results has been scheduled for 7:30 am MT (9:30 am ET) on Friday, March 6, 2020.

Interested analysts, investors and media representatives are invited to register to participate in the call. Once you are registered, a dial-in number and passcode will be provided to you via email. The link to register for the call is on the [Upcoming Events](#) page of our website and as follows:

Source Energy Services Q4 2019 Results Call Registration

The call will be recorded and available for playback approximately 2 hours after the meeting end time, until April 6, 2020, using the following dial-in:

Playback Number

Toll-Free: 1-800-319-6413

Playback Passcode

4109

ABOUT SOURCE ENERGY SERVICES

Source 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.

Source's full-service approach allows customers to rely on its logistics platform to increase reliability of supply and to ensure the timely delivery of their requirements for frac sand and other bulk completion materials at the wellsite.

IMPORTANT INFORMATION

These results should be read in conjunction with each of Source's audited consolidated financial statements for the years ended December 31, 2019 and 2018, together with the accompanying notes (the "Financial Statements") and its corresponding management's discussion and analysis for such period (the "MD&A"). The Financial Statements and MD&A and other information relating to Source, including the Annual Information Form ("AIF"), is available under the Company's SEDAR profile at www.sedar.com. The Financial Statements and comparative statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, all amounts are expressed in Canadian dollars.

NON-IFRS MEASURES

In this press release Source has used the terms Adjusted Gross Margin and Adjusted EBITDA, including per MT, which do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), gross margin and other measures of financial performance as determined in accordance with IFRS. For additional information regarding non-IFRS measures, including their use to management and investors and reconciliations to measures recognized by IFRS, please refer to the MD&A, which is available online at www.sedar.com and through Source's website at www.sourceenergyservices.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this press release constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and

Source's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "estimates", "forecasts", "intends", "anticipates", "believes", "plans", "seeks", "projects" or variations of such words and phrases, or state that certain actions, events or results "may" or "will" be taken, occur or be achieved. Such forward-looking statements reflect Source's beliefs, estimates and opinions regarding its future growth, results of operations, future performance (both operational and financial), and business prospects and opportunities at the time such statements are made, and Source undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change. Forward-looking statements are necessarily based upon a number of estimates and assumptions made by Source that are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Forward-looking statements are not guarantees of future performance. In particular, this press release contains forward-looking statements pertaining, but not limited, to: expectations regarding increased demand for and sales volumes of sand beyond 2019; expectations regarding improved egress and associated increased demand for LNG; anticipated improvements in pipeline and transportation capacity; expectations regarding the price of proppants and sensitivity to changes in such prices; outlook for operations and sales volumes; expectations respecting future competitive conditions; industry activity levels; expectations regarding market share; industry conditions pertaining to the frac sand industry; expectations regarding customer relationships and counterparty risk; drilling and well completion activity in 2020; expectations regarding the impact of direct-source contracts; sand sales volumes and sand spot pricing in 2020; expectations regarding future working capital and capital expenditures; the ability to secure future funding; expectations regarding fluctuations in foreign currency; expectations regarding the severity and outcome of legal claims and proceedings; expectations regarding insurance coverage and proceeds; expectations regarding the impact of climate change; risks associated with information systems and cyber security and operational risks. Statements relating to mineral resources are deemed to be forward looking-statements, as they involve the implied assessment, based on certain estimates and assumptions, that the mineral resources described exist in the quantities predicted or estimated and that the mineral resources described might be able to be profitably produced in the future.

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

With respect to the forward-looking statements contained in this press release assumptions have been made regarding, among other things: proppant market prices; future oil, natural gas and natural gas liquids prices; future global economic and financial conditions; future commodity prices, demand for oil and gas and the product mix of such demand; levels of activity in the oil and gas industry in the areas in which Source operates; the continued availability of timely and safe transportation for Source's products, including without limitation, Source's rail car fleet and the accessibility of additional transportation by rail and truck; the maintenance of Source's key customers and the financial strength of its key customers; the maintenance of Source's significant contracts or their replacement with new contracts on substantially similar terms and that contractual counterparties will comply with current contractual terms; operating costs; that the regulatory environment in which Source operates will be maintained in the manner currently anticipated by Source; future exchange and interest rates; geological and engineering estimates in respect of Source's resources; the recoverability of Source's resources; the accuracy and veracity of information and projections sourced from third parties respecting, among other things, future industry conditions and product demand; demand for horizontal drilling and hydraulic fracturing and the maintenance of current techniques and procedures, particularly with respect to the use of proppants; Source's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which Source conducts its business and any other jurisdictions in which Source may conduct its business in the future; future capital expenditures to be made by Source; future sources of funding for Source's capital program; Source's future debt levels; the impact of competition on Source; and Source's ability to obtain financing on acceptable terms.

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from

regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; uninsured and underinsured losses; risks related to the transportation of Source's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the impact of climate change risk; the ability of Source to retain and attract qualified management and staff in the markets in which Source operates; labour disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavourable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; implementation of recently issued accounting standards; the use and suitability of Source's accounting estimates and judgments; and the impact of information systems and cyber security breaches.

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

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