SOURCE
ENERGY
SERVICES

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated March 8, 2023, reflects the operating and financial results of Source Energy Services Ltd. and its subsidiaries, collectively ("Source" or the "Company"), as at and for the three and twelve months ended December 31, 2022, compared with the corresponding periods in the prior year. The MD&A is provided to assist readers in understanding the Company's financial performance and position during the periods presented and significant trends that may impact the future performance of Source.

This discussion should be read in conjunction with Source's audited consolidated financial statements for the years ended December 31, 2022 and 2021 together with the accompanying notes (the "Financial Statements"). The Financial Statements and other information relating to Source, including the Annual Information Form ("AIF"), are available under the Company's SEDAR profile at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated, all amounts are expressed in Canadian dollars.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. "Adjusted EBITDA" is, among other things, used by management as a representation of earnings generated to fund capital investments and meet financial obligations, and "Adjusted Gross Margin" is used by management in measuring pricing and operating cost performance relative to other publicly listed competitors. "Free Cash Flow" is generally used to assess the ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. Refer to 'Non-IFRS Measures' for further information regarding the following non-IFRS measures used in this MD&A: "Adjusted EBITDA", "Adjusted Gross Margin" and "Free Cash Flow", as well as a reconciliation to IFRS measures of the Company.

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

About Source

Source is a company that focuses on the integrated production and distribution of 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 and Peace River mines and processing facilities, its Western Canadian terminal network, its "last mile" logistics capabilities and 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 frac sand and other bulk completion materials at the wellsite.

2022 Performance Highlights

Key highlights for the year ended December 31, 2022, included the following:

- realized Adjusted EBITDA[(1)] of $61.5 million, a 59% increase from 2021;
- reported a net loss of $8.8 million, a $15.6 million improvement from 2021;
- realized sand sales volumes of 2,845,600 MT and total revenue of $415.9 million, a 15% and 30% increase, respectively, from 2021;
- recorded utilization of 75% for the Canadian Sahara fleet and 74% for the US Sahara fleet for the year;
- closed a transaction with Canadian Silica Industries ("CSI") to assume operation of CSI's Peace River frac sand facility, complementing Source's Northern White proppant resources;
- closed a transaction for a new $75.4 million (US$55.0 million) credit facility;
- lowered borrowing costs by 200 basis points by commencing cash interest payments for the senior secured notes and further improved borrowing costs due to lower effective interest rates on the new credit facility;
- reduced amounts outstanding for the credit facilities by $9.8 million at December 31, 2022 compared to prior year;
- renewed one major customer contract at the end of the year and a second major contract in early 2023; and
- realized gross margin of $58.1 million and Adjusted Gross Margin[(1)] of $79.0 million, increases of 48% and 31%, respectively, when compared to 2021.

Note:
(1) Adjusted Gross Margin (including on a per MT basis) and Adjusted EBITDA are not defined under IFRS, refer to 'Non-IFRS Measures' below.

Results Overview

($000's, except MT and per unit amounts)	Three months ended December 31, 2022	2021	Year ended December 31, 2022	2021
Sand volumes (MT)[1]	**566,130**	528,977	**2,845,600**	2,483,362
Sand revenue	**70,291**	54,989	**341,671**	258,545
Wellsite solutions	**16,170**	11,913	**69,790**	57,621
Terminal services	**990**	648	**4,451**	3,695
Sales	**87,451**	67,550	**415,912**	319,861
Cost of sales	**71,696**	59,290	**336,940**	259,429
Cost of sales – depreciation	**5,125**	4,071	**20,827**	21,102
Cost of sales	**76,821**	63,361	**357,767**	280,531
Gross margin	**10,630**	4,189	**58,145**	39,330
Operating expense	**6,374**	4,142	**20,075**	16,514
General & administrative expense	**2,642**	1,990	**10,034**	9,283
Depreciation	**2,361**	2,426	**10,555**	9,873
Income (loss) from operations	**(747)**	(4,369)	**17,481**	3,660
Other expense (income):				
Finance expense	**8,812**	7,809	**33,147**	30,320
Share-based compensation expense	**645**	476	**947**	643
Gain on asset disposal	**(11)**	—	**(1,192)**	(63)
Unrealized loss (gain) on derivative instruments	**—**	173	**1,718**	(247)
Other income	**(1,446)**	(109)	**(2,002)**	(3,200)
Other expense[2]	**869**	108	**3,407**	203
Loss on sublease	**—**	1,159	**—**	1,159
Loss on debt extinguishment	**862**	—	**862**	—
Foreign exchange loss (gain)[3]	**1,731**	581	**(10,636)**	(752)
Total other expense	**11,462**	10,197	**26,251**	28,063
Net loss	**(12,209)**	(14,566)	**(8,770)**	(24,403)
Net loss per share ($/share)	**(0.90)**	(1.08)	**(0.65)**	(1.80)
Diluted net loss per share ($/share)	**(0.90)**	(1.08)	**(0.65)**	(1.80)
Adjusted EBITDA[4]	**6,454**	1,656	**61,501**	38,587
Sand revenue sales/MT	**124.16**	103.95	**120.07**	104.11

	December 31, 2022	December 31, 2021
Total assets	**326,897**	266,031
Total non-current financial liabilities	**233,787**	209,197

Notes:

(1) One metric tonne ("MT") is approximately equal to 1.102 short tons.

(2) Includes expenses related to the incident at the Fox Creek terminal facility, and other one-time expenses, refer to 'Contractual Obligations' and 'Operating and Financial Results' below.

(3) The average Canadian to United States ("US") dollar exchange rate for the three and twelve months ended December 31, 2022, was $0.7365 and 0.7686, respectively (2021 - $0.7935 and 0.7978, respectively).

(4) Adjusted EBITDA is not defined under IFRS, refer to 'Non-IFRS Measures' below. Includes the receipt of proceeds from the CEWS (as defined below) program of $0.2 million and $1.4 million, respectively, during the three and twelve months ended December 31, 2021.

Western Canadian Sedimentary Basin ("WCSB") completion activity levels remained strong throughout the year which drove improved sand sales volumes and increased pricing in the spot market for sand, as supply and demand dynamics rebalanced during the year. Source achieved a $96.1 million or 30% increase in total revenue compared to 2021, driven by higher sand sales volumes, higher average realized sand pricing and improved wellsite solutions revenue.

Cost of sales, excluding depreciation, increased for the year due to higher sand sales volumes and higher costs for transportation and freight, due to increased prices for fuel, compared to last year. Source incurred additional costs for third party sand purchases, procured to ensure no customer supply interruptions resulting from increased customer demand, relative to 2021. These cost increases were partly mitigated by improved sales distribution across mesh sizes resulting in improved yields. Cost of sales was also impacted by a weakening Canadian dollar on US denominated costs relative to last year; however, this was offset by gains realized on foreign currency forward contracts settled during the year.

Gross Margin	**Year ended December 31,**	
($000's, except MT and per unit amounts)	**2022**	2021
Gross margin	**58,145**	39,330
Cost of sales – depreciation	**20,827**	21,102
Adjusted Gross Margin[(1)]	**78,972**	60,432
Gross margin/MT	**20.43**	15.84
Adjusted Gross Margin/MT[(1)]	**27.75**	24.33
Percentage of mine gate sand volumes	**14%**	—%
Percentage of core product sand volumes sold	**86%**	100%
Sales mix impact of mine gate sales/MT	**2.05**	—

Note:
(1) Adjusted Gross Margin (including on a per MT basis) is not defined under IFRS, refer to 'Non-IFRS Measures' below.

For the year ended December 31, 2022, gross margin increased by $18.8 million, attributed to higher sand sales volumes and improved pricing. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $29.80 per MT, compared to $24.33 per MT in 2021, favorably impacted by improved customer and spot market pricing, despite higher costs for transportation and freight due to increased fuel costs compared to last year. Higher volumes of mine gate sales, relative to last year, contributed further reductions to cost of sales and further benefited gross margin for 2022. The weakening of the Canadian dollar negatively impacted Adjusted Gross Margin; however, this impact was largely offset by the settlement of foreign currency forward contracts settled during the year as discussed below.

Operating expenses increased on a year-over-year basis, primarily attributed to increased repairs and maintenance costs, including expenditures required to bring the new Peace River facility online, and an increase in royalty payments, directly related to higher activity levels. In 2021, general and administrative expense benefited from proceeds of the Canada Emergency Wage Subsidy ("CEWS") program and the reversal of a provision for bad debt expense.

Adjusted EBITDA was $61.5 million for the year, a reflection of the strong sand sales volumes and sand sales pricing realized. The weakening of the Canadian dollar negatively impacted Adjusted EBITDA by $1.8 million during 2022, which was more than offset by the settlement of normal course foreign exchange contracts settled during the year. As a result of rebalancing US dollar denominated revenue through the renegotiation of certain customer contracts, combined with the ABL facility (as defined below) which is denominated in US dollars, Source wound up its outstanding foreign exchange forward contracts, resulting in a realized foreign exchange gain in the third quarter.

New Senior Credit Facility

On October 14, 2022, the Company closed a new revolving asset backed senior credit facility (the "ABL") with a syndicate comprised of FGI Worldwide LLC and CIT Northbridge Credit, as advised by CIT Asset Management LLC, providing access to funding of approximately $75.4 million (US$55.0 million). The ABL provides Source with a lower cost of borrowing and less restrictive covenants.

Upon closing of the ABL, Source repaid all outstanding draws on the Credit Facility (as defined below). The Company also entered into a supplemental indenture that governs the Notes which permitted Source to execute the ABL facility in exchange for a one percent consent fee to the noteholders which was paid in kind on closing. For additional information, including the financial covenants of the ABL facility, refer to 'Long-term Debt' below.

ESG Update

Source is committed to operating in a sustainable manner and works closely with its stakeholders to go above and beyond current regulatory requirements through initiatives such as voluntary greenhouse gas emissions reduction programs, as well as Source's production water recycling program. During 2022, Source reduced its greenhouse gas emissions rate by 2.4% compared to the previous year, and 23.4% compared to the base year. Source's water recycling program reduces the reliance on local well water and in 2022 Source recycled over four hundred million litres of water, ensuring Source remained far below its permitted well water allowance. Source has reclaimed just under fourteen acres of land adjacent to its Wisconsin processing facilities, part of Source's continued effort to return the land to a thriving vegetative state. In 2022, Source purchased wetland credits to ensure any wetlands impacted by future mine expansion initiatives would be protected.

As an active member of its community, Source supports initiatives that align with its corporate values, support the charitable efforts of our employees and are located close to its operations. Source supports community needs in the areas of Arts and Culture, Education, Environment, Health and Wellness and Sports and Recreation through financial donations and employee volunteer hours.

For more information, Source's most recent ESG report is available at www.sourceenergyservices.com.

Business Outlook

Strong industry activity continues to favorably impact frac sand supply and demand fundamentals which are expected to remain strong through 2023. Previous well permitting issues in the northeastern British Columbia region, which caused customer delays in late 2021 and through 2022, have now been resolved and are expected to bring increased activity to the region again as exploration and production ("E&P") companies catch up on their development plans. Source has renewed customer contracts with terms and conditions reflective of the current operating environment. Source believes these fundamentals, coupled with Source's leading service offerings and logistics capabilities required for larger volumes of sand per well, as well as Source's terminal network footprint, would support further improved gross margins in 2023.

In the longer-term, Source believes the increased demand for natural gas, driven by power generation facilities, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB. Source continues to see increased demand from customers that are primarily focused on the development of natural gas properties in the Montney, Duvernay and Deep Basin. This trend is consistent with Source's view that natural gas will be an important transitional fuel that is critical for the successful movement to a less carbon intensive world.

Source continues to focus on increasing its involvement in the provision of logistics services for other items needed at the wellsite in response to customer requests to expand its service offerings and to further utilize its existing Western Canadian terminals to provide additional services.

Operations Overview

Sand revenue is predominately comprised of sand sales in the WCSB at a Source terminal or to a customer at the wellsite utilizing Source's integrated logistics business model. This is Source's core business.

Sand revenue may also include mine gate sand sales, which include the sale of products that are lower in demand and sold at either the mine sites in the US or to certain customer sites in the WCSB. Mine gate sand sales are undertaken to maximize production efficiencies but are not considered Source's core business and are typically sold at lower sales prices and may provide a comparatively lower margin per MT sold.

Wellsite solutions revenue is comprised of revenue from "last mile" logistics (i.e., from a Source terminal to the wellsite), and wellsite service offerings including Sahara units. Source believes its "last mile" services benefit customers by managing overall trucking activity, increasing reliability of supply at the wellsite and increasing operational efficiencies. Source also provides terminal services for certain well-completion products that are not produced by Source. These products primarily consist of hydrochloric acid, chemicals and resin-coated proppants. The magnitude of terminal services revenue realized by Source generally follows completion activity trends in the WCSB.

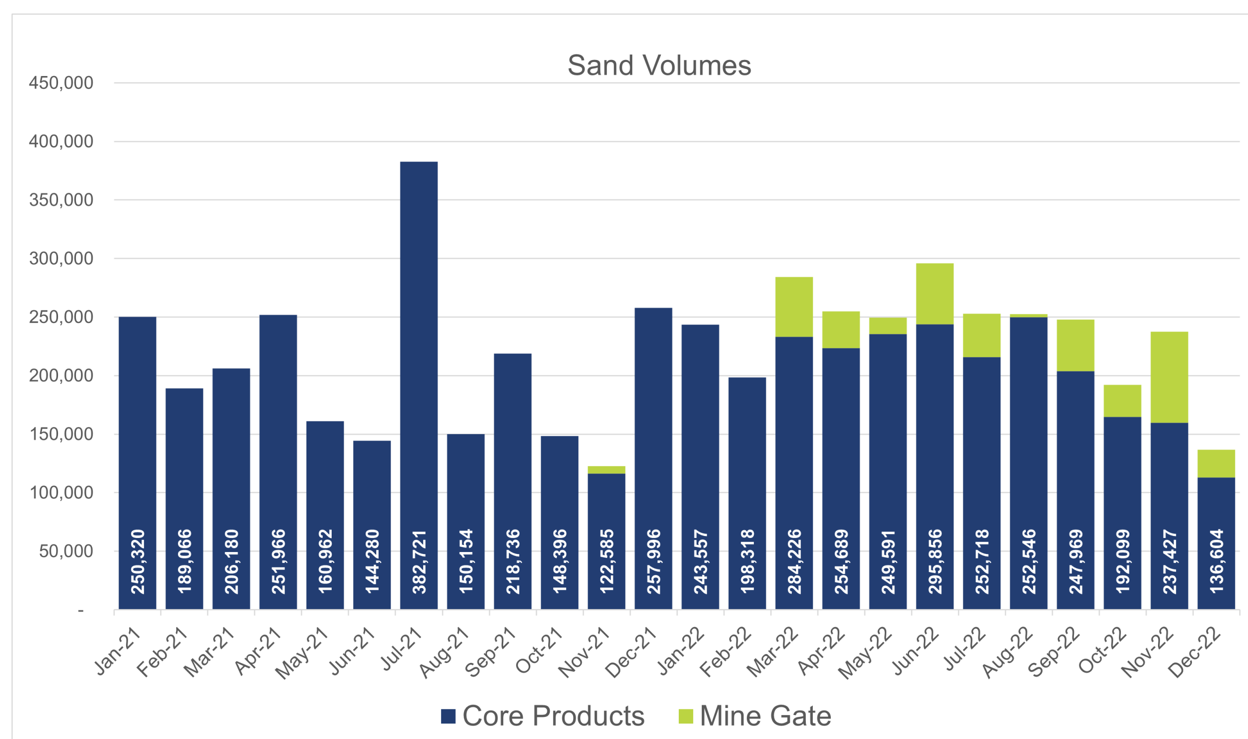
Source's business is seasonal in nature, with the majority of activity normally occurring in the first and third quarters of the year. As a result, Source's operating results may vary on a quarterly basis. Lower activity levels are usually realized in the fourth quarter, as E&P companies evaluate remaining capital spend for the year, and in the second quarter due to spring break-up. Spring break-up occurs for a period of approximately eight weeks between March and June as the frost comes out of the roads in Western Canada and hauling weight restrictions are put in place. The severity of the winter snowfalls and the amount of moisture received during this period impact the length of spring break-up. In addition, some exploration and production areas in Northern Canada are accessible only in the winter months when the ground is frozen. There are other factors that will impact the Company's activities from quarter-to-quarter including commodity prices and completion activity levels of E&P companies.

Consistent with general industry practice, Source mines and washes more sand than current delivery requirements during the warmer months when Source's processing facilities are more efficient. The excess sand is placed in stockpiles that feed drying operations throughout the year. Frac sand washing facilities in Wisconsin and at Peace River are generally not operated during the winter months; however, Source's sand washing facility at its Sumner facility is fully enclosed and heated, making it capable of operating year-round. Winter operations at the Sumner facility are an important aspect of Source's business, as the WCSB is seasonally busiest in the winter months. Source's wash plants at the Blair, Preston and Peace River facilities are not enclosed and therefore are generally not operated during the winter months, but the dry plants at all of Source's facilities are operated on a year-round basis.

Annual Results Review

Sand Revenue

For the year ended December 31, 2022, Source realized sand revenue of $341.7 million, an increase of $83.1 million or 32% compared to last year. The increase is due to 15% higher sand volumes and a 22% increase in average realized sand price. Excluding mine gate sales, average realized sand price increased by $23.16 per MT compared to the year ended 2021. Revenue realized from mine gate sales lowered the average realized sand price realized by $7.20 per MT; however, all mine gate sales have a significantly favorable impact on cost of sales and gross margins, as noted below. For the year ended December 31, 2022, sand volumes increased relative to last year due to higher activity levels in the WCSB and increasing frac sand intensities in customer completion programs, particularly in the Montney region. The increased sand revenue for the year reflects pricing gains realized for both spot customers and contracted customers, as continued strength in oil and natural gas liquids prices drove strong industry activity levels, further contributing to ongoing sand supply pressure in the WCSB.



Wellsite Solutions Revenue

Wellsite solutions revenue was $69.8 million for the year ended December 31, 2022, an increase of 21% or $12.2 million compared to last year. Despite slightly lower trucking volumes compared to 2021, wellsite solutions revenue was favorably impacted by an increase in the average distance hauled based on wellsite locations, as well as higher logistics flow-through revenues. Sahara-related revenue increased 39% on a year-over-year basis, due to a 27% increase in days utilized across the nine-unit fleet. Sahara units operating in the US generated an increase in revenue of $3.2 million, or 311%, while the Canadian fleet generated a year-over-year increase in revenue of 19%. During 2022, Source added three new customers to the roster for Sahara units, further contributing to increased Sahara utilization and revenue compared to 2021.

Terminal Services Revenue

For the year ended December 31, 2022, terminal services revenue was $4.5 million, an increase of $0.8 million compared to 2021. The increase was primarily due to higher chemical elevation volumes and proppant storage revenue, as well as revenue generated from the transloading of other non-sand materials, including ceramic proppant and condensate. These increases were partially offset by a reduction in sand elevation volumes, compared to last year.

Cost of Sales

($000's)	Year ended December 31, 2022	2021
Direct materials	**274,397**	207,272
People costs	**14,038**	10,627
Equipment costs	**2,733**	2,327
Transportation costs	**44,904**	38,743
Facility costs	**868**	460
Cost of sales	**336,940**	259,429
Cost of sales - depreciation	**20,827**	21,102

Cost of sales, excluding depreciation, increased by $77.5 million for the year ended December 31, 2022 compared to 2021. The increase was driven primarily by higher sand sales volumes and increased transportation and freight costs, resulting from higher prices for fuel and trucking, as well as higher costs for third party sand purchases completed to complement sand production at the processing facilities in Wisconsin. As noted above, the impact of lower-value mine gate sales favorably impacts cost of sales, driving improved production efficiencies and yields. For the year ended December 31, 2022, these finer and coarser-sand sales drove a reduction in cost of sales for sand of US $1.77 per MT. Last year, cost of sales was favorably impacted by proceeds received from the CEWS program, totaling $0.8 million for the year ended December 31, 2021.

Significant components of cost of sales are denominated in US dollars, including sand processing and rail freight, and are therefore subject to exchange rate fluctuations. During the year, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed an increase of $3.32 per MT to cost of sales, compared to last year. The increase in cost of sales resulting from the impact of foreign exchange was largely offset by foreign exchange gains realized from the settlement of foreign exchange forward contracts during the year (refer to 'Foreign Exchange Gain' below).

Gross Margin

For the year ended December 31, 2022, gross margin increased by $18.8 million, attributed to higher sand sales volumes and improved pricing, as noted above. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $29.80 per MT, compared to $24.33 per MT in 2021, favorably impacted by improved customer and spot market pricing, despite higher costs for transportation and freight due to increased fuel costs compared to last year. During 2022, Adjusted Gross Margin did not benefit from proceeds received from the CEWS program in 2021. Excluding this item in 2021, Adjusted Gross Margin (excluding margin from mine gate volumes) increased by 29% per MT for the year ended December 31, 2022 compared to last year.

The weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by approximately $1.96 per MT; however, this impact was offset by the settlement of foreign currency forward contracts settled during the year.

Operating and General & Administrative Expense

	Year ended December 31, 2022		2021	
($000's)	**OPEX**	**G&A**	OPEX	G&A
People	**8,969**	**6,993**	8,420	6,533
Equipment	**2,746**	**1**	1,435	1
Facility	**1,591**	**65**	1,379	33
Selling and administrative	**6,769**	**2,975**	5,280	2,716
Operating and General & Administrative Expense	**20,075**	**10,034**	16,514	9,283

For the year ended December 31, 2022, total operating and general and administrative expense increased $4.3 million to $30.1 million. Operating expense increased by $3.6 million over 2021 primarily due to increased equipment-related costs incurred as a result of bringing the Peace River mining facility online, as well as higher repairs and maintenance for Source's rail car fleet. The rise in selling and administrative costs resulted from increased insurance expense, travel costs and increased royalty costs as a result of higher sand shipments from mines that require royalty payments. An improvement in activity levels and no proceeds received from the CEWS program in 2022, compared to $0.3 million of CEWS proceeds received in 2021, drove higher compensation expense, partially offset by lower variable incentive compensation expense compared to the year ended December 31, 2021.

General and administrative expense increased $0.8 million in 2022 compared to 2021, primarily due to higher people costs attributed to incremental compensation expense, as no proceeds were received from the CEWS program this

year compared to $0.3 million received in 2021, partly offset by lower variable incentive compensation compared to the prior year. Higher selling and administrative costs resulted from increased professional fees in 2022 and a bad debt provision reversal recorded in 2021.

Depreciation

Depreciation expense increased $0.7 million for the year ended December 31, 2022, compared to 2021, primarily the result of a weakened Canadian dollar on US dollar denominated assets and the capitalization of the Peace River facility.

Share-based Compensation

Share-based compensation expense increased $0.3 million for the year ended December 31, 2022 compared to 2021. The changes are attributed to the movement in Source's share price relative to prior year. Share-based compensation expense is attributed to deferred share units ("DSUs"), restricted share units ("RSUs"), performance share units ("PSUs") and share appreciation rights ("SARs").

Unrealized Loss (Gain) on Derivative Assets

Source recorded an unrealized loss of $1.7 million for the year ended December 31, 2022, compared to a gain of $0.2 million last year. Source purchased foreign exchange forward contracts to further mitigate risk associated with the fluctuation in US dollar to Canadian dollar exchange rates. As a result of rebalancing US dollar denominated revenue, combined with the ABL facility which is denominated in US dollars, Source wound up all of its remaining outstanding foreign exchange forward contracts during the year resulting in the derecognition of the derivative assets.

Other Income

Compared to the year ended December 31, 2021, other income decreased $1.2 million in 2022, primarily due to forgiveness of Source's Paycheck Protection Program, issued by the US Small Business Association in 2021. The Company received net proceeds of $2.5 million during the fourth quarter of 2022 from the Employee Retention Credit ("ERC") program under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), administered by the US Small Business Administration. This benefit was partly offset by the reversal of a provision previously recorded in respect of a sales and use tax recovery related to the Company's Wisconsin processing facilities.

Other Expense

For the year ended December 31, 2022, other expense increased by $3.2 million compared to the year ended December 31, 2021. The increase is primarily due to a one-time retirement payment in the first half of 2022 as well as professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019.

Loss on Sublease

During the fourth quarter of 2021, Source entered into a sublease agreement for its previous head office. As a result, the Company recognized a $1.2 million loss for the year ended December 31, 2021.

Loss on Debt Extinguishment

Upon closing of the ABL facility, Source repaid all outstanding draws on the Prior ABL and Term Loan (as defined below). The execution of the ABL resulted in an extinguishment of the Prior ABL facility and Term Loan, due to unrecognized deferred financing costs, and the Company realized a loss on extinguishment of debt of $0.9 million for the year ended December 31, 2022.

Foreign Exchange Gain

The foreign exchange gains Source recognized during the year increased by $9.9 million compared to the year ended December 31, 2021. Source entered into foreign exchange contracts to reduce the volatility of the currency impact on financial results.

In addition to the normal course foreign exchange contracts which were settled during 2022, as a result of rebalancing US dollar denominated revenue compared to US dollar denominated costs and the ABL facility which is denominated in US dollars, Source settled all of its remaining outstanding foreign exchange forward contracts and realized a foreign exchange gain for the year.

Partly offsetting the foreign exchange gains realized on the settlement of foreign exchange forward contracts outlined above, Source was impacted by foreign exchange rate movement on the settlement of working capital items denominated in US dollars of $1.8 million for the year ended December 31, 2022.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sand volumes (MT)	*645,566*	*557,208*	*751,611*	*528,977*	*726,101*	*800,136*	*753,233*	*566,130*
Sand revenue	66,115	58,098	79,343	54,989	80,661	93,546	97,173	70,291
Wellsite solutions	14,121	14,033	17,554	11,913	15,416	16,456	21,748	16,170
Terminal services	1,653	605	789	648	892	1,584	985	990
Sales	81,889	72,736	97,686	67,550	96,969	111,586	119,906	87,451
Cost of sales	63,619	56,526	79,994	59,290	76,603	89,869	98,772	71,696
Cost of sales - depreciation	7,582	4,528	4,921	4,071	5,793	5,177	4,732	5,125
Cost of sales	71,201	61,054	84,915	63,361	82,396	95,046	103,504	76,821
Gross margin	10,688	11,682	12,771	4,189	14,573	16,540	16,402	10,630
Operating expense	3,718	4,048	4,606	4,142	4,336	4,801	4,564	6,374
General & administrative expense	2,604	2,390	2,299	1,990	2,489	2,698	2,205	2,642
Depreciation	2,785	2,326	2,336	2,426	2,654	2,707	2,833	2,361
Income (loss) from operations	1,581	2,918	3,530	(4,369)	5,094	6,334	6,800	(747)
Other expense (income):								
Finance expense	7,463	7,410	7,638	7,809	7,903	7,909	8,523	8,812
Share-based compensation expense (recovery)	186	(16)	(3)	476	759	(186)	(271)	645
Loss (gain) on asset disposal	—	(9)	(54)	—	—	(1,183)	2	(11)
Unrealized loss (gain) on derivative assets	—	(420)	—	173	1,619	(4,058)	4,157	—
Other income	(162)	(2,760)	(169)	(109)	(163)	(368)	(25)	(1,446)
Other expense(1)	44	—	51	108	2,129	262	147	869
Loss on sublease	—	—	—	1,159	—	—	—	—
Loss on debt extinguishment	—	—	—	—	—	—	—	862
Foreign exchange loss (gain)	(564)	(415)	(354)	581	(513)	(250)	(11,604)	1,731
Total other expense (income)	6,967	3,790	7,109	10,197	11,734	2,126	929	11,462
Net income (loss)	(5,386)	(872)	(3,579)	(14,566)	(6,640)	4,208	5,871	(12,209)
Net earnings (loss) per share ($/share)	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)	0.31	0.43	(0.90)
Diluted net earnings (loss) per share ($/share)	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)	0.31	0.38	(0.90)
Net income (loss)	(5,386)	(872)	(3,579)	(14,566)	(6,640)	4,208	5,871	(12,209)
Interest expense	6,362	6,265	6,456	6,594	6,669	6,618	7,003	6,812
Depreciation	2,785	2,326	2,336	2,426	2,654	2,707	2,833	2,361
Cost of sales - depreciation	7,582	4,528	4,921	4,071	5,793	5,177	4,732	5,125
Loss on debt extinguishment	—	—	—	—	—	—	—	862
Finance expense (excluding interest expense)	1,101	1,145	1,182	1,215	1,234	1,291	1,520	2,000
Share-based compensation expense (recovery)	186	(16)	(3)	476	759	(186)	(271)	645
Loss (gain) on asset disposal	—	(9)	(54)	—	—	(1,183)	2	(11)
Unrealized loss (gain) on derivative assets	—	(420)	—	173	1,619	(4,058)	4,157	—
Loss on sublease	—	—	—	1,159	—	—	—	—
Other expense(1)	44	—	51	108	2,129	262	147	869
Adjusted EBITDA(2)	12,674	12,947	11,310	1,656	14,217	14,836	25,994	6,454
Sand revenue sales/MT	102.41	104.27	105.56	103.95	111.09	116.91	129.01	124.16
Gross margin	10,688	11,682	12,771	4,189	14,573	16,540	16,402	10,630
Cost of sales - depreciation	7,582	4,528	4,921	4,071	5,793	5,177	4,732	5,125
Adjusted Gross Margin(2)	18,270	16,210	17,692	8,260	20,366	21,717	21,134	15,755
Gross margin/MT	16.56	20.97	16.99	7.92	20.07	20.67	21.78	18.78
Adjusted Gross Margin/MT(2)	28.30	29.09	23.54	15.62	28.05	27.14	28.06	27.83

Notes:

(1) Includes expenses related to the incident at the Fox Creek terminal facility (refer to 'Contractual Obligations' below) and one-time retirement payments in the first and second quarters of 2022.

(2) Adjusted EBITDA and Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS, refer to 'Non-IFRS Measures' below

Fourth Quarter Results Review

Revenue

Source sold sand volumes of 566,130 MT for the three months ended December 31, 2022, generating sand revenue of $70.3 million, an increase of $15.3 million or 28% from the fourth quarter of 2021. The increase was primarily due to a 33% increase in average realized sand price ($35.08 per MT, excluding mine gate sales). During the fourth quarter, revenue from mine gate sales lowered the average realized sand price by $14.87 per MT; however, the impact of mine gate sales on average realized sand pricing was more than offset by the pricing increases for spot and contract customers. As outlined above, the sale of lower-value mine gate sales has a favorable impact on production costs, creating efficiencies which result in increased production yields. The increased sand revenue reflects meaningful pricing gains realized for both spot customers and contracted customers, relative to the fourth quarter of last year, as certain pricing contracts reflect pricing increases implemented late in 2022.

For the three months ended December 31, 2022, wellsite solutions revenue was $16.2 million, an increase of $4.3 million or 36% compared to the same period in 2021. During the quarter, trucking volumes were lower compared to the fourth quarter of 2021, impacted by certain customer job and permitting delays. Despite the lower volumes, last mile trucking solutions generated a 32% increase in revenue over the same quarter last year, favorably impacted by longer trips from terminal to the wellsite and increased pricing realized. Sahara-related revenue increased 44% on a quarter-over-quarter basis, due to a 35% increase in days utilized across the nine-unit fleet. Sahara units operating in the US achieved utilization of 85%, with recently added customers operating in New Mexico and Montana.

For the fourth quarter of 2022, terminal services revenue was $1.0 million, an increase of $0.3 million compared to the fourth quarter last year. The increase during the fourth quarter was primarily due to higher chemical elevation volumes, as well as revenue generated from the transloading of other non-sand materials, reflecting the commencement of an agreement to transload condensate rail cars through the first quarter of 2023. A reduction in sand elevation volumes for the quarter, compared to the same period last year, partially offset these increases.

Cost of Sales

	Three months ended December 31,	
($000's)	**2022**	2021
Direct materials	**57,008**	47,961
People costs	**3,524**	2,728
Equipment costs	**667**	622
Transportation costs	**10,362**	7,884
Facility costs	**135**	95
Cost of sales	**71,697**	59,290
Cost of sales - depreciation	**5,125**	4,071

Cost of sales, excluding depreciation, increased by $12.4 million for the fourth quarter of 2022 compared to the same period in 2021. Higher sand sales volumes realized impacted cost of sales, as well as of higher costs for transportation and freight. In the fourth quarter of 2022, increased amounts of third party sand were purchased, and incremental fuel surcharges were incurred on these purchases, unfavorably impacting cost of sales, excluding depreciation. These increases were partially offset by a reduction in production costs, attributed to warmer weather experienced during the fourth quarter, which contributed to increased production efficiencies. Last year, cost of sales was favorably impacted by proceeds received from the CEWS program totaling $0.1 million for the fourth quarter of 2021.

Significant components of cost of sales are denominated in US dollars, including sand processing and rail freight, and are therefore subject to exchange rate fluctuations. During the fourth quarter of 2022, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed an increase of $6.38 per MT to cost of sales, compared to the same period last year.

Gross Margin

($000's, except MT and per unit amounts)	**Three months ended December 31,** **2022**	2021
Gross margin	**10,630**	4,189
Cost of sales – depreciation	**5,125**	4,071
Adjusted Gross Margin[(1)]	**15,755**	8,260
Gross margin/MT	**18.78**	7.92
Adjusted Gross Margin/MT[(1)]	**27.83**	15.62
Percentage of mine gate sand volumes	**25%**	—%
Percentage of sand volumes sold in the WCSB	**75%**	100%

Gross margin increased by $6.4 million for the quarter. Gross margin was unfavorably impacted by higher cost of sales - depreciation realized, attributed to higher rates of inventory depreciation per MT relative to the fourth quarter last year. Excluding gross margin from mine gate volumes, Adjusted Gross Margin for the fourth quarter was $30.15 per MT, favorably impacted by improved customer and spot market pricing, as well as certain production adjustments to offset increasing costs for fuel. These pricing improvements more than offset higher costs for transportation and freight due to higher fuel costs, compared to the fourth quarter of 2021. Excluding the impact of the weakening Canadian dollar during the three months ended December 31, 2022, and the benefit of proceeds from the CEWS program during the fourth quarter of 2021, Adjusted Gross Margin (excluding margin from mine gate volumes) increased by $14.65, or 94%, compared to the same period last year. The weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by approximately $3.29 per MT.

Operating and General & Administrative Expense

	Three months ended December 31,			
	2022		2021	
($000's)	**OPEX**	**G&A**	OPEX	G&A
People	**2,976**	**1,926**	1,800	1,538
Equipment	**1,086**	**—**	397	—
Facility	**412**	**23**	368	14
Selling and administrative	**1,901**	**693**	1,577	438
Operating and General & Administrative Expense	**6,375**	**2,642**	4,142	1,990

For the fourth quarter of 2022, total operating and general and administrative expense increased $2.9 million, compared to the same period in 2021. During the three months ended December 31, 2022, operating expense increased by $2.2 million from the same period last year. The increase is primarily due to increased people costs as a result of higher compensation expense, including variable incentive compensation, as well as higher repairs and maintenance for Source's rail car fleet which resulted in increased equipment costs compared to prior year. Royalty costs incurred grew as a result of higher sand shipments from mines that require royalty payments and, combined with increased insurance expense, led to increased selling and administrative costs compared to the same period last year.

General and administrative expense increased $0.7 million in the fourth quarter of 2022 compared to the same quarter in 2021, primarily due to increased people costs as a result of higher compensation expense, including higher variable incentive compensation in the current quarter. Higher selling and administrative costs were incurred during the quarter as a result of increased professional fees compared to last year.

Other Income

For the three months ended December 31, 2022, other income increased $1.3 million compared to the same period in the prior year. The Company received net proceeds of $2.5 million during the quarter from the ERC program under the CARES Act, partly offset by the reversal of a provision previously recorded in respect of a sales and use tax recovery related to the Company's Wisconsin processing facilities, as noted above.

Other Expense

For the three months ended December 31, 2022, other expense increased by $0.8 million compared to the three months ended December 31, 2021. The increase is due to higher professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019.

Liquidity and Capital Resource Management

Free Cash Flow	Three months ended December 31,		Year ended December 31,	
($000's)	**2022**	2021	**2022**	2021
Adjusted EBITDA[1]	**6,454**	1,656	**61,501**	38,587
Financing expense paid	**(16,311)**	(1,888)	**(28,599)**	(7,897)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(3,940)**	(2,000)	**(13,288)**	(6,442)
Payment of lease obligations	**(4,746)**	(3,586)	**(15,751)**	(13,224)
Free Cash Flow[1]	**(18,543)**	(5,818)	**3,863**	11,024

Note:
(1) Adjusted EBITDA and Free Cash Flow are not defined under IFRS, refer to 'Non-IFRS Measures' below. The reconciliation to the comparable IFRS measure can be found in the table below.

Source generated Free Cash Flow of $3.9 million for the year ended December 31, 2022, compared to $11.0 million generated for 2021. The decrease is attributed to higher financing expense paid, as interest incurred for the Notes in 2021 was paid in kind, compared to $12.9 million of cash interest payments recognized for the Notes through 2022. Higher interest expense incurred for the ABL facility, reflecting higher average draws outstanding and an increase in the variable interest rates for the facility, as well as incremental costs incurred for the closing of the ABL facility, also contributed to the reduction in Free Cash Flow. An increase in capital expenditures for the year, largely due to maintenance work performed at the Peace River facility and increased overburden removal costs, as well as $1.5 million in incremental interest expense for lease obligations, largely due to lease payments related to the Peace River facility, further contributed to the reduction. The increase in cash outflows were partially offset by a $22.9 million improvement in Adjusted EBITDA, reflecting strong volumes and increased average sand prices, compared to the prior year.

During the fourth quarter of 2022, Source realized a reduction in Free Cash Flow compared to the same period last year, primarily due to an increase in financing expense paid, attributed to the payment of two quarterly interest payments during the period, for a total of $8.7 million, compared to the same period last year when interest incurred for the Notes was paid in kind. Source was not permitted to make the August 15, 2022 quarterly interest payment for the Notes until after the closing of the ABL facility, which occurred in October, 2022. Source realized an increase in capital expenditures and interest expense for lease payments during the quarter, as noted above, compared to the fourth quarter of 2021.

Capital expenditures	Three months ended December 31,		Year ended December 31,	
($000's)	**2022**	2021	**2022**	2021
Terminal	**161**	—	**530**	232
Wellsite solutions	**41**	1,021	**635**	1,896
Production	**1,311**	48	**7,336**	919
Overburden removal	**2,672**	791	**5,806**	3,330
Other	**18**	140	**492**	140
Capital expenditures	**4,203**	2,000	**14,799**	6,517
Growth capital	**18**	1,113	**690**	2,220
Maintenance and sustaining capital	**4,185**	887	**14,109**	4,297
Capital expenditures	**4,203**	2,000	**14,799**	6,517
Proceeds on disposal of property, plant and equipment	***(263)***	—	***(1,511)***	*(75)*

Source's capital expenditures fall into two main categories: capital expenditures at existing terminals and mine facilities to make improvements and maintain operations, including overburden removal, and growth capital expenditures to expand production and distribution capabilities across its infrastructure.

Source's capital expenditures for the fourth quarter of 2022 were $4.2 million, an increase of $2.2 million compared to the same period last year. The increase in expenditures for maintenance and sustaining capital was primarily related to the Peace River facility maintenance, and a $1.9 million increase in costs associated with overburden removal for mining operations, as continued strong sand sales volumes are expected. Growth capital expenditures were lower, on a quarter-over-quarter basis, due to the completion of Source's ninth Sahara unit in the fourth quarter of last year.

For the year ended December 31, 2022, capital expenditures increased by $8.3 million compared to 2021, driven by expenditures for the Peace River facility and increased overburden removal, as noted above. During 2022, Source sold excess production equipment, generating proceeds of $1.5 million. Management continues to assess equipment and other assets required to service Source's operations to ensure optimal levels are maintained on an on-going basis.

Source funded its capital spend for 2022 and 2021 through amounts available under the Credit Facility as well as the ABL and cash flows from operations. Free Cash Flow generated will be used to lower debt balances outstanding, as well as to fund requirements of the operations of the business. Source continues to focus on expenditure levels to ensure that it can generate free cash flows which can be used to continue to deleverage the business.

Finance expense	**Three months ended December 31,**		**Year ended December 31,**	
($000's)	**2022**	2021	**2022**	2021
Interest on Notes	**4,363**	4,918	**17,526**	18,680
Interest on Credit Facility and ABL	**1,147**	991	**5,336**	4,137
Interest on leases	**1,313**	674	**4,267**	2,792
Other interest expense (income)	**(11)**	11	**(27)**	68
Accretion	**1,780**	1,048	**5,172**	3,993
Other finance expense	**219**	167	**873**	650
Total finance expense	**8,811**	7,809	**33,147**	30,320

Finance expense was $8.8 million for the fourth quarter of 2022. Compared to the same period last year, the $1.0 million increase was mainly due to higher accretion expense and interest for outstanding lease obligations, resulting from the addition of the Peace River facility. These increases were partly offset by lower interest expense on the Notes, with the interest payment paid in cash at a rate of 10.5% this year, compared to the fourth quarter last year where Source paid interest in kind at a rate of 12.5%.

Finance expense was $33.1 million for the year ended December 31, 2022, an increase of $2.8 million over last year. Higher accretion expense and interest for lease obligations contributed to the increase, as noted above. A rise in base interest rates which impacted interest for the Credit Facility through the third quarter, coupled with higher average outstanding draws for the majority of the year, resulted in higher interest expense for the year. These increases were offset by lower interest expense on the Notes, as outlined above.

Long-term debt		
($000's)	**December 31, 2022**	**December 31, 2021**
Senior secured notes	**153,603**	147,350
ABL facility	**26,583**	—
Prior ABL facility	**—**	18,406
Senior secured term loan	**—**	18,000
Other long-term debt, including unamortized ABL debt issue costs	**(3,668)**	(725)
Total long-term debt	**176,518**	183,031
Less: current portion	—	(7,500)
Long-term portion	**176,518**	175,531
Standby letter of credit facility	*US$8,500*	*US$8,500*

The change in long-term debt was primarily due to the normal course repayment of the Term Loan and repayment of the Term Loan upon extinguishment of the Credit Facility, partly offset by higher amounts outstanding for the ABL facility, as well as an increase in deferred financing costs due to debt issue costs incurred upon closing of the ABL facility. These reductions were partly offset by an increase in the amount owed for the Notes, due to additional Notes issued as a result of the Company electing to pay its quarterly interest payments in kind for the February 2022 interest payment, the consent fee paid upon closing of the ABL facility, as noted below, and accretion for the Notes.

Senior Secured Notes

On December 30, 2020, Source issued $142.2 million in aggregate principal amount of the Notes. The Notes bear interest at 10.5% and mature on March 15, 2025. The Notes contain prepayment options, whereby the Company may redeem all or a part of the Notes at any time at the applicable percentage (2023 and thereafter - 100%), plus accrued and unpaid interest. The Notes also contain a mandatory redemption feature for each fiscal year whereby Source shall redeem the portion of outstanding principal and accrued interest for the Notes that equals 50% of excess cash flows greater than $10,000 in the applicable fiscal year. Excess cash flows are defined as cash flows provided by operating activities, less maintenance capital expenditures, amounts paid for lease obligations, taxes and amounts of interest or principal prepayments on the credit facilities or Notes incurred in the applicable fiscal year. No mandatory redemptions were required for the years ended December 31, 2022 and 2021.

The Company deferred payment of interest owed in cash and paid interest in kind, at a rate of 12.5%, for all quarterly interest payments made through February 15, 2022, through the issuance of additional Notes. For the year ended December 31, 2022, Source paid interest in kind resulting in $5.0 million of additional Notes issued, with the May 2022 interest payment made in cash. Pursuant to the closing of the ABL facility, the Company entered into a

supplemental indenture that governs the Notes which permitted Source to execute the ABL facility in exchange for a one percent consent fee of $1.6 million, which was paid in kind to noteholders on closing. Additional terms of the Supplemental Indenture include a limit on capital expenditures incurred beyond overburden removal, mine development and maintenance activities, and limits on incurrences of additional debt and liens by Source.

At December 31, 2022, the aggregate principal amount of Notes outstanding was $165.1 million. The Notes are secured by a fixed and floating charge over all assets of the business, except for an amount up to a maximum of amounts committed under the senior secured term loan, as outlined below, plus accrued interest and fees. The Notes also have a second charge on accounts receivable and inventory.

Credit Facility and ABL

As outlined above, the Company closed the ABL facility in the fourth quarter, providing access to funding of approximately $75.4 million (US$55.0 million). The ABL resulted in an extinguishment of the former ABL facility, standby letter of credit facility, and senior secured term loan (collectively, the "Credit Facility") and the Company recognized a loss on extinguishment of debt of $0.9 million in respect of previously unamortized deferred financing costs.

The ABL facility bears interest at the Secured Overnight Financing Rate ("SOFR"), plus applicable margin, and is secured by a first lien charge on cash, the accounts receivable and inventory of the Company and a second lien charge on all other assets of the business. The ABL facility matures on the earlier of October 14, 2025 or six months prior to the maturity of the Notes, with amounts available under the ABL subject to a borrowing base formula applied to accounts receivable and inventory.

Key financial covenants of the ABL facility include:

- a fixed charge coverage ratio of 1:15:1 tested each fiscal calendar month and prior to a distribution based on trailing twelve months inputs; for 2022 calculations the inputs commence with January 1, 2022;
- maximum capital expenditures for each fiscal year equal to the lesser of $13,500 or 35% of trailing twelve months of earnings before interest, tax, depreciation and amortization; for 2022 calculations the inputs commence with January 1, 2022;
- a minimum level of the average of the prior three months trailing twelve months of earnings before interest, tax, depreciation and amortization calculated at each fiscal calendar month equal to $25,000 for October 31, 2022 to December 31, 2022; and
- a minimum level of excess availability of $3,000 which increases to $5,000 by March 31, 2023.

As of December 31, 2022, $26.6 million (excluding unamortized transaction costs) was drawn, leaving $8.4 million of availability on the facility. As of December 31, 2022, Source was in compliance with all of its covenants.

Prior to the closing of the ABL facility, the Company had a prior ABL facility (the "Prior ABL") that included an US$8,500 standby letter of credit facility which was not extinguished under the terms of the ABL facility. The Prior ABL also included letters of credit under the facility which were transferred to deposits upon closing of the ABL facility. Amounts drawn on the Prior ABL at December 31, 2021 were $18.4 million.

The Company also had an additional credit facility in the form of a senior secured term loan (the "Term Loan"). Upon closing of the ABL facility the outstanding balance of $10.5 million was repaid, and the facility was extinguished.

Capital Resources and Management

Source's capital management policy is to maintain a strong capital base that optimizes its ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its stakeholders. Source considers its capital structure to include Source's equity, the Notes and ABL and manages its capital structure through various means including monthly management meetings and quarterly Board meetings to review financial information. Source evaluates and monitors its capital based on its current working capital, available bank line, projected cash flows provided by operating activities and anticipated capital expenditures. Source's management prepares annual capital expenditure and operating budgets which are approved by the Board and are regularly reviewed and updated as necessary.

Source's ability to fund future operating expenses and capital expenditures, to make scheduled payments of interest on the Notes and the ABL and to satisfy any of Source's other present or future debt obligations will depend on Source's future operating performance which will be affected by general economic, financial and other factors.

Source's capital management policy has not changed during the year ended December 31, 2022.

Cash and Net Working Capital

($000's)	December 31, 2022	December 31, 2021
Current assets	122,545	106,745
Current liabilities	(87,453)	(50,308)
Net working capital	35,092	56,437

Total current assets less total current liabilities (net working capital) as at December 31, 2022 was $35.1 million, compared to $56.4 million as at December 31, 2021. The reduction in net working capital was mainly due to higher balances for accounts payable and accruals, attributed to increased activity levels and the timing of vendor payments, as well as increased lease liabilities primarily as a result of the addition of the Peace River facility. These increases were partly offset by higher total inventories as a result of higher net realizable value in the current year.

Source operates in a working capital and capital expenditure intensive industry where capital is required to fund working capital growth and maintenance capital expenditures for the Company. Source intends to fund future working capital and capital expenditures using cash flows from operating activities, amounts available under the ABL and additional debt or equity issuances as may be required. The availability of any additional future funding will depend on, among other things, operating performance and the current state of the equity and debt capital markets.

Foreign Currency Risk

Source 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 and transporting 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. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2022 are $11,861 (December 31, 2021 - $14,696) and $26.7 million (December 31, 2021 - $11.1 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $2.3 million for the year ended December 31, 2022 ($1.5 million for the year ended December 31, 2021).

In order to manage exposure to fluctuations in the Canadian to US dollar exchange rate, the Company will rebalance US denominated revenues where possible as well as enter into foreign currency contracts between prescribed minimum and maximum amounts of net US dollar exposure, as determined by the Company's foreign currency risk management policy. As a result of ongoing currency exposure management, Source renegotiated certain of its customer contracts to be denominated in US dollars. Due to this rebalancing and the completion of the ABL, which is denominated in US dollars, the Company settled all outstanding foreign exchange forward contracts in 2022. Refer to 'Operating and Financial Results' for additional information.

Source continues to monitor its exposure to fluctuations in foreign exchange rates and will continue to use foreign currency contracts to mitigate foreign exchange risk as appropriate.

Contractual Obligations

Source has various commitments regarding lease agreements, various IT software subscriptions and physical natural gas contracts. The leases expire between January 2023 and April 2037, the IT software subscriptions expire between January 2023 and September 2026 and the natural gas contracts expire in October 2023. The financial liabilities on Source's consolidated statements of financial position consist of the Notes, ABL and leases. Source's planned cash outflows relating to lease commitments and financial liabilities are outlined in the table below:

($000's)	Total	2023	2024	2025	2026	2027	2028 and beyond
Lease liabilities	87,147	20,875	15,006	9,954	6,269	4,597	30,446
Other commitments	1,745	1,696	21	16	12	—	—
ABL[1]	26,583	—	26,583	—	—	—	—
Notes	205,461	17,335	17,341	170,785	—	—	—

Note:

(1) Interest payments on such balances have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates.

Source is a party to contracts with numerous customers. Source's customers consist primarily of E&P companies and pressure pumping companies operating in the WCSB. Source has structured contracts with customers outlining fixed pricing, the terms of which vary from one to three years, which help mitigate the impact of any non-payment or non-performance. Source's customers are also serviced on a spot basis where volume thresholds are not set, and orders are serviced on an as-available basis at prevailing market prices.

In the ordinary course of conducting business, Source occasionally becomes involved in legal proceedings relating to contracts, environmental issues or other matters. While any proceeding or litigation has an element of uncertainty, management of Source believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or on the financial condition of Source, except as follows:

Source is currently pursuing claims against certain organizations in respect of damages related to the structural failure of assets at its Fox Creek terminal facility. Source intends to pursue this matter for which the damages, if awarded to the Company in their entirety, could be a material amount. However, litigation is inherently uncertain and a favorable outcome cannot be assured.

Off-Balance Sheet Arrangements

Source does not have any off-balance sheet arrangements at this time.

Outstanding Shares

The Company's share capital is not subject to external restrictions. As at December 31, 2022 and March 8, 2023, Source had issued and outstanding 13,545,055 common shares (December 31, 2021 - 13,545,055).

Transactions between Related Parties

During the three and twelve months ended December 31, 2022, there were no related party transactions.

Proposed Transactions

Source does not have any proposed transactions other than those occurring in the ordinary course of business.

Selected Annual Information

($000's, except per unit amounts)	**2022**	**2021**	**2020**
Total assets	326,897	266,031	266,261
Senior secured notes	153,603	147,350	125,493
Other non-current liabilities	80,184	61,847	62,044
Total revenue	415,912	319,861	249,878
Net loss	(8,770)	(24,403)	(185,466)
Net loss per share, basic and diluted	(0.65)	(1.80)	(36.81)

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certificate for annual filings requires the Chief Executive Officer and the Chief Financial Officer to certify the design of Source's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at December 31, 2022. There were no material weaknesses in the design of the DC&P and the ICFR at December 31, 2022, and no changes in ICFR during the period beginning on January 1, 2022 and ended on December 31, 2022 that have materially affected or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. While the Company's certifying officers believe that the Company's DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Business Risks

The following business risks are not a complete list of risks and for additional information regarding the risks that Source is exposed to, see the disclosure provided under the heading "Risk Factors" in the Company's AIF.

The substantial majority of Source's frac sand is currently produced from the Sumner Facility, the Blair Facility, and the Preston Facility, and the delivery of that frac sand to Source's customers is primarily served by one rail line. Any adverse developments at a facility or on the rail line could have a material adverse effect on Source's business, financial condition and results of operations

Most of Source's sand is currently derived from the Sumner Facility, the Blair Facility, and the Preston Facility which are served primarily by a single Class I rail line owned by CN. Any adverse development at the Sumner Facility, the

Blair Facility, or the Preston Facility or on the rail line due to catastrophic events or weather, or any other event that would cause Source to curtail, suspend or terminate operations at its facilities, could result in Source being unable to meet its sand deliveries. Although Source operates the Peace River facility, which can mitigate some of the production loss from one of the Wisconsin operations it currently can not replace all of anyone facility. Source also maintains insurance coverage to cover a portion of these types of risks, there are potential risks associated with Source's operations not covered by insurance. There also may be certain risks covered by insurance where the policy does not reimburse Source for all of the costs related to a loss. Downtime or other delays or interruptions to Source's operations that are not covered by insurance could have a material adverse effect on Source's business, results of operations and financial condition. In addition, since the Sumner Facility, the Blair Facility, and the Preston Facility are all served by a single Class I rail line, any adverse changes to the existing rail rates, rail car leases, or other logistics costs would adversely affect Source's business operations and financial position.

Source's indebtedness could adversely affect its financial flexibility and its competitive position

Source's indebtedness under the Credit Agreement and the Secured Notes could have significant effects on its business. For example, it could:

- increase Source's vulnerability to adverse changes in general economic, industry and competitive conditions;
- require Source to dedicate a substantial portion of its cash flow from operations to make payments on its indebtedness, thereby reducing the availability of its cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit its flexibility in planning for, or reacting to, changes in Source's business and the industry in which Source operates;
- restrict Source from exploiting business opportunities;
- make it more difficult to satisfy its financial obligations, including payments on its indebtedness;
- place Source at a disadvantage compared to its competitors that have less debt; and
- limit Source's ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of its business strategy or other general corporate purposes.

Source's business and financial performance depend on the level of activity in the oil and natural gas industry

Substantially all of Source's revenues are derived from the sale of proppant to companies in the oil and natural gas industry in the WCSB. As a result, Source's operations are dependent on the levels of activity in oil and natural gas exploration, development and production primarily in the WCSB. More specifically, the demand for the proppants Source produces is closely related to the number of oil and natural gas wells completed in geological formations that Source serves and where sand-based proppants are used in hydraulic fracturing activities. These activity levels are affected by both short and long-term trends in oil and natural gas prices, among other factors. Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond the Company's control. Oil and natural gas prices fluctuate because of market uncertainties over the supply and the demand of these commodities due to the current state of the world economy, OPEC and other state – controlled crude oil companies' actions, sanctions imposed on certain oil producing nations by other countries, and the impact of protectionist measures on foreign trade. Source's operations could also be impacted by economic, environment, regulatory and pipeline egress issues in Canada. Furthermore, the availability of key resources that impact drilling activity has experienced significant fluctuations and could impact demand for the Company's products. A prolonged reduction in oil and natural gas prices would generally depress the level of oil and natural gas exploration, development, production and well completion activity and would result in a corresponding decline in the demand for the proppants Source produces. Such a decline would have a material adverse effect on Source's business, results of its operations, and its financial condition. Furthermore, the commercial development of economically viable alternative energy sources (such as wind, solar, geothermal, tidal, fuel cells and biofuels) could have a similar effect. Any future decreases in the rate at which oil and natural gas reserves are discovered or developed, whether due to the passage of legislation, increased governmental regulation leading to limitations, or prohibitions on exploration and drilling activity, including hydraulic fracturing, or other factors, could have a material adverse effect on Source's business and financial condition, even in a stronger oil and natural gas price environment.

Source's business may be adversely affected by changing economic conditions beyond its control, including decreases in oil and natural gas development

Source's revenue is closely tied to conditions in the oil and natural gas industry in which its customers operate, and more broadly to general economic conditions. Source's product and services are used primarily in oil and gas exploration and production in Western Canada and the United States. Consequently, economic downturns and particularly weakness in the oil and natural gas market may lead to a significant decrease in demand for Source's

products and services or depress utilization rates and the prices for the products and services Source sells. During periods of expansion in Source's respective end markets, Source generally has benefited from increased demand for its products and services. However, during recessionary periods in Source's end markets, Source may be adversely affected by reduced demand for its products and services. Weakness in Source's end markets, such as a decline in oil and natural gas exploration and production, may in the future lead to a decrease in the demand for Source's products and services or the price Source can charge for its products and services, which could adversely affect Source's operating results by decreasing revenues and profit margins. Deterioration in the oil and natural gas industry could have a material adverse effect on Source's business, financial position, results of operations and cash flows in the future.

Source relies on a small number of customers for the majority of its revenue

Source relies on a small number of large customers for most of its revenue, and the loss of one or more such customers may adversely affect Source's results of operations and cash flows. Source's five largest customers accounted for 65% of its revenue for the year ended December 31, 2022. Although a significant percentage of Source's customers are under contract, certain contracts do not provide for guaranteed volumes and can be terminated on short notice and, on occasion, certain customers may demand to renegotiate a contract prior to the end of its term. There can be no assurance that Source's current customers will continue their relationships with Source or that contracts that come up for renewal will be renewed or, if they are renewed, that customers will contract for the same amounts or that they will pay the same prices as they have in the past. The loss of one or more major customers, the failure to renew customer contracts, or any decrease in products or services purchased or prices paid or any other changes to the terms of service under renewed contracts could have a material adverse effect on Source's business, financial position, results of operations and cash flows. A substantial portion of Source's customer contracts, including contract renewals, are subject to competitive tender processes, and there can be no assurance that Source will be successful in acquiring new business or retaining existing business subject to competitive tender. As a result of the limited number of customers that Source currently serves, Source's operations are subject to counterparty risk. The ability or willingness of each of Source's customers to perform its obligations under an agreement with Source will depend on a number of factors that are beyond Source's control and may include, among other things, the overall financial condition of the counterparty, the condition of the Canadian and United States oil and natural gas exploration and production industry, the continuing use of frac sand in hydraulic fracturing operations and general economic conditions. In addition, in depressed market conditions, Source's customers may no longer need the amount of frac sand for which they have indicated or agreed to or may be able to obtain comparable products at a lower price. If Source's customers experience a significant downturn in their business or financial condition, they may attempt to renegotiate Source's agreements. In addition, as agreements expire, depending on market conditions at the time, Source's customers may choose not to extend, or to adjust the terms of, these agreements which could lead to a significant reduction of sales volumes and corresponding revenues cash flows and financial condition if Source is not able to replace these expected sales volumes with new sales volumes. Additionally, even if Source were to replace any lost volumes, under current market conditions, lower prices for its product could materially reduce its revenues, cash flow and financial condition.

The Company's information assets and critical infrastructure may be subject to cyber security risks

The Company is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, user errors, invasion, virus, computer viruses, cyber-attack, cyber-fraud, hackers or malicious actors, security or data breach, and destruction or interruption of the Company's information technology systems by third parties or insiders.

Despite Source's security measures and controls, which are designed to mitigate these risks, a breach of its security measures and/or a loss of information could occur and result in a loss of material and confidential information and reputation, breach of privacy laws and a disruption to the Company's business activities by limiting its capacity to effectively monitor and control Source's operations and adjust to changing market conditions. Source's failure to appropriately maintain the security of the data Source holds, whether as a result of Source's own error or the malfeasance or errors of others, could harm Source's reputation or give rise to legal liabilities leading to lower revenues, increased costs and other adverse effects on Source's results of operations. Any future cyber security attacks that affect Source's facilities, communications systems, Source's customers or any of Source's financial data could have a material adverse effect on Source's business. In addition, cyber-attacks on Source's customer and employee data may result in a financial loss and may negatively impact Source's reputation. Third-party systems on which Source relies could also suffer operational system failure. The significance of any such event is difficult to quantify but may in certain circumstances be material to the Company and could have adverse effects on the Company's business, reputation, financial condition and results of operations.

Although Source maintains specialized insurance for possible liability resulting from a cyber-attack on Source's assets that may shut down all or part of Source's business, there may be certain risks covered by insurance where the policy does not reimburse Source for all of the costs related to a loss. Such events, unauthorized access or other

interruptions to Source's operations could result in the loss of confidential information, intellectual property, litigation, remediation costs, damage to our reputation and may negatively impact our ability to service our customers as such this could have a material adverse effect on Source's business, reputation, operations and financial condition.

Source's operations are subject to operating risks that are often beyond its control and could adversely affect production levels and costs

Source's mining, processing and production facilities, its logistics operations and any future properties it develops or may acquire in the future are and will be subject to risks normally encountered in the frac sand industry. These risks include:

- changes in the price and availability of transportation;
- inability to obtain necessary production equipment or replacement parts;
- inclement or hazardous weather conditions, including flooding, and the physical impacts of climate change;
- unanticipated ground, grade or water conditions;
- inability to acquire or maintain necessary permits or mining or water rights;
- late delivery of supplies;
- changes in the price and availability of natural gas or electricity that Source uses as fuel sources for its frac sand plants and equipment;
- technical difficulties or failures;
- cave-ins or similar pit wall failures;
- environmental hazards, such as unauthorized spills, releases and discharges of wastes, tank ruptures and emissions of unpermitted levels of pollutants;
- industrial accidents;
- changes in laws and regulations (or the interpretation thereof) related to the mining and oil and natural gas industries, silica dust exposure or the environment;
- inability of Source's customers or distribution partners to take delivery;
- reduction in the amount of water available for processing;
- fires, explosions or other accidents; and
- facility shutdowns in response to environmental regulatory actions.

The occurrence of any of these events could have a material adverse effect on Source's business, financial position, results of operations and cash flows.

Source faces significant competition that may cause it to lose market share

The proppant industry is highly competitive. The proppant market is characterized by a small number of large, national producers and a large number of small, regional or local producers. Competition in this industry is based on price, consistency and quality of product, site location, distribution capability, customer service, reliability of supply, breadth of product offering and technical support. Some of Source's competitors have greater financial and other resources than Source does. In addition, Source's larger competitors may develop technology superior to Source's or may have production facilities that offer lower cost transportation to certain customer locations than Source does. When the demand for hydraulic fracturing services decreases or the supply of proppant available in the market increases, prices in the frac sand market can materially decrease. Furthermore, oil and natural gas exploration and production companies and other providers of hydraulic fracturing services have acquired and, in the future, may acquire their own frac sand reserves to fulfill their proppant requirements, and these other market participants may expand their existing frac sand production capacity, all of which would negatively impact demand for Source's frac sand. In addition, increased competition in the proppant industry could have an adverse impact on Source's ability to enter into long term contracts or to enter into contracts on favourable terms.

Source's proppant sales are subject to fluctuations in market pricing

A majority of Source's supply agreements involving the sale of frac sand contain market-based pricing mechanisms. Accordingly, in periods with decreasing prices, Source's results of operations may be lower than if Source's agreements had fixed prices. During these periods Source's customers may also elect to reduce their purchases from Source and seek to find alternative, cheaper sources of supply. In periods with increasing prices, these agreements permit Source to increase prices; however, these increases are generally calculated on a quarterly basis and do not increase on a dollar-for-dollar basis with increases in spot market pricing. Furthermore, certain volume-based supply agreements may restrict the ability to fully capture current market pricing. These pricing provisions may result in significant variability in Source's results of operations and cash flows from period to period. Changes in supply and demand dynamics could also impact market pricing for proppants. A number of existing proppant providers and new market entrants have announced reserve acquisitions, processing capacity expansions and greenfield projects. In periods where sources of supply of frac sand exceed market demand, market prices for frac sand may decline and Source's results of operations and cash flows may correspondingly decline, be volatile, or otherwise be adversely affected.

Restrictions in the Credit Agreement and the Secured Note Indenture may limit Source's ability to capitalize on potential acquisition and other business opportunities

The operating and financial restrictions and covenants in the Credit Agreement and the Secured Note Indenture and any future financing agreements could restrict Source's ability to finance future operations or capital needs or to expand or pursue its business activities. For example, the Credit Agreement and the Secured Note Indenture restrict or limit Source's ability to:

- grant liens;
- incur additional indebtedness;
- engage in a merger, consolidation or dissolution;
- enter into transactions with affiliates;
- sell or otherwise dispose of assets, businesses and operations;
- materially alter the character of Source's business; and
- make acquisitions, investments and capital expenditures.

Furthermore, the Credit Agreement and the Secured Note Indenture contain certain operating and financial covenants. Source's ability to comply with such covenants and restrictions may be affected by events beyond its control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, Source's ability to comply with these covenants may be impaired. Further, if Source violates any of the restrictions, covenants, ratios or tests in the Credit Agreement, a significant portion of Source's indebtedness may become immediately due and payable, and any lenders' commitment to make further loans to Source may terminate. Source might not have, or be able to obtain, sufficient funds to make these accelerated payments. Any subsequent replacement of the Credit Agreement or any new indebtedness could have similar or greater restrictions.

Downturn in business could result in potential impairment of property, plant and equipment

Decreases in commodity prices have had and may in the future have a negative impact on industry drilling and well completion activity, which affects the demand for frac sand. Should energy industry conditions continue to deteriorate, there is a possibility that property, plant and equipment may be further impaired in a future period. Any resulting non-cash impairment charges to earnings may be material. Specific uncertainties affecting Source's estimated fair value include the impact of competition, the prices of frac sand, future overall activity levels and demand for frac sand, the activity levels of Source's significant customers, and other factors affecting the rate of Source's future growth. These factors will continue to be reviewed and assessed going forward. Additional adverse developments with regard to these factors could have a further negative impact on Source's fair value.

Certain of Source's long-term contracts may preclude Source from taking advantage of increasing prices for frac sand or mitigating the effect of increased operational costs during the term of its long-term contracts

Certain long-term supply contracts Source may negatively impact Source's results of operations. Source's long-term contracts require its customers to pay a specified price for the volume of frac sand they use. As a result, in periods with increasing prices, Source's sales will not keep pace with market prices. Additionally, if Source's operational costs increase during the terms of its long-term supply contracts, Source will not be able to pass any of those increased costs to its customers. If Source is unable to otherwise mitigate these increased operational costs, its net income and available cash for distributions could decline.

A majority of Source's contracts are cancelable at the option of Source's customers and are not a guarantee of continued revenues

A majority of the contracts Source enters into with Source's customers do not guarantee Source any volumes or revenues and are generally cancelable by Source's customers without cause. Source's contracts generally provide the terms under which Source will provide proppant, but do not obligate Source's customers to purchase any specific amount of proppant, nor do the contracts prohibit Source's customers from purchasing a competitor's proppant. As a result, if Source's customers elect to delay or forego completions programs, or choose to purchase frac sand from a competitor, Source's product will not be needed.

Climate-related risks have the potential to impact Source's operations

Climate-related risks have the potential to impact Source's operations, the delivery of its services and future financial condition. Significant changes, such as more frequent, severe weather in the markets Source serves or the areas where our assets are located, could cause increased expenses and impact to its operations and the operations of its customers. As a service provider to its customers in the oil and gas industry, Source is unable to predict how a change in the environmental or regulatory regime might affect our customers and consequently our business model. The costs associated with interrupted operations will depend on the duration and severity of any physical event, the impact on its customers and the damage to be repaired and remedial work to be carried out. Financial implications could include business interruption, damage or loss of production and uptime. While Source does not currently have a

formal risk management process in place to identify and assess the potential size, scope and prioritization of climate-related risks, Source's business operations are, located, designed and operated to accommodate a range of climate conditions. Given the evolving nature of the environmental and regulatory regime surrounding climate change, it is not currently possible to predict the impact it may have on its future financial conditions, operations and customers.

Financial Instruments and Other Instruments

Risk Management Overview

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

For additional information regarding the risks that Source is exposed to, see the disclosure provided under the heading 'Risk Factors' in the AIF.

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 ABL approximates the carrying value as it bears interest at floating market rates consistent with market rates for similar debt. Based on the closing market price as of December 31, 2022, the fair value of the Notes was $114.7 million.

Critical Accounting Estimates

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

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

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 condensed consolidated interim financial statements in future periods.

Income taxes

The amounts recorded for deferred income taxes are based on estimates regarding 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 including judgment regarding the recognition or derecognition of deferred tax assets.

Share-based compensation

The Company's compensation plans include the following award types: stock option, RSUs, PSUs, DSUs and SARs. DSUs and SARs are cash-settled awards and RSUs and PSUs may be settled in common shares but are expected to be settled for cash. As such, these awards are considered liability-settled awards for accounting purposes. The fair value of stock options and SARs are estimated 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.

Cash-generating units

The determination of a cash-generating unit ("CGU") 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). The recoverable amount of a CGU is determined using an approach which considers a discounted cash flow model and an earnings multiple approach. The discounted cash flow model incorporates significant assumptions including a revenue growth rate and discount rate. The earnings multiple approach uses earnings before interest, taxes, depreciation and amortization less corporate expenses and comparable market multiples to determine the recoverable amount of the CGU. 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.

Revenue recognition

Contractual arrangements for revenue may have multiple contractual elements within them, resulting in complex recognition in the financial statements. The contractual elements which require significant consideration may include embedded derivatives, contract liabilities, take-or-pay commitments and leasing arrangements. Significant judgement is required in identifying and assessing the appropriate accounting recognition for each contractual element identified within these contractual arrangements.

Newly Adopted Accounting Policies

The following amendments have been issued by the IASB and were adopted by the Company effective for the fiscal year beginning January 1, 2022:

Standard	**Description of change**
Property, Plant and Equipment - Proceeds before intended use (Amendment to IAS 16)	This amendment states that deducting proceeds from selling items produced while bringing an asset to its intended use from the cost of the asset is prohibited and shall be recognized in profit or loss.
Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts (Amendment to IAS 37)	This amendment clarifies the costs that shall be included in determining the cost of fulfilling a contract when assessing whether a contract is onerous.

The Company completed its assessment of the impact of the amendments and concluded that they do not have a material impact on the condensed consolidated interim financial statements.

Future Accounting Policy Changes

The following amendments to accounting standards, issued by the IASB, are effective for fiscal years beginning on or after January 1, 2023:

Standard	Description of change
Classification of Liabilities as Current or Non-current (Amendment to IAS 1)	This amendment clarifies the classification requirements for non-current liabilities.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12)	This amendment changes the deferred tax initial recognition exemption, which does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of deferred tax assets and liabilities in the same amount.
Disclosure of Accounting Policies (Amendment to IAS 1)	This amendment states that a complete set of financial statements shall disclose material, rather than significant, accounting policy information.
Definition of Accounting Estimates (Amendment to IAS 8)	This amendment introduces a new definition for accounting estimates.
Lease Liability in a Sale and Leaseback (Amendment to IFRS 16)	This amendment adds subsequent measurement requirements for sale and leaseback transactions.
Non-current Liabilities with Covenants (Amendments to IAS 1)	These amendments clarify the information disclosure requirements for loan arrangements that contain covenants and the classification requirements when a covenant is breached.

The Company intends to adopt the amendments on their respective effective dates and the revisions are not expected to have a material impact on the consolidated financial statements.

NON-IFRS MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. These financial measures 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), cash flows from operating activities, gross margin and other measures of financial performance as determined in accordance with IFRS.

Source believes that the non-IFRS measure of Adjusted EBITDA is a useful measure to management and investors to provide relative performance and measure changes in respect of Source's financial performance in the context of earnings generated to fund capital investments and meet financial obligations. Adjusted Gross Margin is useful to management and investors in measuring pricing and operating cost performance relative to other publicly listed competitors throughout North America. Adjusted EBITDA per MT and Adjusted Gross Margin per MT are calculated by taking the non-IFRS measures and dividing by sand volumes for the periods stated.

Free Cash Flow is a useful measure to management and investors as it reflects the Company's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. Previously, Source included the movement in cash flows from operating activities as part of the calculation of Free Cash Flow; however, changes in working capital can have significant fluctuations due to the seasonality of Source's operations. Management believes use of Adjusted EBITDA in the calculation is more representative of the funds generated to pay down debt and other returns to investors. As such, the presentation of Free Cash Flow has been revised and prior periods have been restated to reflect the current definition.

Adjusted EBITDA represents earnings generated to fund capital investments and meet financial obligations. It represents, for the period presented, net income (loss) plus income taxes, interest expense, cost of sales - depreciation, depreciation, amortization, impairment and gain (loss) on debt extinguishment; and is adjusted to add back or deduct, as applicable, the following expense charges or benefits incurred in such period which, in management's view, are not indicative of the underlying business performance: finance expense excluding interest expense, loss (gain) on asset disposal, transaction and related professional fees, unrealized loss (gain) on derivative instruments, gain on settlement of deferred revenue, share-based compensation, loss (gain) on sublease and other expense as it relates to the incident at the Fox Creek terminal facility and one-time retirement payments.

Adjusted Gross Margin represents a margin more comparable to other publicly listed competitors throughout North America. It represents, for the period presented, gross margin plus cost of sales - depreciation.

Free Cash Flow represents, for the period presented, Adjusted EBITDA, adjusted for financing expense paid, capital expenditures (net of proceeds on disposal of property, plant and equipment), mandatory debt repayments and various non-cash operating activities. Free Cash Flow is considered a key non-IFRS measure as it reflects Source's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. The reconciliation to the comparable IFRS measure, net loss, can be found in the table below.

This MD&A makes reference to these non-IFRS measures. These non-IFRS measures and other financial estimates of management are based upon variable components. There can be no assurance that these components and future calculations of non-IFRS measures will not vary. Investors are cautioned not to consider these non-IFRS measures in isolation or place undue reliance on ratios or percentages calculated using these non-IFRS measures.

Reconciliation of Adjusted EBITDA and Free Cash Flow to Net Loss

	Three months ended December 31,		Year ended December 31,	
($000's)	**2022**	2021	**2022**	2021
Net loss	**(12,209)**	(14,566)	**(8,770)**	(24,403)
Add:				
Interest expense	**6,812**	6,594	**27,102**	25,677
Cost of sales – depreciation	**5,125**	4,071	**20,827**	21,102
Depreciation	**2,361**	2,426	**10,555**	9,873
Loss on debt extinguishment	**862**	—	**862**	—
Finance expense (excluding interest expense)	**2,000**	1,215	**6,045**	4,643
Share-based compensation expense	**645**	476	**947**	643
Gain on asset disposal	**(11)**	—	**(1,192)**	(63)
Unrealized loss (gain) on derivative assets	**—**	173	**1,718**	(247)
Loss on sublease	**—**	1,159	**—**	1,159
Other expense[(1)]	**869**	108	**3,407**	203
Adjusted EBITDA	**6,454**	1,656	**61,501**	38,587
Financing expense paid	**(16,311)**	(1,888)	**(28,599)**	(7,897)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(3,940)**	(2,000)	**(13,288)**	(6,442)
Payment of lease obligations	**(4,746)**	(3,586)	**(15,751)**	(13,224)
Free Cash Flow	**(18,543)**	(5,818)	**3,863**	11,024

Note:
(1) Includes expenses related to the incident at the Fox Creek terminal facility, and other one-time expenses, refer to 'Contractual Obligations' and 'Operating and Financial Results' above.

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended December 31,		Year ended December 31,	
($000's)	**2022**	2021	**2022**	2021
Gross margin	**10,630**	4,189	**58,145**	39,330
Cost of sales – depreciation	**5,125**	4,071	**20,827**	21,102
Adjusted Gross Margin	**15,755**	8,260	**78,972**	60,432

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and 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", "intends", "believes", "continues", "focus", "could", "trends" 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 unless required by applicable law. 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 MD&A contains forward-looking statements pertaining, but not limited, to: Source's efforts to return the land to a thriving vegetative state; our expectation that frac sand supply and demand

fundamentals will remain favorable through 2023; Source's plans to rebalance US denominated revenues where possible as well as enter into foreign currency contracts between prescribed minimum and maximum amounts of net US dollar exposure; our expectation that the resolution of permitting issues in northeastern British Columbia will bring increased activity to the region; our beliefs respecting improved gross margins in 2023; increased demand for natural gas, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB; continued increase in demand from customers primarily focused on the development of natural gas properties in Montney, Duvernay and Deep Basin; the Company's view that natural gas is an important transitional fuel for the successful movement to a less carbon intensive world; our focus on and expectations regarding increasing Source's involvement in the provision of logistics services for other wellsite items; outlook for commodity prices and sales volumes; expectations respecting future conditions and activity levels quarter-to-quarter; revenue and profitability; the benefits that Source's "last mile" services provide to customers; Source's focus on expenditure levels to generate free cash flows and use of free cash flows to deleverage the business; expectations regarding funding for future working capital and capital expenditures; Source's planned cash outflows relating to lease commitments and financial liabilities; the availability of any additional future funding; expectations on Source's ability to meet their capital needs; fluctuations in foreign currency; amount and timing of interest payments with respect to Source's ABL; our expectations regarding amendments to accounting standards; and expectations regarding the outcome of legal claims and proceedings, including but not limited to the outcome of Source's anticipated claim for damages related to the structural failure of assets at its Fox Creek terminal facility.

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 MD&A, assumptions have been made regarding, among other things: proppant market prices; future oil, natural gas and liquefied natural gas prices; future global economic and financial conditions; predictable inflationary pressures; 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; labor disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavorable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; implementation of recently issued accounting standards; the use and suitability of Source's accounting estimates and judgments; the impact of information systems and cyber

security breaches; the impact of inflation on capital expenditures; and risks and uncertainties related to COVID-19 or its variants, including changes in energy demand.

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 MD&A are expressly qualified by this cautionary statement. Readers should not place undue reliance on forward-looking statements. These statements speak only as of the date of this MD&A. Except as may be required by law, 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.

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