news release

Source Energy Services Reports Q2 2023 Results

Calgary, Alberta (August 2, 2023) **TSX: SHLE**

Source Energy Services Ltd. ("Source" or the "Company") is pleased to announce its financial results for the three and six months ended June 30, 2023.

Q2 2023 PERFORMANCE HIGHLIGHTS

Despite a challenging operating environment impacted by wildfires, floods and rail outages, Source recorded a strong quarter and achieved the following key highlights during the second quarter of 2023:

- realized sand sales volumes of 702,079 MT and sand revenue of $102.0 million, an $8.4 million increase from the second quarter of 2022;
- achieved total revenue of $126.9 million, a 14% increase from the second quarter of 2022, and the third highest quarterly revenue generated since the inception of Source;
- achieved a new record for the largest daily sand volume fed into a blender in twenty-four hours and set a new daily record for sand volume throughput at Source's Wembley terminal facility;
- recorded utilization of 82% for the Canadian Sahara fleet;
- executed a contract to build and operate Source's tenth Sahara unit, to be located in the state of Alaska, the cost of which is fully reimbursed by the customer through progress payments received during construction;
- realized gross margin of $24.9 million and Adjusted Gross Margin(1) of $30.2 million, increases of 51% and 39%, respectively, when compared to the same period in 2022;
- reported net income of $2.7 million, a $2.6 million improvement from the second quarter of 2022 when excluding the unrealized gain on derivative instruments recognized last year; and
- realized Adjusted EBITDA(1) of $20.4 million, a 38% increase from the second quarter of 2022.

Note:
(1) Adjusted Gross Margin (including on a per MT basis) and Adjusted EBITDA are not defined under IFRS and might not be comparable to similar financial measures disclosed by other issuers, refer to 'Non-IFRS Measures' below for reconciliations to measures recognized by IFRS. For additional information, please refer to Source's Management's Discussion and Analysis ("MD&A"), dated August 2, 2023, available online at www.sedarplus.ca.

RESULTS OVERVIEW

	Three months ended June 30,		Six months ended June 30,	
($000's, except MT and per unit amounts)	**2023**	2022	**2023**	2022
Sand volumes (MT)(1)	**702,079**	800,136	**1,609,562**	1,526,237
Sand revenue	**101,950**	93,546	**233,705**	174,207
Wellsite solutions	**23,980**	16,456	**54,607**	31,872
Terminal services	**998**	1,584	**2,340**	2,476
Sales	**126,928**	111,586	**290,652**	208,555
Cost of sales	**96,764**	89,869	**222,691**	166,472
Cost of sales – depreciation	**5,249**	5,177	**11,294**	10,970
Cost of sales	**102,013**	95,046	**233,985**	177,442
Gross margin	**24,915**	16,540	**56,667**	31,113
Operating expense	**6,016**	4,801	**11,900**	9,137
General & administrative expense	**3,904**	2,698	**8,133**	5,187
Depreciation	**2,733**	2,707	**5,824**	5,361
Income from operations	**12,262**	6,334	**30,810**	11,428
Total other expense	**9,528**	2,126	**20,197**	13,860
Net income (loss)(2)	**2,734**	4,208	**10,613**	(2,432)

($000's, except MT and per unit amounts)	Three months ended June 30, 2023	2022	Six months ended June 30, 2023	2022
Basic and diluted earnings (loss) per share ($/share)	**0.20**	0.31	**0.78**	(0.18)
Adjusted EBITDA(3)	**20,440**	14,836	**48,058**	29,053
Sand revenue sales/MT	**145.21**	116.91	**145.20**	114.14
Gross margin/MT	**35.49**	20.67	**35.21**	20.39
Adjusted Gross Margin(3)	**30,164**	21,717	**67,961**	42,083
Adjusted Gross Margin/MT(3)	**42.96**	27.14	**42.22**	27.57

Notes:

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

(2) The average Canadian to United States ("US") dollar exchange rate for the three and six months ended June 30, 2023, was $0.7447 and 0.7421, respectively (2022 - $0.7832 and 0.7865, respectively).

(3) Adjusted EBITDA and Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS, refer to 'Non-IFRS Measures' below for reconciliations to measures recognized by IFRS. For additional information, please refer to Source's MD&A available online at www.sedarplus.ca.

Second Quarter 2023 Performance

Source had strong second quarter results, due to continued gross margin performance and logistics operations that achieved several daily records. This resulted in EBITDA of $20.4 million for the quarter, an increase of 38% compared to the same period last year, despite the unprecedented Alberta wildfires, floods and rail outages which negatively impacted sand sales volumes during the period. Source recorded total revenue of $126.9 million, an increase of $15.3 million or 14% compared to the second quarter of 2022 due to higher average realized sand pricing. Wellsite solutions revenue remained strong through the second quarter, achieving a 46% increase in revenue compared to the same period last year. During the month of April, Source realized the second highest monthly volumes trucked in Source history and achieved a new daily record for throughput at the Wembley terminal facility. Pricing improvements across all lines of business were achieved, and spot sand prices remained strong for the second quarter.

Cost of sales, excluding depreciation, increased for the second quarter of 2023, compared to the same period last year, due primarily to higher costs for transportation and a shift in terminal sales mix during the quarter. These increases were partially offset by production efficiencies achieved, attributed in part to the introduction of an additional mesh size early this year. Cost of sales was impacted by a weakening Canadian dollar on US denominated costs relative to the second quarter last year; however, this impact was offset by an increase in US dollar denominated revenue realized during the quarter.

For the three months ended June 30, 2023, gross margin increased by $8.4 million, attributed to improved pricing and operational efficiencies achieved, compared to the second quarter of 2022. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $46.73 per MT, compared to $29.07 per MT in the second quarter of 2022, favorably impacted by improved pricing, as noted above, despite higher costs for transportation and the impact of terminal sales mix. Gross margin and Adjusted Gross Margin also benefited from the 28% increase in sand volumes trucked and strong Sahara fleet utilization during the quarter, driving a 40% increase in Sahara-related revenue, compared to the same period last year.

Operating expenses increased by $1.2 million on a quarter-over-quarter basis, attributed to an executive severance payment, higher repairs and maintenance costs for the Peace River facility and higher variable incentive compensation cost incurred in the quarter. General and administrative expense increased by $1.2 million during the period, due primarily to the timing of recognition of variable incentive compensation expense compared to the same period in 2022. This timing difference will be largely eliminated by the end of the year.

Adjusted EBITDA was $20.4 million for the second quarter, an increase of $5.6 million or 38% compared to the three months ended June 30, 2022. As noted above, improved pricing and operational efficiencies offset the volume reduction attributed to the wildfires and floods, and increased costs related to transportation costs and terminal sales mix. The weakening of the Canadian dollar negatively impacted Adjusted EBITDA by $0.4 million, attributed to the movement in exchange rates on working capital during the quarter. An increase in revenue denominated in US dollars mitigated the impact of fluctuations in foreign exchange rates and the impact on US dollar denominated expenses for the quarter.

Liquidity and Capital Resources

Free Cash Flow	**Three months ended June 30,**		**Six months ended June 30,**	
($000's)	**2023**	2022	**2023**	2022
Adjusted EBITDA(1)	**20,440**	14,836	**48,058**	29,053
Financing expense paid	**(7,305)**	(6,794)	**(14,844)**	(9,141)
Capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs	**(641)**	(2,869)	**(2,788)**	(4,894)
Payment of lease obligations	**(4,696)**	(3,638)	**(9,746)**	(7,156)
Free Cash Flow(1)	**7,798**	1,535	**20,680**	7,862

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 $7.8 million for the three months ended June 30, 2023, an increase of $6.3 million compared to the second quarter of 2022. The increase is mainly attributed to a $5.6 million improvement in Adjusted EBITDA, reflecting increased gross margin compared to the same period last year, as well as lower net expenditures for capital assets during the second quarter of this year, as outlined below. Lease obligations were higher than the prior year due to an increase in renewal rates on previously contracted rail cars and the impacts of a weaker Canadian dollar on US dollar denominated leases.

Source's capital expenditures for the second quarter of 2023 were $6.2 million, an increase of $2.1 million compared to the same period last year. Net capital expenditures were $0.6 million for the second quarter of 2023, compared to $2.9 million for the second quarter of 2022. Expenditures for maintenance and sustaining capital increased by $0.2 million for the three months ended June 30, 2023, resulting from costs associated with overburden removal for mining operations attributed to higher year-to-date sand sales volumes when compared to 2022. Growth capital expenditures increased, on a quarter-over-quarter basis, as a result of the commencement of a contract to construct Source's tenth Sahara unit on behalf of a customer who will fully reimburse Source for these construction costs during the construction phase. During the second quarter of 2023, Source sold excess equipment, generating proceeds of $0.5 million and, in June of 2023, Source sold its previously closed terminal facility located in Berthold, North Dakota. 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.

BUSINESS OUTLOOK

Source expects strong industry activity levels to continue through the third quarter of 2023, as delays resulting from the wildfires in Alberta shifted activity into the third quarter. While contracted customer orders are strong through the third quarter, commodity uncertainty and capital program deployment, as exploration and production companies exhaust budgets as they approach the end of the year, could impact activity levels during the fourth quarter. Source renewed customer contracts with terms and conditions reflective of the current operating environment earlier in the year, and continues to improve production efficiencies through an expansion of mesh sizes and ongoing operating cost management. 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, will continue to support strong gross margins for the remainder of 2023 and 2024.

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 Western Canadian Sedimentary Basin ("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.

SECOND QUARTER CONFERENCE CALL

A conference call to discuss Source's second quarter financial results has been scheduled for 7:30 am MST (9:30 am ET) on Thursday, August 3, 2023.

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

Source Energy Services Q2 2023 Results Call

The call will be recorded and available for playback approximately 2 hours after the meeting end time, until September 3, 2023, using the following dial-in:

Toll-Free Playback Number: 1-800-319-6413

Playback Passcode: 9673

ABOUT SOURCE ENERGY SERVICES

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.

IMPORTANT INFORMATION

These results should be read in conjunction with each of Source's interim condensed consolidated financial statements for the three and six months ended June 30, 2023 and 2022, and Source's audited consolidated financial statements for the year ended December 31, 2022, together with the accompanying notes (the "Financial Statements") and its corresponding MD&A for such periods. The Financial Statements and MD&A and other information relating to Source, including the Annual Information Form, are available under the Company's SEDAR+ profile at www.sedarplus.ca. The Financial Statements and comparative statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated, all amounts are expressed in Canadian dollars.

NON-IFRS MEASURES

In this press release Source has used the terms Free Cash Flow, Adjusted Gross Margin and Adjusted EBITDA, including per MT, which do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss) and gross margin, respectively, which represent the most directly comparable measures of financial performance as determined in accordance with IFRS.

Reconciliation of Adjusted EBITDA and Free Cash Flow to Net Income (Loss)

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2023**	2022	**2023**	2022
Net income (loss)	**2,734**	4,208	**10,613**	(2,432)
Add:				
Interest expense	**6,547**	6,618	**13,676**	13,286
Cost of sales – depreciation	**5,249**	5,177	**11,294**	10,970
Depreciation	**2,733**	2,707	**5,824**	5,361
Finance expense (excluding interest expense)	**2,655**	1,291	**4,814**	2,526
Share-based compensation expense (recovery)	**1,934**	(186)	**3,471**	573
Gain on asset disposal	**(1,681)**	(1,183)	**(2,132)**	(1,183)
Unrealized gain on derivative assets	**—**	(4,058)	**—**	(2,439)
Loss on sublease	**—**	—	**3**	—
Other expense[1]	**269**	262	**495**	2,391
Adjusted EBITDA	**20,440**	14,836	**48,058**	29,053
Financing expense paid	**(7,305)**	(6,794)	**(14,844)**	(9,141)
Capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs	**(641)**	(2,869)	**(2,788)**	(4,894)
Payment of lease obligations	**(4,696)**	(3,638)	**(9,746)**	(7,156)
Free Cash Flow	**7,798**	1,535	**20,680**	7,862

Note:
(1) Includes expenses related to the incident at the Fox Creek terminal facility and one-time retirement payments.

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2023**	2022	**2023**	2022
Gross margin	**24,915**	16,540	**56,667**	31,113
Cost of sales – depreciation	**5,249**	5,177	**11,294**	10,970
Adjusted Gross Margin	**30,164**	21,717	**67,961**	42,083

For additional information regarding non-IFRS measures, including their use to management and investors, their composition and discussion of changes to either their composition or label, if any, please refer to the 'Non-IFRS Measures' section of the MD&A, which is incorporated herein by reference. Source's MD&A is available online at www.sedarplus.ca and through Source's website at www.sourceenergyservices.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this press release constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and Source's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "believes", "continues", "focus", "could", "trend", 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 press release contains forward-looking statements pertaining, but not limited, to: the anticipated elimination of a timing difference causing an increase to general and administrative expense; expectations that industry activity levels will remain strong through 2023; expectations that lowered sand sales volumes and industry activity levels caused by wildfires, floods and rail outages will improve in the third and fourth quarters of 2023; beliefs respecting strong gross margins for the remainder of 2023 and 2024; expectations that 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; views that natural gas is an important transitional fuel for the successful movement to a less carbon-intensive world; Source's focus on and expectations regarding increasing its involvement in the provision of logistics services for other wellsite items; expectations with respect to improved production efficiencies through expanding mesh sizes and operating cost management; expectations respecting future conditions; and profitability.

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

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

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought by or 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 extreme weather patterns and natural disasters; the impact of climate change risk; the ability of Source to retain and attract qualified management and staff in the markets in which Source operates; labour disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, 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 pandemics such as COVID-19, 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 press release are expressly qualified by this cautionary statement. Readers should not place undue reliance on forward-looking statements. These statements speak only as of the date of this press release. Except as may be required by law, Source expressly disclaims any intention or obligation to revise or update any forward-looking statements or information whether as a result of new information, future events or otherwise.

Any financial outlook and future-oriented financial information contained in this press release 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.

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