SOURCE

ENERGY SERVICES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Source Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of Source Energy Services Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	**How our audit addressed the key audit matters**
Reversal of impairment of property, plant and equipment	
As at December 31, 2023, the carrying amount of Source's property, plant and equipment was $259,712. For the year ended December 31, 2023, an impairment reversal of $128,555 was recorded. Note 3 of the consolidated financial statements describes the Company's accounting policy with respect to	To test the estimated recoverable amount of the Company's cash generating unit, we performed the following procedures, among others: • We involved our valuation specialists to assess the methodology applied and the various inputs

impairment and impairment reversal of non-financial assets. Note 7 of the consolidated financial statements includes the Company's impairment reversal disclosures.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed for indicators of impairment and impairment reversal at each reporting period. If indicators of impairment or impairment reversal exist, the recoverable amount of the Company's cash generating unit is estimated. The recoverable amount was determined based on the fair value less costs of disposal following a discounted cash flow approach.

Auditing the Company's estimated recoverable amount was complex due to the subjective nature of the various management inputs and assumptions. Additionally, the evaluation of this estimate required specialized skills and knowledge. The significant assumption utilized in the analysis was forecasted earnings before interest, depreciation and amortization ("EBITDA").

utilized in determining the discount rate by referencing current industry, economic, and comparable company information, and company and cash-flow specific risk premiums;

- We assessed the historical accuracy of management's cash flow projections, including EBITDA, by comparing them to actual historical performance;
- We evaluated the reasonability of the Company's current cash flow projections, including EBITDA, in comparison to historical results, third-party commodity price forecasts, analyst reports, industry publications, and additional supporting evidence such as master sale agreements;
- We compared the terminal growth rate to current industry, market and economic trends;
- We performed sensitivity analyses on significant assumptions to evaluate the changes in the recoverable amount of the cash generating unit that would arise from changes in those assumptions; and
- We assessed the adequacy of the Company's impairment reversal disclosures in Note 7 to the consolidated financial statements.

Recoverability of deferred income tax assets

The Company's balance sheet at December 31, 2023 includes a deferred income tax asset of $27,599. The deferred income tax asset consists primarily of non-capital loss carry-forwards and interest deductions available to be used against future taxable income. The recognition of deferred income tax assets is based on management's estimate that it is probable taxable profit will be available against which these assets can be utilized. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Refer to Notes 3 and 9 of the consolidated financial statements for a description of the Company's income tax accounting policy and other income tax disclosures.

To test the Company's estimated recoverability of deferred income tax assets, we performed the following procedures, among others:

- We assessed the historical accuracy of management's cash flow projections, including EBITDA, by comparing them to actual historical performance; ·
- We evaluated the reasonability of the Company's current cash flow projections, including EBITDA, used to forecast future taxable income in comparison to historical results, third-party commodity price forecasts, analyst reports, and additional supporting evidence such as master sale agreements;
- We involved our tax specialists who assisted in evaluating the application of relevant tax laws and regulations used in the determination of the deferred income tax asset;

Auditing the Company's estimate of future taxable profit and the recoverability of the deferred tax asset was complex due to the subjective nature of the various management inputs and assumptions utilized in the analysis, particularly with respect to forecasted earnings before interest, depreciation and amortization ("EBITDA").

The evaluation of this estimate required specialized skills and knowledge.

- We agreed tax pool balances to the most recent tax filings, and the tax rates used in determining the deferred income tax balances were compared against the enacted or substantively enacted tax rates; and
- We assessed the adequacy of the Company's income tax disclosures in note 9 of the consolidated financial statements.

Other information

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

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

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

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst + Young LLP

Chartered Professional Accountants

Calgary, Alberta
March 6, 2024

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Financial Position

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

	Note		December 31, 2023		December 31, 2022
Assets					
Current assets					
Accounts receivable	4(d)	$	44,010	$	42,304
Prepaid expenses			7,074		7,708
Inventories	6		85,099		72,533
Total current assets			136,183		122,545
Deferred income tax assets	9		27,599		—
Deposits and restricted cash	10(c)		3,216		10,893
Property, plant and equipment	7		259,712		135,159
Right-of-use assets	8		56,120		58,300
Total assets		$	482,830	$	326,897
Liabilities and equity					
Current liabilities					
Accounts payable and accruals	4(e), 14	$	70,539	$	68,425
Contract liabilities	16		2,726		153
Lease liabilities	11		16,273		17,700
Current portion of long-term debt	10		17,561		—
Decommissioning provision	12		1,272		1,175
Total current liabilities			108,371		87,453
Lease liabilities	11		46,417		50,722
Long-term debt	10		141,534		176,518
Deferred income tax liabilities	9		9,175		—
Decommissioning provision	12		8,203		6,547
Total liabilities		$	313,700	$	321,240
Shareholders' equity					
Shareholders' equity	13	$	410,632	$	410,632
Contributed surplus			2,459		2,459
Accumulated deficit			(254,450)		(421,795)
Cumulative translation adjustment			10,489		14,361
Total shareholders' equity		$	169,130	$	5,657
Total liabilities and shareholders' equity		$	482,830	$	326,897

See accompanying notes to the consolidated financial statements.

Commitments and contingencies (Note 18)

Subsequent event (Note 23)

Approved on behalf of the Board of Directors:

signed “Chris Johnson”
Chris Johnson
Director

signed “Scott Melbourn”
Scott Melbourn
Director

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	Note		2023		2022
Sales					
Sand revenue	16	$	460,187	$	341,671
Wellsite solutions	16		105,691		69,790
Terminal services	16		3,870		4,451
Total sales			569,748		415,912
Cost of sales	17	$	434,567	$	336,940
Cost of sales - depreciation			25,775		20,827
Gross margin		$	109,406	$	58,145
Operating expense	17	$	22,923	$	20,075
General & administrative expense	17		13,974		10,034
Depreciation			11,809		10,555
Income from operations		$	60,700	$	17,481
Other expense (income):					
Finance expense	19	$	36,342	$	33,147
Share-based compensation expense	14		6,759		947
Gain on asset disposal			(3,312)		(1,192)
Unrealized loss on derivative instruments			—		1,718
Other income			(1,887)		(2,002)
Other expense	20		1,120		3,407
Impairment reversal	7		(128,555)		—
Gain on sublease			(28)		—
Loss (gain) on debt extinguishment	10(a)		(763)		862
Foreign exchange loss (gain)	4(f)		1,056		(10,636)
Total other expense (income)			(89,268)		26,251
Income (loss) before income taxes		$	149,968	$	(8,770)
Income taxes					
Current tax expense	9	$	905	$	—
Deferred tax recovery	9	$	(18,282)	$	—
Total income taxes			(17,377)		—
Net income (loss)		$	167,345	$	(8,770)
Other comprehensive income (loss)					
Foreign currency translation adjustment (subject to recycling)			(3,872)		7,901
Comprehensive income (loss)		$	163,473	$	(869)
Earnings (loss) per share (in dollars)					
Basic	15	$	12.35	$	(0.65)
Diluted	15	$	11.88	$	(0.65)

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Changes in Equity

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

	Common share capital					
	Number of Shares	$	Contributed Surplus	Accumulated Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2022	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (421,795)**	**$ 14,361**	**$ 5,657**
Net income				167,345		**167,345**
Unrealized foreign exchange loss					(3,872)	**(3,872)**
Balance at December 31, 2023	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (254,450)**	**$ 10,489**	**$ 169,130**

	Common share capital					
	Number of Shares	$	Contributed Surplus	Accumulated Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2021	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (413,025)**	**$ 6,460**	**$ 6,526**
Net loss				(8,770)		**(8,770)**
Unrealized foreign exchange gain					7,901	**7,901**
Balance at December 31, 2022	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (421,795)**	**$ 14,361**	**$ 5,657**

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Cash Flows

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

	Note		2023		2022
Operating Activities					
Net income (loss)		$	167,345	$	(8,770)
Adjusted for the following:					
Depreciation			37,584		31,382
Share-based compensation expense	14		6,759		947
Gain on asset disposal			(3,312)		(1,192)
Finance expense	19		36,342		33,147
Impairment reversal	7		(128,555)		—
Loss (gain) on debt extinguishment	10(a)		(763)		862
Deferred income taxes	9		(18,282)		—
Unrealized loss on derivative instruments			—		1,718
Satisfaction of performance obligations, net of proceeds on contract liabilities	16		(153)		59
Payments for share-based compensation			(1,171)		(289)
Payments made for decommissioning provision	12		(1,577)		(1,251)
Net changes in non-cash working capital	5		(13,975)		23,560
Cash flows provided by operating activities		$	80,242	$	80,173
Investing Activities					
Capital expenditures			(22,112)		(14,799)
Proceeds on disposal of property, plant and equipment and reimbursement of capital costs			9,067		1,511
Payments made for Peace River transaction	8		—		(368)
Net changes in non-cash working capital	5		(156)		(242)
Cash flows used in investing activities		$	(13,201)	$	(13,898)
Financing Activities					
Repayments on long-term debt	5		(11,824)		(10,923)
Repayments on senior secured notes	10(a)		(13,990)		—
Proceeds (payments) for deposits and restricted cash	10(c)		7,515		(11,002)
Payment of lease obligations	11		(19,592)		(15,751)
Financing expense paid			(29,150)		(28,599)
Cash flows used in financing activities		$	(67,041)	$	(66,275)
Increase (decrease) in cash		$	—	$	—
Cash and cash equivalents, beginning of year			—		—
Cash and cash equivalents, end of year		$	—	$	—
Supplementary information					
Interest paid			(26,798)		(22,608)

See accompanying notes to the consolidated financial statements.

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. and its subsidiaries ("Source" or the "Company") is a 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 and its "last mile" logistics capabilities. Source also provides storage and logistics services for other bulk oil and gas well completion materials and has developed Sahara, a proprietary wellsite mobile sand storage and handling system.

The Company is incorporated under the Alberta Business Corporations Act and the head and principal office is located at 500, 1060 - 7th Street SW, Calgary, Alberta, T2R 0C4.

2. BASIS OF PRESENTATION

Statement of compliance

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

The policies applied in the consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2023. The consolidated financial statements were authorized for issuance by the Board of Directors (the "Board") on March 6, 2024.

Basis of measurement

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

Use of estimates and judgments

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

Leases and right-of-use assets

The Company measures the lease liability and corresponding right-of-use ("RoU") asset at the present value of the lease payments, which are discounted using the Company's incremental borrowing rate when the interest rate implicit in the lease cannot be readily determined. Determining the incremental borrowing rate requires estimates and management judgement, as it equates to the rate the Company would use to obtain the funds necessary to purchase a similar asset in a similar economic environment.

Depreciation

The amounts recorded for depreciation of property and equipment are based on estimates of the useful lives of the assets and residual values. These estimates may be impacted as general market conditions change or as patterns impacting useful lives emerge over time. The estimated residual value and useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

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 which 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.

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 and impairment reversal of non-financial assets

Assets that are subject to depreciation are reviewed for impairment or impairment reversal at each reporting date. Management's judgment is required when assessing the existence of impairment or impairment reversal indicators and whether these internal or external factors indicate that assets may be impaired or that a previous impairment may no longer exist. The assessment of impairment or impairment reversal indicators includes judgment relating to economic and operating environments, market interest rates and market capitalization.

For the purposes of assessing impairment and impairment reversal, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). The recoverable amount of a CGU is the higher of its fair value less costs of disposal and value in use as determined using an approach which considers a discounted cash flow model approach. The discounted cash flow model incorporates significant judgment, including assumptions related to revenue growth rates, forecasted earnings before interest taxes depreciation and amortization ("EBITDA"), and discount rates.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. If the estimated recoverable amount of an asset that was previously impaired exceeds its carrying value, an impairment reversal is recognized, to a maximum of the carrying value that would have been determined, net of depreciation, in the event no impairment loss had been recognized previously.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The following are the accounting policies that management considers material to the users of the consolidated financial statements. Accounting policy information is considered to be material if its disclosure is needed for users to understand information provided about material transactions, other events or conditions in the consolidated financial statements.

Inventories

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

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

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

Foreign currency translation

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

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

Property, plant and equipment

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

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

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

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

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

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

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

Impairment and impairment reversal of non-financial assets

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

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in previous years.

Impairment losses and impairment reversals are recognized in the consolidated statements of operations and comprehensive income (loss).

Leases and right-of-use assets

Lessee

At the commencement of a lease, the Company recognizes a RoU asset and a lease liability. The lease liability is measured at the present value of the lease payments, which are discounted using the Company’s incremental borrowing rate when the interest rate implicit in the lease cannot be readily determined. Each lease payment is allocated between the liability and finance expense. Lease payments included in the measurement of the lease liability are comprised of the following:

- fixed payment less any lease incentives;
- variable lease payments that depend on an index or rate;
- amounts expected to be paid for residual value guarantees;
- exercise price of a purchase option if the Company is reasonably certain to exercise; and
- penalties for termination if the lease term reflects the exercise of the option to terminate.

RoU assets are measured at cost which includes the following:

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

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

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

Lessor

At the commencement of a lease, the Company performs an assessment to determine if the lease qualifies as a finance lease or an operating lease. A lease that transfers substantially all risks and rewards is classified as a finance lease and a lease that does not transfer substantially all risks and rewards is classified as an operating lease. For a finance lease, a receivable equal to the net investment in the lease is measured as the present value of the lease payments using the implicit rate in the lease.

In instances when the Company is an intermediate lessor, an assessment is performed to determine the classification of the sublease with reference to the RoU asset arising from the lease rather than reference to the underlying asset. For a sublease that transfers substantially all risks and rewards, it is classified as a finance lease; otherwise it is classified as an operating lease and rental income is recognized on a straight-line basis over the lease term.

A sublease classified as a finance lease is recognized as a receivable equal to the net investment in the lease. The RoU asset is derecognized and the difference between the RoU asset and the net investment is recognized in the consolidated statements of operations and comprehensive income (loss). At inception of the sublease, the net investment is measured at the present value of the lease payments using the interest rate implicit in the sublease. If the implicit rate cannot be determined, the discount rate used for the head lease is used to measure the net investment in the sublease. Finance income is recognized over the lease term at a constant rate of return on the net investment in the lease.

Provisions and contingent liabilities

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

Decommissioning provision

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

Income taxes

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

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

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

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

Revenue recognition

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

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

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

Finance income and expenses

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

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

Earnings (loss) per share

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

Basis of consolidation

The consolidated financial statements include the accounts of Source Energy Services Ltd. and its subsidiaries, which are entities over which Source Energy Services Ltd. has control. Control exists when Source Energy Services Ltd. is exposed to, or has the right to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date of acquisition, being the date on which Source Energy Services Ltd. obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Source Energy Services Ltd., and the accounting policies are aligned with the policies adopted by Source Energy Services Ltd.. All intercompany balances and income and expenses have been eliminated upon preparation of the consolidated financial statements. As at December 31, 2023 and 2022, all subsidiaries are 100% owned.

Share-based payments

The Company's share-based compensation plans include the following award types: restricted share unit ("RSU"), performance share unit ("PSU"), deferred share unit ("DSU") and share appreciation right ("SAR"). Under these plans, any cumulative expense is calculated at each statement of financial position date before vesting, representing the extent to which the vesting period has expired and management's best estimate of the number of awards that will ultimately vest.

The fair value of SARs is measured using the Black-Scholes valuation model. The model requires the input of assumptions including historical forfeiture rates and expected volatility based on the historical stock price of the Company. The expected term of SARs represents the period of time that awards granted are expected to be outstanding. The risk-free rate is based on the Government of Canada bond yields with a remaining term equal to the expected life of the awards used in the Black-Scholes valuation model. The fair value of the SARs is measured at the grant date and subsequently remeasured at each reporting period.

The Company also has share-based compensation plans that allow for DSUs, RSUs and PSUs to be granted to directors and certain employees. The DSUs, RSUs and PSUs are expected to be settled for cash payment and accordingly are considered liability-settled awards for accounting purposes. These awards are valued based on the number of units that are expected to vest and the share price at the reporting period.

Financial Instruments

The Company determines the classification of its financial instruments at initial recognition and records the instruments at their fair value plus, for those instruments not subsequently measured at fair value, directly attributable transaction costs. Financial assets and financial liabilities are recognized on the Company's consolidated statements of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

The Company considers whether a contract contains an embedded derivative when it first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit and loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Financial assets

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset:

a. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses;

b. Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises; and

c. Fair value through other comprehensive income: Instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the instruments' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. When the financial instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses.

Financial asset impairment

Financial assets are assessed for impairment using an expected credit loss model as required by IFRS 9. The Company has applied the simplified approach to recognize lifetime expected credit losses for its financial assets measured at amortized cost. As such, the loss allowance for a financial asset is recorded at an amount based on the lifetime expected credit loss at each reporting period.

Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, other than derivative financial instruments.

Derivative financial instruments

The Company enters into derivative financial instruments to mitigate its exposure to foreign exchange fluctuations as necessary. Derivative financial instruments are classified as fair value through profit or loss.

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, 2023:

Standard	Description of change
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 requires an entity to disclose material accounting policy information instead of significant accounting policies based on the nature of the information, even if the related amounts are immaterial.
Definition of Accounting Estimates - Amendment to IAS 8	This amendment introduces a new definition for accounting estimates.

The Company completed its assessment of the impact of the amendments and concluded that they have an impact on Source's disclosures of accounting policies and estimates, but not on the measurement, recognition, or presentation of any items within the consolidated 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, 2024:

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.
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 - Amendment 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.
Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	The amendments add two new disclosure requirements for supplier finance arrangements.
Lack of Exchangeability - Amendment to IAS 21	The amendment requires an assessment as to whether a currency is exchangeable into another currency at the measurement date and for a specified purpose. Currency that is not exchangeable requires an estimate of the spot rate at the measurement date.

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.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

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

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

(b) Classification of financial instruments

The Company categorizes the following financial instruments at amortized cost:

As at	December 31, 2023	December 31, 2022
Financial instruments at amortized cost:		
Accounts receivable	44,010	42,304
Deposits and restricted cash	3,216	10,893
Accounts payable and accruals	70,539	68,425
Lease liabilities (includes current portion)	62,690	68,422
Long-term debt (includes current portion)	159,095	176,518

(c) Fair value of financial instruments

The fair values of accounts receivable and accounts payable approximate their carrying values due to the short-term maturity of those instruments. The fair value of the credit facilities approximates their carrying value as they bear interest at floating market rates consistent with market rates for similar debt.

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

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

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

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

		Fair Value		
December 31, 2023	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at amortized cost:				
Senior secured notes	$ 143,730	$ —	$ 142,629	$ —

		Fair Value		
December 31, 2022	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at amortized cost:				
Senior secured notes	$ 153,603	$ —	$ 114,739	$ —

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's trade and other accounts receivable are due from purchasers of proppants and logistics services and are subject to normal industry credit risk. Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is materially mitigated by the size and reputation of the companies to which they extend credit.

The Company's revenues are generally derived from a group of large and reputable oilfield exploration and production companies and oilfield services customers. Orders for proppants are subject to guidelines established by the Company's credit and collection program. In addition to the ongoing review and monitoring of aging trade receivables, in 2022 the Company obtained trade credit insurance to further mitigate credit risk. The Company's five largest customers account for 78% of the revenue for the year ended December 31, 2023, with the three largest making up 68% of revenue (year ended December 31, 2022, five customers accounted for 65%, three customers accounted for 49%). Three of those customers (three for the year ended December 31, 2022) account for 10% or more of total revenue individually in the year ended December 31, 2023. At December 31, 2023, approximately 93% of trade accounts receivable were insured.

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

As at December 31, 2023, the Company's accounts receivable balance, net of loss allowances, was comprised of the following:

As at		December 31, 2023		December 31, 2022
Not yet due	$	36,207	$	39,697
0 – 30 days		7,210		2,590
31 – 60 days		455		15
61 – 90 days		118		—
91+ days		20		2
Total accounts receivable	**$**	**44,010**	**$**	**42,304**

The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on the lifetime expected credit loss provision. The Company uses an allowance matrix to estimate the credit losses of trade receivables which considers historical default rates as well as the days past due.

A loss allowance of $79 was recorded as at December 31, 2023:

As at		December 31, 2023		December 31, 2022
Balance, beginning of year		71	$	73
Increase (decrease) in loss allowance		8		(2)
Balance, end of year	**$**	**79**	**$**	**71**

The Company's maximum exposure to credit risk is the carrying amount of trade and other receivables, cash and cash equivalents, deposits and restricted cash as well as foreign exchange forward contracts, if applicable. Other than accounts receivable, these financial instruments are held with major financial institutions and management believes the investment grade credit ratings of these institutions minimizes this risk.

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The financial liabilities on the consolidated statements of financial position consist of accounts payable and accrued liabilities, lease liabilities, a credit facility and senior secured notes. The Company's approach to managing liquidity risk includes preparing operating and capital budgets and forecasts and monitoring performance against budgets and forecasts. The Company may seek additional financing based on the results of these processes. The Company's ongoing liquidity is impacted by various external events and conditions, including foreign currency fluctuations and commodity price fluctuations as well as global economic conditions.

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

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

As at December 31, 2023		Total		2024		2025		2026		2027		2028		2029 and beyond
Accounts payable and accruals	$	70,539	$	70,539	$	—	$	—	$	—	$	—	$	—
Lease liabilities(1)	$	77,600	$	19,294	$	12,798	$	8,989	$	6,028	$	3,973	$	26,518
Credit facility(2)	$	15,247	$	15,247	$	—	$	—	$	—	$	—	$	—
Senior secured notes(3)	$	170,633	$	15,728	$	154,905	$	—	$	—	$	—	$	—

Notes:
(1) Includes interest for future periods.
(2) The timing and amount of interest payments on such balances will fluctuate depending on balances outstanding and applicable interest rates.
(3) Includes interest for future periods and assumes the Company will pay interest in cash at 10.5% through maturity.

(f) Market risk

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

Foreign currency risk

The Company is exposed to currency price risk on sales denominated in United States ("US") dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing of inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2023 are $20,703 (December 31, 2022 - $11,861) and $23,903 (December 31, 2022 - $26,749) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) by $1,220 for the year ended December 31, 2023 ($2,292 in 2022).

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

Prior to a rebalancing of US dollar denominated revenues, the Company had forward contracts in place in order to manage the increased exposure to fluctuations in the Canadian to US dollar exchange rate. In September 2022, in advance of the completion of the ABL facility (as defined below), the Company wound up and settled existing forward contracts during the year ended December 31, 2022 which resulted in a realized foreign exchange gain of $9,703.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact borrowings under its floating rate asset backed loan facility. The Company is exposed to interest rate price risk on long-term debt that bears interest at floating rates. The net effect of each 1% change in market interest rates would impact the related interest expense (income) for the Company's floating rate borrowings by $152 at December 31, 2023 ($266 at December 31, 2022). The Company had no derivative contracts in place as at or during the years ended December 31, 2023 and 2022 with respect to managing interest rate risk.

(g) Capital management

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

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

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

The Company's share capital is not subject to external restrictions; however, the amount of the operating facility available for use is determined by levels of accounts receivable and inventory. Pursuant to the credit agreement, the Company is subject to externally imposed capital requirements for the ABL facility. Refer to Note 10(b) for additional information.

The Company's capital management policy has not changed during the years ended December 31, 2023 and December 31, 2022.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the years ended December 31, 2023 and 2022 were as follows:

		2023		**2022**
Accounts receivable	$	(1,431)	$	1,622
Prepaid expenses		653		(2,897)
Inventories		(12,607)		(13,474)
Accounts payable and accruals		(590)		38,309
Changes in non-cash working capital	**$**	**(13,975)**	**$**	**23,560**

Changes in non-cash investing assets and liabilities for the years ended December 31, 2023 and 2022 were as follows:

		2023		**2022**
Accounts payable and accruals	$	(156)	$	(242)
Changes in non-cash working capital	**$**	**(156)**	**$**	**(242)**

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

Changes in long-term debt for the years ended December 31, 2023 and 2022 were as follows:

		Senior secured notes		ABL facility and senior secured term loan
As at December 31, 2021	$	147,350	$	35,279
Cash changes:				
Proceeds from ABL facility		—		178,636
Repayments on ABL facility		—		(189,559)
Non-cash and other changes:				
Extinguishment of debt(1)		—		862
Interest(2)		2,442		—
Accretion(3)		3,811		1,115
Consent fee(4)		1,635		—
Unrealized foreign exchange (gain) loss		—		1,100
Financing costs incurred		(1,635)		(5,263)
As at December 31, 2022	$	153,603	$	22,170
Cash changes:				
Proceeds from ABL facility		—		620,878
Repayments on ABL facility		—		(632,702)
Repayments on senior secured notes(5)		(13,990)		—
Non-cash and other changes:				
Extinguishment of debt(5)		(763)		—
Accretion(3)		4,880		2,952
Unrealized foreign exchange (gain) loss		—		488
Financing costs incurred		—		(717)
As at December 31, 2023	**$**	**143,730**	**$**	**13,069**

Notes:
(1) On October 14, 2022 the Company entered into a new credit facility which resulted in a loss on extinguishment of debt related to the Prior ABL and Term loan (as defined below). Refer to Note 10 for additional information.
(2) The Company paid interest in kind, at a rate of 12.5%, for the February 15, 2022 payment. Refer to Note 10 for additional information.
(3) Includes accretion of deferred financing fees and amounts related to accretion of the senior secured notes to their aggregate principal value.
(4) Pursuant to the terms and conditions of the Supplemental Indenture (as defined below), a one percent consent fee was paid in kind to the noteholders upon closing of the new credit facility. Refer to Note 10 for additional information.
(5) The Company repurchased $15,351 principal value of outstanding senior secured notes which resulted in a gain on extinguishment of debt. Refer to Note 10 for additional information.

6. INVENTORIES

Inventory consists of three main classifications:

As at		December 31, 2023		December 31, 2022
Unprocessed sand and work in progress	$	50,129	$	38,971
Sand available for shipment		31,295		29,384
Spare parts and supplies		3,675		4,178
Total inventories	**$**	**85,099**	**$**	**72,533**

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is depreciation expense related to sand-producing properties of $10,470 as at December 31, 2023 (December 31, 2022 - $9,486). The total amount of inventory expensed through cost of sales during the year ended December 31, 2023 was $340,886 (December 31, 2022 - $274,397). No inventory write-downs or reversals of prior write-downs were recorded during the year ended December 31, 2023 (2022 - $nil).

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Cost						
Balance as at December 31, 2021	$ 203,272	$ 196,335	$ 6,350	$ 23,076	$ 17,610	$ 446,643
Additions(1)	(322)	73	21	8,868	5,806	14,446
Disposals	(769)	(1,859)	—	—	—	(2,628)
Completed construction in progress	553	5,275	—	(5,828)	—	—
Transfers	—	1,727	40	—	—	1,767
Exchange differences	10,101	9,393	235	319	1,376	21,424
Balance as at December 31, 2022	$ 212,835	$ 210,944	$ 6,646	$ 26,435	$ 24,792	$ 481,652
Additions(2)	3,646	38	—	9,980	11,624	25,288
Disposals	(4,448)	(4,754)	(20)	—	—	(9,222)
Completed construction in progress	2,629	7,851	25	(10,505)	—	—
Transfers	—	3,216	—	—	—	3,216
Exchange differences	(3,724)	(3,531)	(87)	(130)	(688)	(8,160)
Balance as at December 31, 2023	**$210,938**	**$213,764**	**$6,564**	**$25,780**	**$35,728**	**$492,774**

Notes:
(1) Includes changes in estimates for the decommissioning provision due to an increase in risk-free rates (refer to Note 12 for additional information).
(2) In 2023, Source incurred capital costs of $2,590 related to contracts to construct two Sahara units on behalf of customers. These costs were fully reimbursed in the year.

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Accumulated depreciation						
Balance as at December 31, 2021	$ (140,677)	$ (150,942)	$ (6,224)	$ —	$ (16,865)	$ (314,708)
Depreciation	(5,797)	(7,307)	(69)	—	(3,918)	(17,091)
Disposals	423	1,791	—	—	—	2,214
Transfers	—	(1,010)	(35)	—	—	(1,045)
Exchange differences	(7,090)	(7,264)	(233)	—	(1,276)	(15,863)
Balance as at December 31, 2022	$ (153,141)	$ (164,732)	$ (6,561)	$ —	$ (22,059)	$ (346,493)
Depreciation	(5,709)	(7,485)	(26)	—	(9,711)	(22,931)
Impairment reversal	73,008	55,472	75	—	—	128,555
Disposals	2,226	3,840	20	—	—	6,086
Transfers	—	(3,216)	—	—	—	(3,216)
Exchange differences	1,908	2,289	86	—	654	4,937
Balance as at December 31, 2023	**$ (81,708)**	**$ (113,832)**	**$ (6,406)**	**$ —**	**$ (31,116)**	**$ (233,062)**
Carrying amounts						
December 31, 2022	$ 59,694	$ 46,212	$ 85	$ 26,435	$ 2,733	$ 135,159
December 31, 2023	**$ 129,230**	**$ 99,932**	**$ 158**	**$ 25,780**	**$ 4,612**	**$ 259,712**

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

At December 31, 2023, as a result of continued strong industry activity levels, significant improvement in the financial performance of the Company and an improved business outlook, Source carried out an assessment of the recoverable value of its operations. A discounted cash flow analysis over five years was completed based on forecasted EBITDA, capital expenditures, working capital requirements and income taxes. Assumptions included a terminal growth rate of 0.5% and a discount rate of 14.4%, used to estimate the fair value less costs of disposal (a level 3 fair value measurement). The key assumption utilized in the analysis was forecasted EBITDA, which was based on historical experience, actual operating results and industry trends and forecasts.

The assessment resulted in the reversal of $128,555 of impairment losses realized in 2019 and 2020, net of depreciation that would have been recognized had no asset impairment occurred.

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

8. RIGHT-OF-USE ASSETS

		Land & Building		Equipment & Vehicles		Rail cars		Peace River Facility[(1)]		Total
Cost										
Balance as at December 31, 2021	$	6,622	$	23,713	$	41,742	$	—	$	72,077
Additions and modifications		3,302		7,296		7,863		26,865		45,326
Expired leases		—		(2,243)		(363)		—		(2,606)
Transfers		—		(1,767)		—		—		(1,767)
Exchange differences		53		1,469		2,876		—		4,398
Balance as at December 31, 2022	$	9,977	$	28,468	$	52,118	$	26,865	$	117,428
Additions and modifications		1,955		10,360		2,022		—		14,337
Expired leases		(36)		(4,833)		—		—		(4,869)
Transfers		—		(3,216)		—		—		(3,216)
Exchange differences		(65)		(608)		(1,229)		—		(1,902)
Balance as at December 31, 2023	**$**	**11,831**	**$**	**30,171**	**$**	**52,911**	**$**	**26,865**	**$**	**121,778**

Note:
(1) On April 12, 2022, the Company entered into a transaction with Canadian Silica Industries to assume operation of its Peace River mine through a mining services agreement and a lease agreement for its frac sand processing facilities. As a result of the transaction, the Company recognized a right-of-use asset of $26,865 and a corresponding lease obligation related to the sand processing facilities.

		Land & Building		Equipment & Vehicles		Rail cars		Peace River Facility		Total
Accumulated depreciation										
Balance as at December 31, 2021		(3,878)		(13,640)		(27,745)	$	—		(45,263)
Depreciation		(1,761)		(5,133)		(6,334)		(1,281)		(14,509)
Expired leases		—		2,243		363		—		2,606
Transfers		—		1,045		—		—		1,045
Exchange differences		(26)		(896)		(2,085)		—		(3,007)
Balance as at December 31, 2022	$	(5,665)	$	(16,381)	$	(35,801)	$	(1,281)	$	(59,128)
Depreciation		(2,404)		(5,419)		(6,270)		(1,781)		(15,874)
Expired leases		36		4,833		—		—		4,869
Transfers		—		3,216		—		—		3,216
Exchange differences		26		294		939		—		1,259
Balance as at December 31, 2023	**$**	**(8,007)**	**$**	**(13,457)**	**$**	**(41,132)**	**$**	**(3,062)**	**$**	**(65,658)**
Carrying amounts										
December 31, 2022	$	4,312	$	12,087	$	16,317	$	25,584	$	58,300
December 31, 2023	**$**	**3,824**	**$**	**16,714**	**$**	**11,779**	**$**	**23,803**	**$**	**56,120**

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

9. INCOME TAXES

The following table reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 23% (2022 - 23%) for the years indicated:

		2023		2022
Income (loss) before income taxes	$	149,968	$	(8,770)
Statutory income tax rate		23.00 %		23.00 %
Expected income taxes		34,493		(2,017)
Increase (decrease) in taxes from:				
Non-deductible expenses		959		598
Share-based compensation		177		29
Unrealized foreign exchange and derivatives		—		282
Prior period adjustments		(1,655)		7,549
Recognized deferred income tax assets		(52,478)		—
Unrecognized deferred income tax assets		(3,107)		(5,571)
Rate differential on foreign activities		4,425		(707)
Other		(191)		(163)
Total income taxes	**$**	**(17,377)**	**$**	**—**
Current tax expense		**905**		**—**
Deferred tax recovery		**(18,282)**		**—**
Total income taxes	**$**	**(17,377)**	**$**	**—**

Net deferred income tax assets (liabilities) are comprised of the following:

As at		**December 31, 2023**		**December 31, 2022**
Deferred income tax assets		**27,599**		**—**
Deferred income tax liabilities		**(9,175)**		**—**
Net deferred income tax assets (liabilities)	**$**	**18,424**	**$**	**—**

Significant components of recognized deferred income tax include:

As at		**December 31, 2023**		**December 31, 2022**
Difference between tax and reported amounts for depreciable assets	$	(12,509)	$	—
Finance fees		723		—
Tax loss carryforwards recognized		23,376		—
Decommissioning provision		2,392		—
Mine development costs		933		—
Other		3,509		—
Net deferred income tax assets (liabilities)	**$**	**18,424**	**$**	**—**

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

As at		**December 31, 2023**		**December 31, 2022**
Opening net deferred income tax assets (liabilities)	$	—	$	—
Recognized in net income		18,282		—
Exchange differences		142		—
Closing net deferred income tax assets (liabilities)	**$**	**18,424**	**$**	**—**

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

As at		**December 31, 2023**		**December 31, 2022**
Canada		27,599		—
Foreign		(9,175)		—
Net deferred income tax assets (liabilities)	**$**	**18,424**	**$**	**—**

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

At December 31, 2023, the Company had $78,954 (December 31, 2022 - $162,576) of deductible temporary differences and $2,391 (December 31, 2022 - $135,906) of non-capital losses for which no deferred income tax asset has been recognized. Canadian and foreign losses begin to expire in 2037.

10. LONG-TERM DEBT

As at		December 31, 2023		December 31, 2022
Senior secured notes, due March 15, 2025, bearing interest at 10.5% per annum (a)	$	143,730	$	153,603
ABL facility maturing November 2024, with interest based on floating rates (b)		15,247		26,583
Unamortized debt issuance costs for the ABL facility (b)		(2,178)		(4,413)
Other long-term debt[(1)]		2,296		745
Total long-term debt	**$**	**159,095**	**$**	**176,518**
Less: current portion		(17,561)		—
Long-term portion	**$**	**141,534**	**$**	**176,518**

Note:
(1) Includes amounts related to the Company's share-based compensation plan. Refer to Note 14 for additional information.

(a) Senior secured notes

On December 30, 2020, Source issued $142,238 in aggregate principal of senior secured notes (the "Notes"), which bear interest at 10.5% and mature March 15, 2025. 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 due on or before February 15, 2022, through the issuance of $21,220 of additional notes. Further, the Company incurred a consent fee in 2022 of $1,635 as a result of the new credit facility, which was paid in kind, as discussed below. The Notes are secured by a fixed and floating charge over all assets of the business and have a second charge on accounts receivable and inventory.

The Notes contain prepayment options, whereby the Company may redeem all or a part of the Notes 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, payable within 90 days of the fiscal year end. 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. For the year ended December 31, 2023, a mandatory redemption of $4,492 is required (December 31, 2022 - $nil). As such, notes redeemable under this requirement have been presented as a current liability at December 31, 2023.

During the year ended December 31, 2023, the Company purchased and cancelled a portion of the outstanding Notes in the open market, with an aggregate principal value of $15,351, for gross proceeds of $14,182 including accrued and unpaid interest. This repurchase resulted in a gain on extinguishment of debt of $763 during the year. Refer to Note 23 for additional repurchases completed subsequent to December 31, 2023.

Interest expense on the Notes was $16,997 for the year ended December 31, 2023 (2022 - $17,526).

(b) ABL facility

On October 14, 2022, the Company closed a revolving asset backed senior credit facility (the "ABL") with a syndicate comprised of FGI Worldwide LLC ("FGI") and CIT Northbridge Credit, as advised by CIT Asset Management LLC ("CIT"), providing access to funding of US$55,000. The Company also entered into a supplemental indenture that governs the Notes (the "Supplemental Indenture") which permitted Source to execute the new ABL credit facility in exchange for a one percent consent fee to the noteholders, which was paid in kind on closing.

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. On December 14, 2023, the ABL facility was amended to extend the maturity of the facility to the earlier of October 14, 2025 or four months prior to the maturity of the Notes. Amounts outstanding under the ABL facility have been presented as a current liability at December 31, 2023.

Amounts available under the ABL are 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;
- maximum capital expenditures for each fiscal year equal to:

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

- ◦ the lesser of $13,500 or 35% of trailing twelve months of earnings before interest, tax, depreciation and amortization for 2023;
- ◦ the lesser of $20,000 or 22.5% trailing twelve months of earnings before interest, tax, depreciation and amortization for 2024 pursuant to the amendment noted above; and
- ◦ the lesser of $13,500 or 35% of trailing twelve months of earnings before interest, tax, depreciation and amortization for 2025 and thereafter; and
- a minimum level of excess availability of $5,000.

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, 2023, Source was in compliance with all of its covenants.

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 and the Company recognized a loss on extinguishment of debt of $862 for the year ended December 31, 2022.

Any excess cash on hand is applied against amounts drawn on the ABL facility and at December 31, 2023, $15,247 was drawn (less unamortized finance costs of $2,178 for a net balance of $13,069) (December 31, 2022 - $26,583). Including the minimum availability covenant, as noted above, there was $17,285 of availability on the facility at December 31, 2023 (December 31, 2022 - $8,412).

Interest on the ABL facility amounted to $4,362 for the year ended December 31, 2023 (2022 - $737).

(c) Prior ABL facility

The Company had an ABL facility (the “Prior ABL”) that was extinguished on October 14, 2022 and bore interest based on the bank’s prime lending rate and CDOR or LIBOR rates, plus an applicable margin. The amount available under the general operating facility was subject to a borrowing base formula applied to accounts receivable and inventory. Interest on the Prior ABL facility amounted to $3,638 for the year ended December 31, 2022.

The Prior ABL facility included a US$8,500 standby letter of credit facility which was not extinguished under the terms of the ABL facility. In 2023, the standby letter of credit facility was increased to US$13,500. The Prior ABL also included an amount committed to supporting letters of credit under the facility, issued in respect of reclamation obligations related to mining operations in Wisconsin, which were transferred to deposits upon closing of the ABL facility. During the year ended December 31, 2023, certain of the letters of credit were exchanged for surety bonds, resulting in a reduction to the amounts held on deposit. As at December 31, 2023, $3,216 (December 31, 2022 - $10,893) has been classified as non-current assets on the consolidated statements of financial position in respect of these deposits, of which $1,045 is restricted cash (December 31, 2022 - $7,632).

(d) Senior secured term loan

Source had an additional credit facility in the form of a senior secured term loan (the “Term Loan”) that was extinguished on October 14, 2022. The Term Loan bore interest at Canadian prime plus 6% and was secured by a fixed and floating first charge over all assets of the business. Interest on the Term Loan was $961 for the year ended December 31, 2022.

The effective interest rate realized on long-term debt for the year ended December 31, 2023 was 12.0% (December 31, 2022 - 11.9%).

11. LEASE LIABILITIES

As at		**December 31, 2023**		**December 31, 2022**
Balance, beginning of year	$	68,422	$	38,436
Lease additions[(1)]		10,674		38,500
Lease modifications		3,985		5,229
Lease payments		(19,592)		(15,751)
Exchange differences		(799)		2,008
Balance, end of year	**$**	**62,690**	**$**	**68,422**
Less: current portion		(16,273)		(17,700)
Long-term portion	**$**	**46,417**	**$**	**50,722**

Note:
(1) On April 12, 2022, the Company entered into a transaction with Canadian Silica Industries to assume operation of its Peace River mine through a mining services agreement and a lease agreement for its frac sand processing facilities. As a result of the transaction, the Company recognized a right-of-use asset and a corresponding lease obligation of $25,497 related to the sand processing facilities.

The Company enters into lease arrangements related to rail cars, equipment and vehicles, office buildings and surface leases. Lease liabilities are measured at the present value of the remaining lease payments at the incremental borrowing rate of 8%. Leases with a lease term of twelve months or less for certain classes of assets and low-value assets of $182 were expensed to cost of sales or operating expense in the year ended December 31, 2023 (2022 - $441). The Company recognized $4,942 of interest on lease liabilities for the year ended December 31, 2023 (2022 - $4,267).

12. DECOMMISSIONING PROVISION

As at		**December 31, 2023**		**December 31, 2022**
Balance, beginning of year	$	7,722	$	8,608
Liabilities incurred		401		404
Liabilities settled		(1,577)		(1,251)
Accretion		294		246
Changes in estimates		2,885		(782)
Exchange differences		(250)		497
Balance, end of year	**$**	**9,475**	**$**	**7,722**
Less: current portion		(1,272)		(1,175)
Long-term portion	**$**	**8,203**	**$**	**6,547**

The Company's decommissioning provision relates to reclamation of land and facilities where its mines operate. Management estimates the costs to abandon and reclaim its properties based on current reclamation technology, acres disturbed and the estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provision has been discounted using an inflation rate of 2.83% and risk-free rates of 3.00% for expenditures planned within the next ten years and 3.06% for longer-term expenditures at December 31, 2023 (December 31, 2022 - 1.94%, 3.31% and 3.29%, respectively). The majority of these costs are expected to occur between 6 and 38 years.

13. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares. The following table outlines the issued and outstanding common shares as at December 31, 2023:

(stated in thousands, except share amounts)	**Number of shares**		**Amount**
Balance as at December 31, 2022 and 2023	**13,545,055**	**$**	**410,632**

14. SHARE-BASED COMPENSATION

(a) Share-based compensation plans

The Company has share-based compensation plans that allow for DSUs, RSUs and PSUs to be granted to directors and certain employees. The RSUs vest 1/3 on the anniversary date of the grant over a three-year period. Subject to achievement of performance criteria set out by the Board, the PSUs awarded vest 1/3 on the anniversary date of the grant over a three-year period. The RSUs and PSUs may be settled in cash or shares and accordingly are considered a liability-settled award for accounting purposes as they are expected to be settled for cash payment. At December 31, 2023, a liability of $4,901 has been recorded for these units, of which $3,862 has been classified as current (December 31, 2022 - $859 and $580, respectively).

The DSUs vest and are expensed over the earlier of five years or when a director or other participant ceases in their role and are payable only when a director or participant leaves the Company. The DSUs are expected to be settled for cash payment and accordingly are considered a liability-settled award for accounting purposes. At December 31, 2023, a liability of $1,050 has been recorded for these units, of which $406 has been classified as current (December 31, 2022 - $270 and $91, respectively).

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

The fair value of the RSUs, PSUs and DSUs was determined using the Company's share price at year end and a forfeiture rate of 5%. The following table provides a summary of the status of the Company's liability-settled compensation plans and changes during the years ended December 31, 2023 and 2022:

(number of units)	RSU	PSU	DSU
Balance as at December 31, 2021	248,027	375,577	165,734
Granted	117,500	286,500	79,000
Exercised	(133,747)	(111,007)	—
Forfeited	(1,056)	(254)	—
Balance as at December 31, 2022	230,724	550,816	244,734
Granted	127,500	355,854	162,211
Exercised	(106,561)	(37,542)	(134,057)
Forfeited	(21,666)	(80,233)	—
Balance as at December 31, 2023	**229,997**	**788,895**	**272,888**
Vested as at December 31, 2023	**—**	**249,234**	**—**

(b) Share appreciation rights

In 2021, the Company authorized a SAR plan for certain employees. These units vest 1/3 on the anniversary date of the grant over a three-year period and are settled for cash payment. The SARs are considered a liability-settled award for accounting purposes and were valued using the Black-Scholes option pricing model, using the following inputs:

	December 31, 2023			December 31, 2022	
	2023 Grant	2022 Grant	2021 Grant	2022 Grant	2021 Grant
Forfeiture rate (%)	9 %	9 %	9 %	9 %	9 %
Volatility (%)	91 %	90 %	70 %	122 %	122 %
Risk free interest rate (%)	4.50 %	4.50 %	4.50 %	3.75 %	3.75 %
Dividend yield (%)	— %	— %	— %	— %	— %
Option life (years)	2.18	1.34	0.21	2.34	1.21
Exercise price	$ 2.22	$ 1.84	$ 1.54	$ 1.84	$ 1.54
Share price(1)	$ 5.25	$ 5.60	$ 6.08	$ 2.03	$ 1.83

Note:
(1) The share price for the 2023 and 2022 grants is based on the year-to-date volume weighted average share price ("VWAP") from the date of grant or vesting. For the 2021 grant, the share price is based on the VWAP for the twenty days preceding the measurement date.

As at December 31, 2023, a liability of $1,008 has been recorded for the Company's obligation related to its SAR plan, of which $395 has been classified as a current liability:

	SARs Outstanding	Weighted Average Exercise Price
Balance as at December 31, 2021	224,000	$ 1.54
Granted	184,500	$ 1.84
Forfeited	(43,500)	$ 1.67
Balance as at December 31, 2022	365,000	$ 1.68
Granted	200,000	$ 2.22
Exercised	(13,167)	$ —
Forfeited	(28,333)	$ —
Balance as at December 31, 2023	**523,500**	**$ 1.87**
Vested as at December 31, 2023	**174,833**	
Weighted average remaining contractual life (years)	**1.24**	

Total share-based compensation expense for all share-based payment plans was $6,759 for the year ended December 31, 2023 (2022 - $947).

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

15. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share

The calculation of basic and diluted earnings (loss) per share for the year ended December 31, 2023 was based on the earnings (losses) available to holders of common shares of $167,345 (2022 - $(8,770)), and a weighted average number of common shares outstanding for the year ended December 31, 2023 and 2022 of 13,545,055. Diluted earnings (loss) per share is calculated by adjusting the earnings and number of shares for the effects of potential dilution, which are comprised of restricted and performance share units granted to employees. For the year ended December 31, 2023, Source had 818,160 of common shares relating to its RSU and PSU plans that could have a potentially dilutive effect in a future period (dilutive effect for the year ended December 31, 2022 - 781,577).

	2023	2022
Weighted average common shares outstanding	**13,545,055**	13,545,055
Earnings (loss) per share		
Basic	**12.35**	(0.65)
Diluted	**11.88**	(0.65)

16. REVENUE

The following table presents the Company's sales, disaggregated by revenue source for the year ended December 31, 2023:

		2023		2022
Revenue from contracts with customers:				
Sand revenue	$	460,187	$	341,671
Wellsite solutions		105,691		69,790
Terminal services		3,386		3,735
Total revenue from contracts with customers	$	569,264	$	415,196
Storage facilities[1]		484		716
Total	**$**	**569,748**	**$**	**415,912**

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

Contract Liabilities

The following table provides a summary of the contract liabilities for the years below:

As at		December 31, 2023		December 31, 2022
Balance, beginning of year	$	153	$	94
Cash proceeds[1]		2,731		11,301
Satisfaction of performance obligations		(153)		(11,242)
Exchange differences		(5)		—
Balance, end of year	**$**	**2,726**	**$**	**153**
Less: current portion		(2,726)		(153)
Long-term portion	**$**	**—**	**$**	**—**

Note:
(1) In 2023, Source executed contracts to construct two Sahara units on behalf of customers. Capital costs incurred were fully reimbursed during the year.

17. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

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

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

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

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

	2023				2022			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$340,886	$ —	$ —	$340,886	$274,397	$ —	$ —	$274,397
Salary costs	16,766	10,141	10,706	37,613	14,038	8,969	6,993	30,000
Equipment costs	4,411	2,648	3	7,062	2,733	2,746	1	5,480
Transportation costs	71,894	—	—	71,894	44,904	—	—	44,904
Facility costs	610	1,600	29	2,239	868	1,591	65	2,524
Selling costs	—	8,534	19	8,553	—	6,769	3	6,772
Administration costs	—	—	3,217	3,217	—	—	2,972	2,972
Total	**$434,567**	**$ 22,923**	**$ 13,974**	**$471,464**	**$336,940**	**$ 20,075**	**$ 10,034**	**$367,049**

18. COMMITMENTS AND CONTINGENCIES

The Company has commitments regarding physical natural gas contracts which expire between October 2024 and October 2026, as well as various IT software subscriptions through 2026. Estimated annual commitments are as follows:

2024	$	2,696
2025		885
2026		702
Total	**$**	**4,283**

Additionally, under the terms of the Peace River facility lease (as described in Note 11), the Company is exposed to potential future cash outflows for variable lease payments which commence when production exceeds 150,000 metric tonnes per year. During the year ended December 31, 2023, no variable lease payments were incurred under the terms of the lease agreement (2022 - $nil).

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

The Company is currently pursuing claims against certain organizations in respect of damages related to the structural failure of assets at its Fox Creek terminal facility (refer to Note 20 for additional information). The Company 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 favourable outcome cannot be assured.

19. FINANCE EXPENSE

		2023		2022
Interest	$	26,575	$	27,102
Accretion(1)		8,126		5,172
Other		1,641		873
Total	**$**	**36,342**	**$**	**33,147**

Note:
(1) Includes accretion of deferred financing fees, amounts related to accretion of the Notes to their aggregate principal value, and accretion of the Company's decommissioning provision.

20. OTHER EXPENSE

In May 2019, an incident occurred during the construction of assets to provide additional storage capacity at the Company's Fox Creek terminal facility which resulted in the dismantlement of all related assets. In relation to the legal proceedings discussed in Note 18, the Company incurred costs of $854, recorded as other expense for the year ended December 31, 2023 (2022 - $1,060).

During the year ended December 31, 2023, the Company incurred costs to repair a piece of equipment, located at a terminal facility, which malfunctioned during the year. The cost of repairs for the equipment will be reimbursed through an insurance claim, of which a portion was received during the year.

Additionally, a one-time retirement payment of $2,347 was included in other expense for the year ended December 31, 2022.

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

21. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company has determined that it operates in a single operating and reportable segment. Total external revenues and assets by geographical location are summarized in the table below:

Sales for the year ended December 31,		**Canadian Operations**		**US Operations**		**Corporate(1)**		**Total**
2023	**$**	**559,057**	**$**	**10,691**	**$**	**—**	**$**	**569,748**
2022	$	401,389	$	14,523	$	—	$	415,912

Total Assets		**Canadian Operations**		**US Operations**		**Corporate(1)**		**Total**
December 31, 2023	**$**	**193,909**	**$**	**250,414**	**$**	**38,507**	**$**	**482,830**
December 31, 2022	$	145,799	$	164,726	$	16,372	$	326,897

Note:
(1) Corporate operations are included for informational purposes only.

22. RELATED PARTY TRANSACTIONS

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

	2023	**2022**
Short-term employment benefits	2,216	2,086
Share-based payments	115	95
Post-employment benefits	36	38
Total	2,367	2,219

Aside from compensation to key management personnel, there were no related party transactions during the years ended December 31, 2023 and 2022.

23. SUBSEQUENT EVENT

Subsequent to December 31, 2023, the Company purchased and cancelled a portion of the outstanding Notes with an aggregate principal value of $2,000 for gross proceeds of $1,962, including accrued and unpaid interest, resulting in a gain on extinguishment of debt of $7.