Q4 2024

Management's Discussion & Analysis

SOURCE

ENERGY SERVICES

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2024

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated February 26, 2025, reflects the operating and financial results of Source Energy Services Ltd. and its subsidiaries, collectively ("Source" or the "Company"), as at and for the three and twelve months ended December 31, 2024, compared with the corresponding period in the prior year. This MD&A is provided to assist readers in understanding the Company's financial performance and position during the periods presented and significant trends that may impact the future performance of Source.

This discussion should be read in conjunction with Source's audited consolidated financial statements for the years ended December 31, 2024 and 2023, together with the accompanying notes (the "Financial Statements"). The Financial Statements and other information relating to Source, including the Annual Information Form ("AIF"), are available under the Company's SEDAR+ profile at www.sedarplus.ca. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, all amounts are expressed in Canadian dollars.

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

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

About Source

Source is a company that focuses on the integrated production and distribution of frac sand, as well as the distribution of other bulk completion materials not produced by Source. Source provides its customers with an end-to-end solution for frac sand supported by its Wisconsin and Peace River mines and processing facilities, its Western Canadian terminal network and its "last mile" logistics capabilities, including its trucking operations, and Sahara, a proprietary well site mobile sand storage and handling system.

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

2024 Performance Highlights

Key achievements for the year ended December 31, 2024 include the following:

- realized sand sales volumes of 3,527,248 MT and sand revenue of $532.9 million, an increase of $72.8 million or 16% from 2023;
- generated total revenue of $674.0 million, a $104.2 million increase from 2023;
- realized gross margin of $127.3 million and Adjusted Gross Margin(1) of $162.6 million, increases of 16% and 20%, respectively, when compared to last year;
- reported net income of $9.5 million;
- realized Adjusted EBITDA(1) of $123.9 million, a $24.8 million improvement from 2023;
- refinanced the Company's existing credit facilities by entering into a new five-year, US$135.0 million Term Loan (as defined below) and a new $40.0 million credit facility, achieving targeted improved liquidity of $68.8 million at year end;
- announced a partnership with Trican Well Service Ltd. ("Trican") to construct a unit train capable terminal facility located in Taylor, British Columbia;
- closed two acquisitions for sand trucking assets, further strengthening Source's well site solutions platform;
- completed the expansion of the Chetwynd terminal facility to a full unit train facility; and
- deployed Source's tenth and eleventh Sahara units, both operating on the North Slope in Alaska, driving utilization of 78% across the eleven unit fleet for the year.

Note:

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

Results Overview

($000's, except MT and per unit amounts)	Three months ended December 31, 2024	2023	Year ended December 31, 2024	2023
Sand volumes (MT)[1]	**767,712**	819,113	**3,527,248**	3,138,501
Sand revenue	**117,658**	124,302	**532,944**	460,187
Well site solutions	**26,701**	29,359	**137,689**	105,691
Terminal services	**617**	771	**3,317**	3,870
Sales	**144,976**	154,432	**673,950**	569,748
Cost of sales	**110,957**	118,000	**511,321**	434,567
Cost of sales – depreciation	**8,630**	8,735	**35,292**	25,775
Cost of sales	**119,587**	126,735	**546,613**	460,342
Gross margin	**25,389**	27,697	**127,337**	109,406
Operating expense	**6,618**	5,717	**25,480**	22,923
General & administrative expense	**4,768**	2,722	**19,487**	13,974
Depreciation	**3,832**	3,811	**17,084**	11,809
Income from operations	**10,171**	15,447	**65,286**	60,700
Other expense (income):				
Finance expense	**9,054**	9,075	**34,620**	36,342
Share-based compensation expense	**5,412**	1,721	**14,737**	6,759
Loss (gain) on asset disposal	**628**	(1,536)	**(2,212)**	(3,312)
Gain on Sahara finance lease	**(1,908)**	—	**(3,900)**	—
Other income	**(606)**	(664)	**(1,174)**	(1,887)
Other expense[2]	**1,545**	(38)	**2,824**	1,120
Impairment reversal	**—**	(128,555)	**—**	(128,555)
Loss (gain) on sublease	**—**	(31)	**638**	(28)
Loss (gain) on debt extinguishment	**2,917**	(483)	**3,081**	(763)
Foreign exchange (gain) loss[3]	**(610)**	335	**(1,181)**	1,056
Total other expense (income)	**16,432**	(120,176)	**47,433**	(89,268)
Income (loss) before income taxes	**(6,261)**	135,623	**17,853**	149,968
Current tax expense	**517**	905	**5,067**	905
Deferred tax expense (recovery)	**446**	(18,282)	**3,277**	(18,282)
Net income (loss)	**(7,224)**	153,000	**9,509**	167,345
Net earnings (loss) per share ($/share)	**(0.53)**	11.30	**0.70**	12.35
Diluted net earnings (loss) per share ($/share)	**(0.53)**	10.71	**0.70**	11.88
Adjusted EBITDA[4]	**25,757**	28,322	**123,917**	99,115
Sand revenue sales/MT	**153.26**	151.75	**151.09**	146.63

Notes:
(1) One MT is approximately equal to 1.102 short tons.
(2) Includes professional fees related to the incident at the Fox Creek terminal facility, and other one-time expenses, refer to 'Contractual Obligations' and 'Annual Results Review' below.
(3) The average Canadian to United States ("US") dollar exchange rate for the three and twelve months ended December 31, 2024, was $0.7152 and $0.7300, respectively (2023 - $0.7341 and $0.7409, respectively).
(4) Adjusted EBITDA is not defined under IFRS, refer to 'Non-IFRS Measures' below.

Total revenue for the year ended December 31, 2024 grew $104.2 million, or 18%, to $674.0 million compared to last year. The addition of new customers and continued strong customer activity levels in the Western Canadian Sedimentary Basin ("WCSB") contributed to the increase in sand sales volumes and revenue for the year. Additional customers and activity levels also resulted in record volumes delivered for "last mile" logistics, and the completion of two new Sahara units late in the year contributed to solid utilization rates for 2024.

Cost of sales, excluding depreciation, increased compared to 2023, due to the higher sand sales volumes realized, as well as increased transportation costs resulting from the record volumes hauled by "last mile" logistics. These volume-driven increases were partly offset by lower costs to produce sand across all mining facilities and the cost savings realized through the acquisition of sand trucking assets completed during the year. A weakening of the Canadian dollar increased cost of sales denominated in US dollars by $1.59 per MT, compared to 2023, which was largely offset by the movement in exchange rates on revenue denominated in US dollars for the year.

Gross Margin	**Year ended December 31,**	
($000's, except MT and per unit amounts)	**2024**	2023
Gross margin	**127,337**	109,406
Cost of sales – depreciation	**35,292**	25,775
Adjusted Gross Margin(1)	**162,629**	135,181
Gross margin/MT	**36.10**	34.86
Adjusted Gross Margin/MT(1)	**46.11**	43.07
Percentage of mine gate sand volumes	**2%**	8%
Percentage of core product sand volumes sold	**98%**	92%
Sales mix impact of mine gate sales/MT	**0.88**	3.00

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

For the year ended December 31, 2024, gross margin increased by 17,931, or 16% compared to 2023. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $46.99 per MT compared to $46.07 per MT in 2023. Adjusted Gross Margin benefited from increased sand sales volumes and sand volumes trucked, lower costs to produce sand, as noted above, and $3.2 million of incremental gross margin generated from the sand trucking assets acquired, compared to 2023. The weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by $0.31 per MT for the year, compared to last year.

Operating expenses increased by $2.6 million on a year-over-year basis, attributed to higher royalty costs associated with increased sand sales volumes, as well as increased insurance and compensation expense due to higher activity levels realized. General and administrative expense increased by $5.5 million during 2024, largely the result of higher people costs, due to increased well site activity and the trucking assets acquired, as well as professional fees for legal expenses and IT costs compared to last year.

Adjusted EBITDA increased by 25%, or $24.8 million, to $123.9 million for the year ended December 31, 2024, attributed primarily to the record sand sales volumes and well site solutions performance, and incremental benefit from trucking assets acquired during the year. Adjusted EBITDA also benefited from the commencement of the leases for Source's tenth and eleventh Sahara units, both now operating on the North Slope in Alaska. The weakening of the Canadian dollar favorably impacted Adjusted EBITDA by $1.2 million for the year, attributed to the movement in exchange rates on the settlement of working capital.

Refinancing Transaction

On December 20, 2024 the Company completed a refinancing of its credit facilities (the "Refinancing Transaction"). Pursuant to the Refinancing Transaction, the Company closed a new five-year term loan (the "Term Loan") with Silver Point Finance, LLC for total proceeds of $187.2 million (US$135.0 million), and a new revolving asset backed credit facility (the "ABL Facility") with Canadian Imperial Bank of Commerce ("CIBC"), providing access to funding of $40.0 million. Upon closing of the Refinancing Transaction, the Company repaid all amounts outstanding for the senior secured notes, the Prior ABL facility (as defined below) and the Promissory Notes (as defined below). The Refinancing Transaction will drive a lower cost of borrowing and injects incremental liquidity into the business, allowing Source to capitalize on anticipated increasing activity levels. Refer to 'Long-term debt' below for additional information related to the Refinancing Transaction. Material documents related to the Refinancing Transaction are available under the Company's SEDAR+ profile at www.sedarplus.ca.

Taylor Facility

On July 25, 2024, Source announced the execution of a partnership arrangement with Trican to construct a new terminal facility located in Taylor, British Columbia. Construction of the facility has commenced, and will result in a unit train capable terminal which will accommodate approximately 55,000 MT of sand storage and more than 12,000 MT of daily sand throughput capacity (the "Taylor Facility"). The project is expected to be fully operational in 2025.

Under the terms of the arrangement, Trican will advance funding for construction on a cost-to-complete basis (the "Taylor Financing Facility") in exchange for transloading and sand supply services, as well as a fee payable to Trican on each advance drawn, repayable through transloading credits at the Taylor Facility and optional cash payments over a three-year term. For additional information, refer to 'Long-term debt' below.

Acquisition of Sand Trucking Assets

During 2024, Source completed two sand trucking asset acquisitions, further strengthening Source's mine to well site offering in the WCSB. Source purchased the sand trucking assets of RWR Trucking Inc. for a total aggregate purchase price of $8.1 million, comprised of cash, a promissory note payable and lease obligations for certain of the trucking assets acquired. A second sand trucking asset acquisition was also completed during the year, with PVT Group Ltd., for an aggregate purchase price of $2.2 million, comprised of cash and a promissory note. Pursuant to the Refinancing Transaction, amounts outstanding for the two promissory notes (the "Promissory Notes") were repaid, refer to 'Long-term debt' below.

Business Outlook

Source anticipates growth in customer activity levels in the Montney basin in 2025, through completion of the Taylor Facility and the momentum attained with certain new large exploration and production ("E&P") customers. Source has enhanced its strategic position in northeastern British Columbia through the trucking assets acquired, construction of the Taylor Facility and expansions at the Chetwynd and Peace River facilities. Recent announcements by the US government to impose tariffs on goods imported from Canada could impact the long-term capital plans of Source's customers. However, additional export capability via LNG Canada and the expedited permitting of additional LNG capacity will help mitigate any potential impacts. Despite these uncertainties, Source believes it is well-positioned to accommodate increased demand for mine to well site services as LNG Canada comes online and take advantage of activity levels in the WCSB.

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

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

Operations Overview

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

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

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

Principal costs involved in the production of frac sand include the costs of labor, utilities, transportation, maintenance and the depreciation of its manufacturing facilities and equipment. Source incurs transportation and related costs to move sand to its terminal facilities and customer well sites, primarily comprised of transportation and fuel surcharges, third-party trucking costs and demurrage fees. These costs can vary significantly, impacted by the volume of sand produced and sold, as well as market and economic factors. Source also incurs material cash outlays relating to equipment and rail car lease obligations.

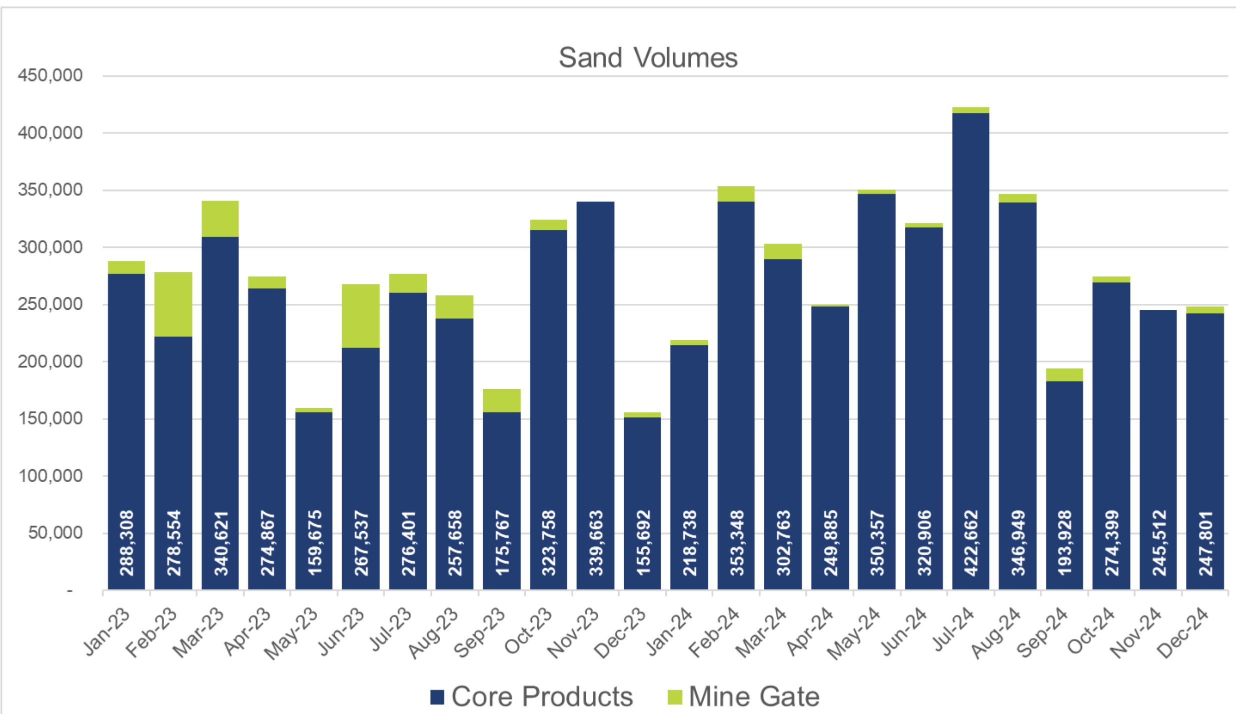
Source's business is seasonal in nature. As a result, Source's operating results may vary on a quarterly basis. Lower activity levels are usually realized in the fourth quarter, as E&P companies evaluate remaining capital spend for the year, and in the second quarter spring break-up may impact activity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

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

Annual Results Review

Sand Revenue

Source realized sand revenue of $532.9 million for the year ended December 31, 2024, an increase of $72.8 million or 16% compared to 2023. The increase reflects record sand sales volumes, driven by growth in Source's customer base, as activity levels remain strong across the WCSB. Output from Source's Peace River facility continues to grow, driving a 135% increase in sand sales volumes and a 182% increase in sand sales revenue from that facility, compared to last year. Revenue realized from mine gate sales lowered the average realized sand price by $1.34 per MT for the year ended December 31, 2024; however, all mine gate sales have a favorable impact on cost of sales and gross margins.



Well Site Solutions Revenue

Well site solutions revenue was $137.7 million for the year ended December 31, 2024, an increase of 30% or $32.0 million compared to last year. Trucked volumes comprised 81% of Source sand volumes sold in the WCSB for the year, the highest volumes trucked to date and a 20% increase over volumes trucked in 2023, driving a 42% increase in trucking revenue. Sahara-related revenue decreased by 3% on a year-over-year basis, driven by a 2% decrease in utilization, to 78%, across the eleven-unit fleet. Source added two Sahara units to the US fleet during the year, paid for by customers and now deployed and operating in Alaska, which will help drive utilization of 100% for the US Sahara fleet through 2025 as all US Sahara units are under contract in 2025.

Terminal Services Revenue

For the year ended December 31, 2024, terminal services revenue was $3.3 million, a decrease of $0.6 million compared to 2023. Source terminals achieved record high volume throughput during the year; however, total revenue was impacted by lower chemical elevation volumes realized, on a year-over-year basis. The year ended December 31, 2023 benefited from incremental storage revenue prior to the sale of the Berthold terminal facility in June, 2023.

Cost of Sales

	Year ended December 31,	
($000's)	**2024**	2023
Direct materials	**387,877**	340,886
People costs	**20,890**	16,766
Equipment costs	**5,937**	4,411
Transportation costs	**95,820**	71,894
Facility costs	**797**	610
Cost of sales	**511,321**	434,567
Cost of sales - depreciation	**35,292**	25,775

Cost of sales, excluding depreciation, increased by $76.8 million for the year ended December 31, 2024 compared to 2023, primarily attributed to higher sand sales volumes and trucked volumes realized. The volume-driven increases to cost of sales, excluding depreciation, were partially offset by lower costs to produce sand at the Wisconsin processing facilities, driven by lower third-party sand purchases and incremental efficiencies achieved at the wet plants, compared to 2023. Lower costs to produce sand at the Peace River mining facility also offset the increase in cost of sales, excluding depreciation, attributed to improved operational performance at the facility. Higher trucked volumes resulted in increased transportation costs for 2024, as noted above; however, the acquisition of sand trucking assets completed during the year reduced overall transportation costs, partly offset by increased costs for people and equipment-related repairs and maintenance costs for the sand trucking assets, compared to last year.

Significant components of cost of sales are denominated in US dollars, including sand processing and rail transportation, and are therefore subject to exchange rate fluctuations. During the twelve months ended December 31, 2024, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed to an increase of $1.59 per MT to cost of sales, compared to 2023. However, this impact was more than offset by US dollar denominated revenue and the movement in exchange rates on the settlement of working capital for the year.

Gross Margin

For the year ended December 31, 2024, gross margin increased by $17.9 million and, excluding gross margin from mine gate volumes, Adjusted Gross Margin was $46.99 per MT compared to $46.07 per MT for the prior year. The improvement is primarily attributed to the record sand sales volumes sold, higher trucked volumes for "last mile" logistics and benefits realized from lower production costs. Gross margin and Adjusted Gross Margin was favorably impacted by incremental gross margin of $3.2 million generated by the trucking assets acquired, as noted above.

Operating and General & Administrative Expense

	Year ended December 31,			
	2024		2023	
($000's)	**OPEX**	**G&A**	OPEX	G&A
People	**11,135**	**14,786**	10,141	10,706
Equipment	**2,459**	**25**	2,648	3
Facility	**1,567**	**64**	1,600	29
Selling and administrative	**10,319**	**4,612**	8,534	3,236
Operating and General & Administrative Expense	**25,480**	**19,487**	22,923	13,974

For the year ended December 31, 2024, total operating and general and administrative expense increased by $8.1 million compared to last year.

Operating expense increased by $2.6 million from 2023, primarily due to increased selling and administrative expenses, attributed to increased royalty costs and insurance premiums, as well as higher compensation expense as a result of increased activity levels. These increases were partially offset by reduced equipment costs, as lower expenses for repairs and maintenance were incurred for required improvements at the Peace River facility compared to the year ended December 31, 2023.

General and administrative expense increased $5.5 million for the year ended December 31, 2024, compared to 2023. The increase was due to higher people costs, largely a result of increased activity in well site solutions, including operation of the sand trucking assets acquired. Higher selling and administrative costs are attributed to increased IT expense, including certain costs for a new cloud-computing arrangement executed during the year, and higher professional fees incurred, as well as a $0.3 million bad debt loss allowance recorded.

Depreciation

Depreciation expense increased $5.3 million for the year ended December 31, 2024, compared to last year. The increase is primarily attributed to a higher fixed asset cost base as a result of the impairment reversal recorded in the fourth quarter of 2023 and the sand trucking asset acquisitions completed during 2024.

Share-based Compensation

For the year ended December 31, 2024, share-based compensation increased $8.0 million compared to 2023 as a result of improved business performance achieved and higher share prices compared to last year. Share-based compensation expense is attributed to deferred share units, restricted share units, performance share units and share appreciation rights.

Gain on Asset Disposal

For the year ended December 31, 2024, Source recognized a gain on asset disposal of $2.2 million, due to insurance proceeds received in respect of damaged equipment which malfunctioned at a terminal facility and was disposed of in 2023, as well as the sale of excess equipment. During 2023, Source sold excess equipment, including certain excess rail cars, as well as its previously closed terminal facility located in Berthold, North Dakota. Gain on asset disposal for 2023 also included interim insurance proceeds received for the equipment which malfunctioned at a terminal facility, as noted above.

Gain on Sahara Finance Lease

For the year ended December 31, 2024, Source recognized a $3.9 million gain, attributed to the execution of two finance leases upon construction completion of Source's tenth and eleventh Sahara units, where costs to construct the units were fully reimbursed by the customer. The units are deployed and fully operational on the North Slope in Alaska.

Other Income

Other income decreased by $0.7 million for the year ended December 31, 2024. During 2024, Source generated lower revenue attributed to certain freight forwarding services and other rental income, partly offset by an increase in insurance proceeds received for the claim for equipment that malfunctioned at one of Source's terminals, compared to 2023.

Other Expense

For the year ended December 31, 2024, other expense increased by $1.7 million compared to 2023. Source completed a comprehensive corporate reorganization on December 20, 2024, in conjunction with the closing of the Refinancing Transaction. The reorganization aligns the legal entity structure more closely with operations and creates efficiencies related to corporate administration and filing requirements. The increase in other expense is primarily attributed to professional fees associated with the corporate reorganization. Additionally, Source incurred higher professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019, compared to last year.

Impairment reversal

For the year ended December 31, 2023, as a result of continued strong activity levels and an improvement in the Company's financial performance, Source carried out an assessment of the recoverable value of its operations, resulting in the reversal of $128.6 million of impairment losses previously recognized.

Loss on Sublease

During the year ended December 31, 2024, Source terminated its sublease arrangement for the lease of its previous head office location. As a result of the termination, Source derecognized the remaining lease receivable, resulting in a loss on sublease of $0.6 million realized during the year.

Loss (Gain) on Debt Extinguishment

On closing of the Refinancing Transaction, amounts outstanding for the senior secured notes, the Prior ABL facility and the Promissory Notes were repaid, resulting in a loss on debt extinguishment of $2.9 million. Refer to 'Long-term debt' below for additional information. Also during 2024, prior to the extinguishment of the senior secured notes, Source purchased and cancelled a portion of Notes outstanding, resulting in a loss on extinguishment of debt of $0.2 million. During the year ended 2023, Source purchased and cancelled Notes outstanding, resulting in a gain on extinguishment of $0.8 million for the year.

Foreign Exchange

For the year ended December 31, 2024. Source realized a gain of $1.2 million related to foreign exchange rate movement on the settlement of working capital items denominated in US dollars. For the year ended December 31, 2023, Source incurred a loss of $1.1 million by foreign exchange rate movement on these items.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sand volumes (MT)	*907,483*	*702,079*	*709,826*	*819,113*	*874,849*	*921,148*	*963,539*	*767,712*
Sand revenue	131,755	101,950	102,180	124,302	132,994	140,056	142,236	117,658
Well site solutions	30,627	23,980	21,725	29,359	35,720	35,360	39,908	26,701
Terminal services	1,342	998	759	771	854	940	906	617
Sales	163,724	126,928	124,664	154,432	169,568	176,356	183,050	144,976
Cost of sales	125,927	96,764	93,876	118,000	126,382	134,214	139,768	110,957
Cost of sales - depreciation	6,045	5,249	5,746	8,735	7,549	9,500	9,613	8,630
Cost of sales	131,972	102,013	99,622	126,735	133,931	143,714	149,381	119,587
Gross margin	31,752	24,915	25,042	27,697	35,637	32,642	33,669	25,389
Operating expense	5,884	6,016	5,306	5,717	6,042	6,327	6,493	6,618
General & administrative expense	4,229	3,904	3,119	2,722	5,350	5,851	3,518	4,768
Depreciation	3,091	2,733	2,174	3,811	4,210	4,289	4,753	3,832
Income from operations	18,548	12,262	14,443	15,447	20,035	16,175	18,905	10,171
Other expense (income):								
Finance expense	9,288	9,202	8,777	9,075	8,716	8,633	8,217	9,054
Share-based compensation expense (recovery)	1,537	1,934	1,567	1,721	9,341	(1,032)	1,016	5,412
Loss (gain) on asset disposal	(451)	(1,681)	356	(1,536)	(1,931)	(47)	(862)	628
Gain on Sahara finance lease	—	—	—	—	—	—	(1,992)	(1,908)
Other income	(556)	(582)	(85)	(664)	(387)	(169)	(12)	(606)
Other expense(1)	226	269	663	(38)	370	691	221	1,545
Impairment reversal	—	—	—	(128,555)	—	—	—	—
Loss (gain) on sublease	3	—	—	(31)	—	635	—	—
Loss (gain) on debt extinguishment	—	—	(280)	(483)	115	49	—	2,917
Foreign exchange loss (gain)	622	386	(287)	335	160	(665)	(66)	(610)
Total other expense (income)	10,669	9,528	10,711	(120,176)	16,384	8,095	6,522	16,432
Income (loss) before income taxes	7,879	2,734	3,732	135,623	3,651	8,080	12,383	(6,261)
Income taxes	—	—	—	(17,377)	1,758	3,395	2,228	963
Net income (loss)	7,879	2,734	3,732	153,000	1,893	4,685	10,155	(7,224)
Net earnings (loss) per share ($/share)	0.58	0.20	0.28	11.30	0.14	0.35	0.75	(0.53)
Diluted net earnings (loss) per share ($/share)	0.58	0.20	0.28	10.71	0.14	0.26	0.74	(0.53)
Net income (loss)	7,879	2,734	3,732	153,000	1,893	4,685	10,155	(7,224)
Interest expense	7,129	6,547	6,117	6,459	6,283	6,284	6,281	6,655
Income taxes	—	—	—	(17,377)	1,758	3,395	2,228	963
Depreciation	3,091	2,733	2,174	3,811	4,210	4,289	4,753	3,832
Cost of sales - depreciation	6,045	5,249	5,746	8,735	7,549	9,500	9,613	8,630
Impairment reversal	—	—	—	(128,555)	—	—	—	—
Loss (gain) on debt extinguishment	—	—	(280)	(483)	115	49	—	2,917
Finance expense (excluding interest expense)	2,159	2,655	2,660	2,616	2,433	2,349	1,936	2,399
Share-based compensation expense (recovery)	1,537	1,934	1,567	1,721	9,341	(1,032)	1,016	5,412
Loss (gain) on asset disposal	(451)	(1,681)	356	(1,536)	(1,931)	(47)	(862)	628
Loss (gain) on sublease	3	—	—	(31)	3	635	—	—
Other expense(1)	226	269	663	(38)	367	691	221	1,545
Adjusted EBITDA(2)	27,618	20,440	22,735	28,322	32,021	30,798	35,341	25,757
Sand revenue sales/MT	145.19	145.21	143.95	151.75	152.02	152.05	147.62	153.26
Gross margin	31,752	24,915	25,042	27,697	35,637	32,642	33,669	25,389
Cost of sales - depreciation	6,045	5,249	5,746	8,735	7,549	9,500	9,613	8,630
Adjusted Gross Margin(2)	37,797	30,164	30,788	36,432	43,186	42,142	43,282	34,019
Gross margin/MT	34.99	35.49	35.28	33.81	40.74	35.44	34.94	33.07
Adjusted Gross Margin/MT(2)	41.65	42.96	43.37	44.48	49.36	45.75	44.92	44.31

Notes:

(1) Includes expenses related to the incident at the Fox Creek terminal facility, costs and reimbursements under insurance claims and other one-time expenses, refer to 'Contractual Obligations' below and 'Annual Results Review' above.

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

Fourth Quarter Results Review

Sand Revenue

Source sold sand volumes of 767,712 MT for the three months ended December 31, 2024, generating sand revenue of $117.7 million, a decrease of $6.6 million from the fourth quarter of 2023 which was an unusually busy quarter. During the fourth quarter, Source customer activity levels slowed compared to the same period last year, as capital budgets were exhausted and additional capital funding was not added prior to the end of the year. Revenue generated from the sale of sand from the Peace River facility increased by 20%, compared to the same period in 2023. During the fourth quarter of 2024, volumes from mine gate sales lowered the average realized sand price by $0.76 per MT; however, the sale of lower-value mine gate sales has a favorable impact on production costs by creating sand processing efficiencies and increasing production yields.

Well Site Solutions Revenue

For the three months ended December 31, 2024, well site solutions revenue was $26.7 million, a decrease of $2.7 million or 9% compared to the fourth quarter of 2023. As noted above, lower sand sales volumes impacted trucked volumes, resulting in lower trucking revenue for the quarter. Sahara units in the US were 85% utilized during the fourth quarter, with two units now deployed and fully operational on the North Slope in Alaska. In Canada, Sahara units were 48% utilized for the period, impacted by capital budget exhaustion, as noted above.

Terminal Services Revenue

For the three months ended December 31, 2024, terminal services revenue was $0.6 million, a decrease of $0.2 million compared to the fourth quarter of 2023, primarily attributed to lower revenue from chemical elevation volumes realized during the period.

Cost of Sales

	Three months ended December 31,	
($000's)	**2024**	2023
Direct materials	**85,684**	91,747
People costs	**5,264**	4,305
Equipment costs	**1,667**	1,344
Transportation costs	**18,092**	20,496
Facility costs	**250**	108
Cost of sales	**110,957**	118,000
Cost of sales - depreciation	**8,630**	8,735

Cost of sales, excluding depreciation, decreased by $7.0 million for the three months ended December 31, 2024 compared to the same period in 2023, due to the lower sand volumes sold and lower trucked volumes from "last mile" logistics, as well as lower rail transportation costs realized during the fourth quarter. Higher people costs and increased repairs and maintenance expenses for equipment were incurred, compared to the fourth quarter of 2023, attributed to the sand trucking assets purchased during the year. During the fourth quarter of 2024, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed to an increase of $2.72 per MT to cost of sales, compared to the same period in 2023. This impact was largely offset by US dollar denominated revenue for the quarter.

Gross Margin

	Three months ended December 31,	
($000's, except MT and per unit amounts)	**2024**	2023
Gross margin	**25,389**	27,697
Cost of sales – depreciation	**8,630**	8,735
Adjusted Gross Margin(1)	**34,019**	36,432
Gross margin/MT	**33.07**	33.81
Adjusted Gross Margin/MT(1)	**44.31**	44.48
Percentage of mine gate sand volumes	**3%**	2%
Percentage of sand volumes sold in the WCSB	**97%**	98%

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

Gross margin decreased by $2.3 million for the three months ended December 31, 2024, the result of lower sand sales volumes, trucked volumes and Sahara utilization, as noted above, compared to the same period last year.

Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $44.88 per MT, compared to $47.45 per MT for the same period in 2023. Adjusted Gross Margin was impacted by the lower customer activity levels realized during the period, and higher trucking expenses, attributed to severe weather conditions experienced late in the quarter and longer trips to customer well sites, resulting in increased standby charges. These impacts were partly offset by incremental gross margin generated from the sand trucking assets acquired during the year.

For the three months ended December 31, 2024, the weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by approximately $0.35 per MT. However, the impact of foreign exchange rate movement on the settlement of working capital items denominated in US dollars more than offset these impacts for the quarter.

Operating and General & Administrative Expense

	Three months ended December 31,			
	2024		2023	
($000's)	**OPEX**	**G&A**	OPEX	G&A
People	**2,827**	**3,497**	2,482	1,975
Equipment	**650**	**1**	403	—
Facility	**431**	**11**	370	7
Selling and administrative	**2,710**	**1,259**	2,462	740
Operating and General & Administrative Expense	**6,618**	**4,768**	5,717	2,722

For the fourth quarter of 2024, total operating and general and administrative expense increased by $2.9 million compared to the fourth quarter of 2023. During the three months ended December 31, 2024, operating expense increased by $0.9 million from the same period last year, primarily due to higher compensation expense and increased selling and administrative costs as a result of increased royalty costs attributed to higher sand shipments from mines that require royalty payments, as well as increased insurance expense.

General and administrative expense increased $2.0 million during the three months ended December 31, 2024, compared to the same period in 2023, largely due to increased people costs driven by higher compensation expense. Selling and administrative costs also increased, on a quarter-over-quarter basis, due to higher IT expenses incurred for a new cloud-based computing system, as noted above.

Share-based Compensation

Share-based compensation expense increased by $3.7 million for the fourth quarter of 2024, compared to the same period in 2023, attributed to movement in Source's share price.

Gain on Asset Disposal

During the three months ended December 31, 2024, Source recognized a loss on asset disposal of $0.6 million as a result of the sale of excess equipment. During the fourth quarter of 2023, Source received interim insurance proceeds in respect of damaged equipment which malfunctioned and had been disposed of earlier in the year.

Gain on Sahara Finance Lease

For the three months ended December 31, 2024, Source recognized a $1.9 million gain as a result of the finance lease entered into upon completion of Source's eleventh Sahara unit, where the cost to construct the unit was fully reimbursed by the customer.

Other Income

For the three months ended December 31, 2024, other income was relatively flat compared to the fourth quarter of 2023. During the fourth quarter of 2023, Source received interim insurance proceeds related to damages incurred for the equipment which malfunctioned at a terminal facility during 2023. Final insurance proceeds related to this claim were received during the fourth quarter of 2024.

Other Expense

For the three months ended December 31, 2024, other expense increased by $1.6 million compared to the fourth quarter last year. The increase in other expense is primarily attributed to professional fees associated with the corporate reorganization, as noted above. Higher professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019 were also incurred, compared to the same period in 2023.

Loss (Gain) on Debt Extinguishment

On closing of the Refinancing Transaction, amounts outstanding for the senior secured notes, the Prior ABL facility and the Promissory Notes were repaid, resulting in a loss on debt extinguishment of $2.9 million for the fourth quarter of 2024. Refer to ‘Long-term debt’ below for additional information. During the fourth quarter of 2023, Source purchased and cancelled a portion of the senior secured notes outstanding, resulting in a gain on extinguishment for the period.

Foreign Exchange

For the three months ended December 31, 2024, Source realized a gain of $0.6 million compared to a loss of $0.3 million for the same period in 2023. The change is largely attributed to foreign exchange rate movement on the settlement of working capital items denominated in US dollars.

Liquidity and Capital Resources

Free Cash Flow	**Three months ended December 31,**		**Year ended December 31,**	
($000's)	**2024**	2023	**2024**	2023
Adjusted EBITDA(1)	**25,757**	28,322	**123,917**	99,115
Financing expense paid	**(15,861)**	(7,305)	**(35,903)**	(29,150)
Growth capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs(2)	**(1,945)**	(3,509)	**(4,715)**	(562)
Maintenance and sustaining capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs	**(3,592)**	(3,149)	**(14,359)**	(12,483)
Payment of lease obligations	**(5,941)**	(5,088)	**(21,375)**	(19,592)
Income taxes recovered (paid)	**190**	—	**(979)**	—
Free Cash Flow(1)	**(1,392)**	9,271	**46,586**	37,328

Notes:

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

(2) Excludes capital expenditures related to the Taylor Facility. Refer to ‘Taylor Facility’, ‘Long-term Debt’ and ‘Non-IFRS Measures’.

During the fourth quarter of 2024, Free Cash Flow decreased by $10.7 million compared to the fourth quarter of 2023, primarily due to an increase in financing expense paid. Financing expense paid included $6.0 million of transaction costs related to the Refinancing Transaction, as well as $2.6 million of incremental Notes interest paid in accordance with requirements of the notice of redemption, compared to the same period last year. Refer to Long-term debt below for additional information regarding the payout of the Notes. Excluding amounts related to the Refinancing Transaction, total finance expense paid during the fourth quarter was $0.5 million lower than the same period in 2023, reflecting lower interest incurred for the Notes of $0.6 million and lower interest paid for the Prior ABL facility of $0.5 million, partially offset by increased interest for outstanding lease obligations. Lower realized Adjusted EBITDA for the quarter, as outlined above, and an increase in payments for lease obligations, attributed to certain trucking assets acquired and additional yellow iron equipment for the Wisconsin mining facilities, also contributed to the reduction in Free Cash Flow compared to the fourth quarter of 2023. The reduction was partially offset by lower net capital expenditures, as outlined below.

For the year ended December 31, 2024, Source generated Free Cash Flow of $46.6 million, an increase of $9.3 million or 25% compared to last year, driven by higher Adjusted EBITDA realized. The increase was partially offset by higher financing expense paid, including transaction costs and interest related to the Refinancing Transaction, as described above. Excluding these amounts, finance expense paid was lower by $2.3 million, compared to 2023, due to Note repurchases completed in 2023 and early 2024, and lower average draws on the Prior ABL. Payments for lease obligations increased, on a year-over-year basis, attributed to the trucking assets acquired, as noted above, and renewed equipment at mining facilities in Wisconsin and Alberta. Higher net payments for capital expenditures, as noted below, also partially offset the increase to Free Cash Flow for 2024, compared to last year.

Capital expenditures	**Three months ended December 31,**		**Year ended December 31,**	
($000's)	**2024**	2023	**2024**	2023
Terminal	**2,233**	4,751	**8,982**	5,577
Well site solutions	**513**	579	**8,768**	3,006
Production	**4,212**	1,261	**6,474**	5,255
Overburden removal	**1,832**	3,081	**10,008**	7,833
Other	**24**	—	**1,804**	441
Taylor Facility	**6,265**	—	**8,969**	—
Capital expenditures	**15,079**	9,672	**45,005**	22,112
Growth capital(1)	**5,428**	3,811	**18,997**	5,914
Proceeds on disposal of property, plant and equipment and reimbursement of capital costs	***(3,483)***	*(302)*	***(14,282)***	*(5,352)*
Maintenance and sustaining capital	**3,386**	5,861	**17,039**	16,198
Proceeds on disposal of property, plant and equipment and reimbursement of capital costs	***206***	*(2,712)*	***(2,680)***	*(3,715)*
Capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs	**5,537**	6,658	**19,074**	13,045

Note:
(1) Includes expenditures related to two contracts to construct Source's tenth and eleventh Sahara units and facility upgrades for the Peace River mine, fully reimbursed by customers, as well as sand trucking assets acquired. Excludes costs for construction of the Taylor Facility.

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

Capital expenditures, net of proceeds on disposals and reimbursements and excluding expenditures related to the Taylor Facility, were $5.5 million for the fourth quarter of 2024, a reduction of $1.1 million compared to the same period in 2023. Total capital expenditures increased with the commencement of construction for the Taylor Facility and improvements at the Peace River mining facility, partly offset by lower capital costs incurred for a piece of equipment which malfunctioned last year at a terminal facility, and lower costs associated with overburden removal for mining operations compared to the prior year quarter.

For the year ended December 31, 2024, Source's capital expenditures, net of proceeds on disposals and reimbursements and excluding expenditures related to the Taylor Facility, increased by $6.0 million compared to 2023. Total capital expenditures increased, primarily due to the commencement of construction for the Taylor Facility, as outlined above, as well as construction costs associated with building Source's tenth and eleventh Sahara units, fully reimbursed by customers, expenditures for the rail expansion project at the Chetwynd terminal facility and higher amounts for the removal of overburden, compared to the prior year. Amounts spent on the purchase of sand trucking assets completed during the year also contributed to the increase in capital expenditures compared to last year.

Management continues to assess equipment and other assets required to service Source's operations to ensure optimal levels are maintained on an on-going basis. Source funded its capital spend for 2024 and 2023 through amounts available under the previous credit facilities, the Taylor Financing Facility and cash flows from operations. Free Cash Flow generated is used to lower debt balances outstanding, as well as to fund requirements of the operations of the business.

Finance expense	**Three months ended December 31,**		**Year ended December 31,**	
($000's)	**2024**	2023	**2024**	2023
Interest on Notes	**3,667**	4,086	**14,945**	16,997
Interest on Term Loan	**675**	—	**675**	—
Interest on Prior ABL facility	**657**	1,169	**4,103**	4,362
Interest on leases	**1,525**	1,219	**5,272**	4,942
Interest on Promissory Notes	**172**	—	**479**	—
Other interest expense (income)	**(40)**	(15)	**29**	274
Accretion	**1,622**	2,211	**7,301**	8,126
Other finance expense	**776**	405	**1,816**	1,641
Total finance expense	**9,054**	9,075	**34,620**	36,342

Finance expense was $9.1 million for the fourth quarter of 2024, relatively flat compared to the same period last year. Lower interest costs incurred for the Notes due to repurchases completed through 2024 and 2023 and lower average draws on the Prior ABL, as well as lower accretion expense, were largely offset by higher interest incurred for lease obligations and interest for the new Term Loan, as well as interest realized on the Promissory Notes issued in 2024 for the sand trucking asset acquisitions, compared to the fourth quarter of 2023.

For the year ended December 31, 2024, finance expense decreased by $1.7 million, primarily driven by lower interest for the Notes and accretion expense, as noted above.

Long-term debt

($000's)	**December 31, 2024**	**December 31, 2023**
Term Loan	**183,547**	—
Notes	**—**	143,730
Prior ABL facility	**—**	15,247
Taylor Financing Facility	**10,042**	—
Other long-term debt	**1,378**	118
Total long-term debt	**194,967**	159,095
Less: current portion	(8,093)	(17,561)
Long-term portion	**186,874**	141,534
Standby letter of credit facility	*US$13,500*	*US$13,500*

The carrying value of total long-term debt outstanding increased from the year ended December 31, 2023, mainly due to proceeds received from the Term Loan, partially offset by the extinguishment of the Notes, the Prior ABL and the Promissory Notes, as a result of the closing of the Refinancing Transaction on December 20, 2024. Source had $32.7 million of cash on hand at December 31, 2024, compared to $nil as at December 31, 2023.

Term Loan

Pursuant to the Refinancing Transaction, Source executed a new five-year Term Loan for total proceeds of US$135.0 million, and a delayed draw facility of US$25.0 million, which remains undrawn, available through December 31, 2025. The Term Loan bears interest at the Secured Overnight Finance Rate ("SOFR"), plus an applicable margin, and is secured by a first charge on all assets of the business, excluding assets related to the Taylor transload facility, as outlined below, and a second charge on cash, accounts receivable and inventory.

The Term Loan has a stated amortization of 5% per annum for amounts drawn on the facility, with 2% due on March 31 and September 30, respectively, and 1% due on June 30. The Term Loan also contains a quarterly mandatory repayment feature, equal to 50% of excess cash flows, payable within 90 days of the fiscal quarter. 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 in the applicable fiscal quarter.

The Company may repay all or a portion of amounts outstanding under the Term Loan, plus unpaid and accrued interest, subject to an applicable call premium on amounts repaid (prior to December 20, 2027 - 5%, prior to December 20, 2028 - 3% and thereafter – $nil). Required financial covenants are a fixed charge coverage ratio of 1.20:1, a current ratio of 1.25:1 and a leverage ratio of 2.25:1 for 2025 (2026 - 2.00:1 and 2027 - 1.75:1), tested each fiscal quarter.

New Credit Facility

As part of the Refinancing Transaction, the Company also closed a new $40.0 million revolving asset-backed credit facility with CIBC which matures on December 20, 2027. The ABL Facility 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, excluding assets related to the Taylor transload facility. The ABL Facility may be drawn in Canadian or US dollars and bears interest based on the bank's prime lending rate, base rate, Canadian Overnight Repo Rate Average or SOFR plus an applicable margin depending on the amount of excess availability. The amount available under the facility is subject to a borrowing base formula applied to accounts receivable and inventory and as of December 31, 2024, no amounts were drawn on the facility. The ABL Facility includes a springing fixed charge ratio of 1.0:1 to be measured when the Company's excess availability is less than 10%.

As of December 31, 2024, Source was in compliance with all of its covenants.

Senior Secured Notes, Prior ABL Facility and Promissory Notes

On December 30, 2020, Source issued $142.2 million in aggregate principal of senior secured notes (the "Notes"), which bore interest at 10.5% and were going to mature on March 15, 2025. Pursuant to the Refinancing Transaction, on December 20, 2024, the Company delivered a notice of redemption for 100% of the principal amount of the Notes outstanding, representing an aggregate principal value of $140.5 million, plus accrued and unpaid interest up to but excluding January 18, 2025. The Notes extinguishment resulted in a loss on extinguishment of debt of $1.9 million attributed to the difference between the carrying value of the Notes and the aggregate principal outstanding repaid, as well as remaining unamortized deferred finance fees related to the Notes.

The Company also had a revolving asset-backed senior credit facility (the “Prior ABL”). Upon closing of the Term Loan the outstanding balance was repaid, and the facility was terminated, resulting in a loss on extinguishment of $0.5 million. As part of the Refinancing Transaction, amounts outstanding for the Promissory Notes, issued as partial consideration for the sand trucking assets acquired during 2024, were repaid in full, resulting in a loss on extinguishment of $0.6 million.

The Company has a US$13.5 million standby letter of credit facility. The Company also has outstanding surety bonds, issued in respect of reclamation obligations related to mining operations in Wisconsin, which are supported by cash deposits. For the period ended December 31, 2024, amounts held on deposit totaled $3.6 million.

Taylor Financing Facility

As discussed above, on July 25, 2024, Source and Trican entered into an arrangement to construct a new terminal facility located in Taylor, British Columbia. Under the terms of the agreement, Trican will advance funding for construction under a project financing structure, and will receive a fee on each advance drawn which is added to the obligation outstanding. The Taylor Financing Facility is capped at an amount of $23.5 million and secured by a first lien charge on all assets of the Taylor transload entity, including a mortgage in favor of Trican. Amounts outstanding under the facility are repayable through the provision of transload services and optional cash payments over a three-year term, with an option to extend for one additional year, commencing upon completion of the first phase of the project.

The financial performance of the Taylor Facility, including capital expenditures drawn on the Taylor Financing Facility, are excluded from the financial covenants as prescribed under the Term Loan and the ABL Facility. As at December 31, 2024, $10.0 million was outstanding under the Taylor Financing Facility.

Capital Resource Management

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

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

Source’s capital management policy has not changed during the year ended December 31, 2024.

Cash and Net Working Capital

($000’s)	**December 31, 2024**	**December 31, 2023**
Current assets[1]	**211,692**	136,183
Current liabilities	**(140,973)**	(108,371)
Net working capital	**70,719**	27,812
Current portion of long-term debt	**8,093**	17,561
Net working capital, excluding current portion of long-term debt	**78,812**	45,373

Note:
(1) Excludes cash on hand related to the timing of advances under the Taylor Financing Facility, refer to ‘Long-term Debt’ above.

At December 31, 2024, total current assets less total current liabilities (net working capital) reflected a surplus of $70.7 million. Excluding the current portion of long-term debt, net working capital was $78.8 million, an increase of $33.4 million compared to December 31, 2023. The improvement in net working capital, excluding the current portion of long-term debt, is primarily attributed to the $28.8 million of cash on hand, excluding advances related to the Taylor Facility, as a result of closing the Refinancing Transaction. Accounts receivable and inventory levels were also higher due to increased activity levels, partially offset by an increase in accounts payable, also attributed to higher activity levels and the timing of vendor payments, compared to last year.

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

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing and transporting inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2024, are $4.4 million (December 31, 2023 - $20.7 million) and $26.1 million (December 31, 2023 - $23.9 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $0.6 million and $1.7 million, respectively, for the three and twelve months ended December 31, 2024 ($0.4 million and $1.2 million, respectively, for the three and twelve months ended December 31, 2023).

In order to manage exposure to fluctuations in the Canadian to US dollar exchange rate, the Company rebalances US denominated revenues where possible as well as enters into foreign currency contracts between prescribed minimum and maximum amounts of net US dollar exposure, as determined by the Company's foreign currency risk management policy. Source continues to monitor its exposure to fluctuations in foreign exchange rates and will continue to use foreign currency contracts to mitigate foreign exchange risk as appropriate.

Contractual Obligations

Source has various commitments regarding lease agreements, various IT software subscriptions and physical natural gas contracts. The leases expire between January 2025 and April 2037, the IT software subscriptions expire between January 2025 and August 2027, and the natural gas contracts expire between January 2025 and December 2027. The financial liabilities on Source's consolidated statements of financial position consist of the Term Loan, ABL Facility, Taylor Financing Facility and leases. Source's planned cash outflows relating to lease commitments and financial liabilities are outlined in the table below:

($000's)	**Total**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030 and beyond**
Lease liabilities	96,437	24,121	18,495	14,018	9,105	6,790	23,908
Other commitments	5,364	3,104	1,835	425	—	—	—
Term Loan(1)	278,139	28,583	26,694	25,288	24,135	173,439	—
Taylor Financing Facility	11,844	—	—	—	11,844	—	—

Note:
(1) The timing and amount of interest payments on such balances will fluctuate depending on balances outstanding and applicable interest rates.

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

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

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

Outstanding Shares

The Company's share capital is not subject to external restrictions. As at December 31, 2024, and February 26, 2025, Source had issued and outstanding 13,545,055 common shares (December 31, 2023 - 13,545,055).

Off-Balance Sheet Arrangements

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

Transactions between Related Parties

During the year ended December 31, 2024, there were no related party transactions.

Proposed Transactions

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

Selected Annual Information

($000's, except per unit amounts)	**2024**	**2023**	**2022**
Total assets	598,218	482,830	326,897
Term Loan	183,547	—	—
Senior secured notes	—	143,730	153,603
ABL Facility	—	13,069	22,170
Other non-current liabilities	91,924	66,091	80,184
Total revenue	673,950	569,748	415,912
Net income (loss)	9,509	167,345	(8,770)
Net earnings (loss) per share, basic	0.70	12.35	(0.65)
Net earnings (loss) per share, diluted	0.70	11.88	(0.65)

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certificate for annual filings requires the Chief Executive Officer and the Chief Financial Officer to certify the design of Source's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at December 31, 2024. There were no material weaknesses in the design of the DC&P and the ICFR at December 31, 2024, and no changes in ICFR during the period beginning on January 1, 2024, and ended on December 31, 2024, that have materially affected or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. While the Company's certifying officers believe that the Company's DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Business Risks

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

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

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

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

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

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

Source's revenue is closely tied to conditions in the oil and natural gas industry in which its customers operate, and more broadly to general economic conditions. Source's product and services are used primarily in oil and gas exploration and production in Western Canada and the United States. Consequently, economic downturns and particularly weakness in the oil and natural gas market may lead to a significant decrease in demand for Source's products and services or depress utilization rates and the prices for the products and services Source sells. During periods of expansion in Source's respective end markets, Source generally has benefited from increased demand for its products and services. However, during recessionary periods in Source's end markets, Source may be adversely affected by reduced demand for its products and services. Weakness in Source's end markets, such as a decline in oil and natural gas exploration and production, may in the future lead to a decrease in the demand for Source's products and services or the price Source can charge for its products and services, which could adversely affect Source's operating results by decreasing revenues and profit margins. Deterioration in the oil and natural gas industry could have a material adverse effect on Source's business, financial position, results of operations and cash flows in the future.

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

Source's indebtedness under the ABL Agreement and the Term Loan Agreement could have significant effects on its business. For example, it could:

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

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

Source relies on a small number of large customers for most of its revenue, and the loss of one or more such customers may adversely affect Source's results of operations and cash flows. Source's five largest customers accounted for 70% of its revenue for the year ended December 31, 2024. Although a significant percentage of Source's customers are under contract, certain contracts do not provide for guaranteed volumes and can be terminated on short notice and, on occasion, certain customers may demand to renegotiate a contract prior to the end of its term. There can be no assurance that Source's current customers will continue their relationships with Source or that contracts that come up for renewal will be renewed or, if they are renewed, that customers will contract for the same amounts or that they will pay the same prices as they have in the past. The loss of one or more major customers, the failure to renew customer contracts, or any decrease in products or services purchased or prices paid or any other changes to the terms of service under renewed contracts could have a material adverse effect on Source's business, financial position, results of operations and cash flows. A substantial portion of Source's customer contracts, including contract renewals, are subject to competitive tender processes, and there can be no assurance that Source will be successful in acquiring new business or retaining existing business subject to competitive tender. As a result of the limited number of customers that Source currently serves, Source's operations are subject to counterparty risk. The ability or willingness of each of Source's customers to perform its obligations under an agreement with Source will depend on a number of factors that are beyond Source's control and may include, among other things, the overall financial condition of the counterparty, the condition of the Canadian and United States oil and natural gas exploration and production industry, the continuing use of frac sand in hydraulic fracturing operations and general economic conditions. In addition, in depressed market conditions, Source's customers may no longer need the amount of frac sand for which they have indicated or agreed to or may be able to obtain comparable products at a lower price. If Source's customers experience a significant downturn in their business or financial condition, they may attempt to renegotiate Source's agreements. In addition, as agreements expire, depending on market conditions at the time, Source's customers may choose not to extend, or to adjust the terms of, these agreements which could lead to a significant reduction of sales volumes and corresponding revenues cash flows and financial condition if Source is not able to replace these expected sales volumes with new sales volumes. Additionally, even if Source were to replace any lost volumes, under current market conditions, lower prices for its product could materially reduce its revenues, cash flow and financial condition.

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

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

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

Although Source maintains specialized insurance for possible liability resulting from a cyber-attack on Source's assets that may shut down all or part of Source's business, there may be certain risks covered by insurance where the policy does not reimburse Source for all of the costs related to a loss. Such events, unauthorized access or other interruptions to Source's operations could result in the loss of confidential information, intellectual property, litigation, remediation costs, damage to our reputation and may negatively impact our ability to service our customers as such this could have a material adverse effect on Source's business, reputation, operations, and financial condition.

US Legislative and Regulatory Policies

Possible legislative and regulatory changes announced by the Government of the United States may have an adverse effect on Source and its financial condition. In particular, there is uncertainty regarding US tariffs and support for existing treaty and trade relationships, including with Canada. Implementation by the US government of new legislative or regulatory policies and possible responses by the Government of Canada could impose additional costs on Source, decrease US demand for Source's customers products, or otherwise negatively impact Source, which may have a material adverse effect on Source's business, financial condition and operations. In addition, this uncertainty may adversely impact: (i) the ability of companies to transact business with companies such as Source; (ii) Source's profitability; (iii) regulation affecting the Canadian oil and gas industry; (iv) global stock markets (including the TSX); and (v) general global economic conditions. All of these factors are outside of Source's control, but may nonetheless lead the Source to adjust its strategy in order to compete effectively in global markets.

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

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

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

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

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

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

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

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

Restrictions in the ABL Agreement and the Term Loan Agreement may limit Source's ability to capitalize on potential acquisition and other business opportunities

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

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

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

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

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

Financial Instruments and Other Instruments

Risk Management Overview

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

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

Fair Value of Financial Instruments

Financial assets and financial liabilities are not measured at their fair values when the carrying amount is a reasonable approximation of fair value due to their nature, short-term maturity or floating rate interest. The carrying amount of the Term Loan approximates its fair value (excluding unamortized finance fees) as at December 31, 2024, due to the recent disbursement of the loan. The fair value approximates the carrying value of the Taylor Financing Facility as at December 31, 2024.

Critical Accounting Estimates

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

Leases and right-of-use assets

The Company measures the lease liability and corresponding right-of-use 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, plant 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, plant 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, 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.

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, 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.

These amendments did not have a material impact on the Financial Statements.

Future Accounting Policy Changes

The following accounting standards, issued by the IASB, are effective for fiscal years beginning on or after January 1, 2025:

Standard	Description of change
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 amendment is effective January 1, 2025.
Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7	The amendment clarifies when a financial liability qualifies for derecognition and provides guidance on assessing contractual cash flow characteristics of financial assets that include environmental, social and governance-linked features. The amendments are effective January 1, 2026.
Presentation and Disclosure in Financial Statements - IFRS 18 replaces IAS 1	The new standard redefines financial statement presentation and disclosure requirements including a new structure for the statements of operations and comprehensive income, disclosure of management-defined performance measures, and enhanced principles on aggregation and disaggregation of financial information. The new standard is effective January 1, 2027.

The Company intends to adopt the new standards on their respective effective dates and does not expect the amendments to IAS 21 and IFRS 9 and IFRS 7 to have a material impact on the Financial Statements. The Company is in the process of assessing the impact of IFRS 18; however, given the new standard redefines presentation and disclosure for financial reporting, the Company expects the standard to have a material impact on its Financial Statements.

NON-IFRS MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. These financial measures do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), cash flows from operating activities, gross margin and other measures of financial performance as determined in accordance with IFRS.

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

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

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

Adjusted Gross Margin represents a margin more comparable to other publicly listed competitors throughout North America. It represents, for the period presented, gross margin plus cost of sales - depreciation. The reconciliation to the most comparable IFRS measure, gross margin, can be found in the table below.

Free Cash Flow represents, for the period presented, Adjusted EBITDA, adjusted for financing expense paid, capital expenditures (net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs and excludes expenditures for the Taylor Facility which are funded through the Taylor Financing Facility), payments for lease obligations, cash income taxes paid or recovered and various non-cash operating activities. Free Cash Flow is considered a key non-IFRS measure as it reflects Source's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. The reconciliation to the most comparable IFRS measure, net income, can be found in the table below.

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

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

	Three months ended December 31,		**Year ended December 31,**	
($000's)	**2024**	2023	**2024**	2023
Net income (loss)	**(7,224)**	153,000	**9,509**	167,345
Add:				
Income taxes	**963**	(17,377)	**8,344**	(17,377)
Interest expense	**6,655**	6,459	**25,503**	26,575
Cost of sales – depreciation	**8,630**	8,735	**35,292**	25,775
Depreciation	**3,832**	3,811	**17,084**	11,809
Impairment reversal	**—**	(128,555)	**—**	(128,555)
Loss (gain) on debt extinguishment	**2,917**	(483)	**3,081**	(763)
Finance expense (excluding interest expense)	**2,399**	2,616	**9,117**	9,767
Share-based compensation expense	**5,412**	1,721	**14,737**	6,759
Loss (gain) on asset disposal	**628**	(1,536)	**(2,212)**	(3,312)
Loss (gain) on sublease	**—**	(31)	**638**	(28)
Other expense[(1)]	**1,545**	(38)	**2,824**	1,120
Adjusted EBITDA	**25,757**	28,322	**123,917**	99,115
Financing expense paid	**(15,861)**	(7,305)	**(35,903)**	(29,150)
Growth capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs[(2)]	**(1,945)**	(3,509)	**(4,715)**	(562)
Maintenance and sustaining capital expenditures, net of proceeds on disposal of property, plant and equipment and reimbursement of capital costs	**(3,592)**	(3,149)	**(14,359)**	(12,483)
Payment of lease obligations	**(5,941)**	(5,088)	**(21,375)**	(19,592)
Income taxes recovered (paid)	**190**	—	**(979)**	—
Free Cash Flow	**(1,392)**	9,271	**46,586**	37,328

Notes:

(1) Includes expenses related to the incident at the Fox Creek terminal facility, costs and reimbursements under insurance claims and other one-time expenses, refer to 'Contractual Obligations' and 'Annual Results Review' above.

(2) Excludes capital expenditures for the Taylor Facility. Refer to 'Taylor Facility' and 'Long-term Debt'.

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended December 31,		**Year ended December 31,**	
($000's)	**2024**	2023	**2024**	2023
Gross margin	**25,389**	27,697	**127,337**	109,406
Cost of sales – depreciation	**8,630**	8,735	**35,292**	25,775
Adjusted Gross Margin	**34,019**	36,432	**162,629**	135,181

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and Source's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "intends", "believes", "continues", "focus", "could", "trend", or variations of such words and phrases, or statements that certain actions, events or results "may" or "will" be taken, occur or be achieved. Such forward-looking statements reflect Source's beliefs, estimates and opinions regarding its future growth, results of operations, future performance (both operational and financial), and business prospects and opportunities at the time such statements are made, and Source undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change unless required by applicable law. Forward-looking statements are necessarily based upon a number of estimates and assumptions made by Source that are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Forward-looking statements are not guarantees of future performance.

In particular, this MD&A contains forward-looking statements pertaining, but not limited to: Source's continued focus on the integrated production and distribution of frac sand and the distribution of other bulk completion materials not produced by Source; achieving intended improved liquidity of $68.8 million at year end; expectations that WCSB and E&P activity levels will remain strong through the balance of the year, particularly in northeastern British Columbia with the expectation that LNG Canada will come online; expectations regarding the Refinancing Transaction driving a lower cost of borrowing and injecting incremental liquidity into the business to allow Source to capitalize on anticipated increasing activity levels; expectations regarding the partnership arrangement with Trican Well Service Ltd. to construct the Taylor Facility and the sand storage and daily sand throughput capacity; expectations that the first phase of the project will be operational late this year and completion of the Taylor Facility in early 2025; management's continued assessment respecting Source's equipment and other assets required to service Source's operations; increased demand for mine to well site services with the completion of the rail project at the Chetwynd terminal facility; expectations regarding the sand trucking asset acquisitions completed during the year; Source's terminal network footprint and its Wisconsin and Peace River production facilities; the outcomes of countermeasures proposed by the Canadian federal and provincial governments to mitigate any tariff-related impacts; expectations with respect to sand revenue and mine gate sand sales and associated costs; the expectation that Source will continue to grow its business through the balance of the year; improvement of Source's production efficiencies; strong operational performance in 2024 through the strengthening of Source's leading service offerings and logistic capabilities; expectations that increased demand for natural gas, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB; continued increases in demand from customers primarily focused on the development of natural gas properties in Montney, Duvernay and Deep Basin; views that natural gas is an important transitional fuel for the successful movement to a less carbon-intensive world; Source's focus on and expectations regarding increasing its involvement in the provision of logistics services for other well site items; the benefits of Source's existing Western Canadian terminals to provide additional services to customers; the benefits that Source's "last mile" services provide to customers; other factors which will impact Source's activities from quarter-to-quarter including seasonality, commodity pricing and completion activity levels of E&P companies; expectations regarding the addition of the Sahara units to the US fleet to help drive utilization of 100% for the US Sahara fleet through 2025; expectations regarding maturity and obligations under the Term Loan and ABL Facility; Source's ability to maintain optimal operational levels through regular assessment of equipment and other assets; reasons for increase in net working capital, expectations regarding funding for future working capital and capital expenditures; planned cash outflows relating to lease commitments and financial liabilities; the availability of any additional future funding; expectations on Source's ability to meet its capital needs; fluctuations in foreign currency; expectations regarding the outcome of legal claims and proceedings, including but not limited to the outcome of Source's claim for damages related to the structural failure of assets at its Fox Creek terminal facility; the Company's belief that the DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness; other business and financial risks that may affect the Company; and the Company's intention to adopt the new accounting policy changes.

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

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

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source’s leverage, restrictive covenants in Source’s debt instruments and Source’s capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source’s ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source’s operations; the results of litigation or regulatory proceedings that may be brought by or against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; uninsured and underinsured losses; risks related to the transportation of Source’s products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the impact of extreme weather patterns and natural disasters; the impact of climate change risk; the ability of Source to retain and attract qualified management and staff in the markets in which Source operates; labor disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavorable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; implementation of recently issued accounting standards; the use and suitability of Source’s accounting estimates and judgments; the impact of information systems and cyber security breaches; the impact of inflation on capital expenditures; and risks and uncertainties related to pandemics, including changes in energy demand.

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

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