SOURCE ENERGY SERVICES

CONDENSED COMBINED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
MARCH 31, 2017 AND 2016

UNAUDITED

Source Energy Services

Condensed Combined Balance Sheet - unaudited

(Stated in thousands of Canadian dollars) As at	Note		March 31 2017		December 31 2016
Assets					
Current assets					
Accounts receivable	4(b)		36,202		14,634
Prepaid expenses			3,323		2,943
Inventories	6		24,688		27,710
Total current assets			64,213		45,287
Deferred income tax	7	$	936	$	597
Due from related parties	15		8		32
Property, plant and equipment			171,449		173,490
Total Assets		$	236,606	$	219,406
Liabilities and Partners' Equity					
Current liabilities					
Accounts payable and accruals	4(c)		33,356		21,358
Deferred revenue	8		1,332		1,792
Derivative Liability			10,561		14,817
Current portion of long-term debt	9		750		1,109
Total current liabilities			45,999		39,076
Due to related parties	15,18		4,630		4,599
Long-term debt	9,18		133,805		123,242
Derivative Liability			247		125
Shareholder Loan	15,18		38,285		36,770
Decommissioning provision	10		4,049		4,300
Preferred shares obligation	18		71,777		70,513
Total long-term liabilities			252,793		239,549
Total liabilities		$	298,792	$	278,625
Equity					
Partners' equity	12		(66,825)		(64,820)
Cumulative translation adjustment			4,639		5,601
Total equity			(62,186)		(59,219)
Total Liabilities and Equity		$	236,606	$	219,406

See accompanying notes to the condensed combined interim financial statements.

Source Energy Services

Condensed Combined Statements of Operations and Comprehensive Income (Loss) - unaudited

(Stated in thousands of Canadian dollars) For the three months ended March 31,

	Note		2017		2016
Sales					
Sand revenue		$	51,630	$	40,947
Wellsite Solutions			10,535		858
Terminal Services			2,267		1,530
Sales		$	64,432	$	43,335
Cost of sales	13	$	53,155	$	34,249
Cost of sales - depreciation			2,558		2,360
Gross margin		$	8,719	$	6,726
Operating and general & administrative expense	13	$	3,884	$	4,766
Depreciation			1,267		1,299
Income (loss) from operations		$	3,568	$	661
Other expense (income):					
Finance expense	16		9,479		3,500
Loss (gain) on derivative liability	9		(4,133)		-
Other income		$	(532)	$	(1,028)
Management Fees			417		178
Foreign exchange loss (gain)			681		309
Total other expense (income)		$	5,912	$	2,959
Income (loss) before income taxes		$	(2,344)	$	(2,298)
Income taxes					
Deferred tax	7		(339)		-
Net income (loss)		$	(2,005)	$	(2,298)
Other comprehensive (income) loss					
Foreign currency translation adjustment (not subject to recycling)		$	962	$	2,471
Consolidated comprehensive income (loss)		$	(2,967)	$	(4,769)

See accompanying notes to the condensed combined interim financial statements.

Source Energy Services

Condensed Combined Statement of Partners' Equity - unaudited

	Partners Units		Partners'	Accumulated Other	Total
	Number of Units	$	Equity	Comprehensive Income (Loss)	Equity
(Stated in thousands of Canadian dollars)					
Balance at January 1, 2017	**96,880**	**$ 41,941**	**$ (106,761)**	**$ 5,601**	**$ (59,219)**
Unrealized foreign exchange loss				(962)	**(962)**
Net loss			(2,005)		**(2,005)**
Balance at March 31, 2017	**96,880**	**$ 41,941**	**$ (108,766)**	**$ 4,639**	**$ (62,186)**
Balance at January 1, 2016	**96,880**	**$ 41,917**	**$ (53,266)**	**$ 6,507**	**$ (4,842)**
Unrealized foreign exchange loss				(2,471)	**(2,471)**
Net loss			(2,298)		**(2,298)**
Balance at March 31, 2016	**96,880**	**$ 41,917**	**$ (55,564)**	**$ 4,036**	**$ (9,611)**

See accompanying notes to the condensed combined interim financial statements.

Source Energy Services

Condensed Combined Statements of Cash Flows - unaudited

(Stated in thousands of Canadian dollars)	Note	For the three months ended March 31, 2017	2016
Cash Flows Provided by (Used in) Operating Activities			
Net income (loss)		$ (2,005)	$ (2,298)
Adjusted for the following:			
provided by (used in) operating activities:			
Depreciation		3,825	3,659
Finance expense		9,479	3,500
Gain on settlement of deferred revenue		(459)	-
Deferred income taxes		(339)	-
Loss (Gain) on derivative liability		(4,133)	-
Payments Deferred Revenue		-	(1,432)
Payments made to decommissioning liability		(594)	(527)
Net changes in non-cash working capital	5	(9,234)	2,491
Cash flows provided by operating activities		(3,460)	5,393
Investing Activities			
Purchase of property, plant and equipment		(2,841)	(2,376)
Proceeds on disposal of property, plant and equipment		-	-
Net changes in non-cash working capital	5	(767)	
Cash flows used in investing activities		(3,608)	(2,376)
Financing Activities			
Proceeds on long-term debt		7,377	2,795
Payments on long-term debt		-	(2,446)
Financing expense paid		(309)	(1,438)
Cash flows provided by financing activities		7,068	(1,089)
Increase (Decrease) in cash		-	1,928
Cash and cash equivalents, beginning of period		-	(199)
Cash and cash equivalents, end of period		$ -	$ 1,729
Cash consists of the following:			
Cash		-	-
Overdraft		-	-

See accompanying notes to the condensed combined interim financial statements.

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services ("Source" or the "Partnership") is headquartered in Calgary, Alberta. The registered office is at 100, 438 – 11th Avenue S.E., Calgary Alberta, Canada, T2G 0Y4. Source is primarily engaged in mining, processing, storing and transporting frac sand in Wisconsin and Western Canada, coordinating trucking services for sand, hydrochloric acid and other chemicals for use in the oilfield industry.

The Partnership consists of Source Energy Services Canada LP ("SES Canada") and Source Energy Services US LP ("SES US"). SES Canada is privately owned and registered under the Alberta Partnership Act. SES US is privately owned and register under the Alberta Partnership Act and the Delaware Partnership Act. Triwest Capital holds majority of the ownership of the Partnership.

2. BASIS OF PRESENTATION

Statement of compliance

The condensed combined interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as at and for the period ended March 31, 2017, and do not include all the information required for full annual financial statements. As such, they should be read in conjunction with the December 31, 2016 and December 31, 2015 annual combined audited financial statements. These financial statements are available as part of the Source Energy Services Ltd. prospectus filed on SEDAR.

Recently Issued Accounting Standards Not Yet Applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

(i) IFRS 9 Financial Instruments

On January 1, 2018, the Partnership will be required to adopt IFRS 9 *Financial Instruments*, which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The Partnership is in the process of assessing the impact of IFRS 9 on its financial statements.

(ii) IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Partnership will be required to adopt IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 and will replace IAS 11 *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. The Partnership is in the process of assessing the impact of IFRS 15 on its financial statements.

(iii) IFRS 16 Leases

On January 1, 2019, the Partnership will be required to adopt IFRS 16 *Leases*. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use-asset' for most lease contracts. The standard permits a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use-asset and the lease liability, rather than full retrospective application. IFRS 16 must be applied for financial years commencing on or after January 1, 2019. Early adoption is permitted, but only in conjunction with IFRS 15. The Partnership is in the process of assessing the impact of IFRS 16 on its financial statements.

The condensed combined interim financial statements were authorized for issue by the Board of Directors as at May 12, 2017.

Use of estimates and judgments

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

Significant accounting policies

The accounting policies applied in these condensed combined interim financial statements are the same as those applied in the Partnership's combined financial statements as at and for the year ended December 31, 2016.

3. SEASONALITY OF OPERATIONS

The Partnership's business is seasonal in nature with the majority of activity being in the first, third and fourth quarters. The least activity is in the second quarter, due to spring break-up. Spring break-up occurs for a period of approximately 8 weeks between March and June as the frost comes out of the roads in Western Canada 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. As a result, the Partnership's operating results may vary on a quarterly basis.

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

4. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

(a) Fair value of financial instruments

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the Asset backed loan (“ABL”) facility approximates the carrying values as they bear interest at market floating rates consistent with market rates for similar debt. Based on the closing market price at March 31, 2017, the fair value of the $130,000 notes is $143,000 ($110 dollars per $100 dollars).

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

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

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

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

A financial instrument is classified as Level 3 if one or more of its unobservable inputs may significantly affect the measurement of its fair value. Appropriate inputs are chosen so that they are consistent with market evidence or management judgment. Due to the unobservable nature of the inputs, there may be uncertainty about the value of Level 3 financial instruments.

		Fair Value		
March 31, 2017	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at Fair value through profit and loss:				
$12,500 and $7,500 promissory note	$30,785	-	-	$30,785
Derivative Liability	$10,808	-	$247	$10,561
Financial liabilities at amortized cost:				
$130.0M of Senior Secured First Lien Notes	$112,907	$143,000	-	-
$5,500 and $2,000 promissory notes	$7,500	-	-	$7,500

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

Finance lease obligations – current	$750	-	$750	-
Finance lease obligations – long term	$395	-	$395	-

		Fair Value		
December 31, 2016	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at Fair value through profit and loss:				
$12,500 and $7,500 promissory note	$29,270	-	-	$29,270
Derivative Liability	$14,941	-	$125	$14,816
Financial liabilities at amortized cost:				
$130.0M of Senior Secured First Lien Notes	$110,171	$137,800	-	-
$5,500 and $2,000 promissory notes	$7,500	-	-	$7,500
Finance lease obligations – current	$1,109	-	$1,109	-
Finance lease obligations – long term	$524	-	$524	-

(b) Credit risk

Credit risk is the risk of financial loss to the Partnership if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Partnership's accounts receivable are due from purchasers of proppants and logistics services and are subject to normal industry credit risk.

The Partnership's revenues are generally derived from a group of large and reputable oilfield exploration and production companies and oilfield services customers. Orders for proppants are subject to the Partnership's credit and collection programs. The five largest customers account for 86% of the revenue for the three months ended March 31, 2017, with the three largest making up 75% of revenue (three months ended March 31, 2016, five customers account for 90%, three customers account for 77%). Two of those customers respectively (three for the 3 months ended March 31, 2016) account for 10% or more of total revenue individually in the three months ended March 31, 2017.

The Partnership performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable to certain accounts, historical trends and other relevant information. The Partnership's maximum exposure to credit risk is the fair value of accounts receivable on the balance sheet shown net of an appropriate allowance for doubtful accounts.

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

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is often mitigated by the size and reputation of the companies to which they extend credit. As at March 31, 2017 and December 31, 2016, the Partnership's accounts receivable comprised the following according to due dates:

As at	March 31, 2017	December 31, 2016
0 – 30 days	$34,846	$11,179
31 – 60 days	686	3,055
61 – 90 days	188	96
91+ days	482	304
Total Trade Receivables	$36,202	$14,634

(c) Liquidity risk
Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they are due. The Partnership's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Partnership's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations, foreign currency fluctuations, and the global economic conditions.

The financial liabilities on the combined balance sheet consist of accounts payable and accrued liabilities, long-term debt, shareholder loans, senior secured notes and amounts due to related parties. The Partnership manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

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

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

Three months ended March 31, 2017	Total	2017	2018	2019	2020 and thereafter
Accounts payable and accruals	$33,356	33,356	-	-	-
Capital loan and finance lease	$1,145	750	335	50	10
Bank debt[(b)]	$20,967	-	20,967	-	-
Notes Payable[(a)(c)]	$178,497	13,650	13,650	13,650	137,547
Shareholder loan[(a) (b)]	$38,526	-	-	-	38,526

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

Due to related parties[a] [b]	$4,662	-	-	-	4,662
Preferred shares obligation[b]	$71,910	-	-	-	71,910

[a] Includes interest for future periods.
[b] These items have been settled either by cash or common stock in April 2017, refer to Note 18 Subsequent Events for further detail.
[c] Refer to Note 18 Subsequent Events for detail regarding notice of partial repayment of Notes Payable.

(d) Market risk

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

Foreign currency risk

The Partnership is exposed to currency price risk on sales denominated in U.S. dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on cost of manufacturing of inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at March 31, 2017 are $13,037 (December 31, 2016 - $1,693) and $14,481 (December 31, 2016 - $8,380) denominated in foreign currency respectively. The net effect of each 1% change in foreign exchange would impact net income for the three months ended March 31, 2017 by $25 ($179 in 2016). As at March 31, 2017, the Partnership had no forward exchange rate contracts in place.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Partnership is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility and loans payable. The Partnership is exposed to interest rate price risk on the long-term debt that bear interest at floating rates. The Partnership had no interest rate swaps or financial contracts in place as at or during the periods ended March 31, 2017 and December 31, 2016.

(e) Capital management

The Partnership's capital management policy is to maintain a strong capital base that optimizes the Partnership's ability to grow, maintain partner and creditor confidence and to provide a platform to create value for its common Partnership unitholders. The Partnership's management is responsible for managing the Partnership's capital and do so through regular reviews of financial information including budgets and forecasts. The Partnership's Directors are responsible for overseeing this process. The Partnership considers its capital structure to include partners' equity, bank debt and due to related parties.

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

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

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

The Partnership's share capital is not subject to external restrictions but the amount of the bank operating facility is determined with reference to inventory and accounts receivable levels maintained.

The Partnership is subject to externally imposed capital requirements for the asset backed loan facility, requiring the Partnership to maintain a springing fixed charge ratio of (a) 1.10:1 up to and including June 30, 2017, and then (b) 1.25:1 at all times thereafter to be measured when Source's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. As of March 31, 2017, the excess availability was greater than 20%. The Partnership is compliant with all covenants as of March 31, 2017.

The Partnerships capital management policy has not changed during the periods ended March 31, 2017 or December 31, 2016.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the three months ended March 31 are as follows:

	2017	**2016**
Accounts receivable	$(21,575)	$3,632
Prepaid expenses and deposits	(396)	(563)
Inventory	2,825	(2,032)
Accounts payable and accrued liabilities	9,912	1,454
Changes in non-cash working capital	$(9,234)	$2,491

Changes in non-cash investing assets and liabilities for the three months ended March 31 are as follows:

	2017	**2016**
Prepaid expenses and deposits	$-	$8
Accounts payable and accrued liabilities	(767)	(1,737)
Changes in non-cash working capital	$(767)	$(1,729)

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

6. INVENTORIES

Inventory consists of three main classifications:

As at,	March 31, 2017	December 31, 2016
Unprocessed sand and work in progress	$16,513	$17,807
Sand available for shipment	6,765	8,423
Spare parts and supplies	1,410	1,480
Total inventories	$24,688	$27,710

Spare parts and supplies include spare parts and supplies for routine facilities maintenance. Included in the inventory balance is the depreciation expense related to sand producing properties of $3,666 as of March 31, 2017 (December 31, 2016 - $4,108). The total amount of inventory expensed through cost of sales during the 3 months ended was $40,317 (three months ended March 31, 2016 - $32,296). No inventory write-downs or reversals of prior write-downs were recorded during the three months ended March 31, 2017 and March 31, 2016.

7. DEFERRED INCOME TAXES

The only taxable entity of the Partnership is Source Energy Services Canada Holdings Ltd. The provision of deferred income taxes for Source Energy Services Canada Holdings Ltd has been calculated and recorded as at March 31, 2017 and March 31, 2016.

	March 31, 2017	March 31, 2016
Earnings (Loss) Before Income Taxes	($2,005)	$-
Add: Loss Attributable to non-taxable entities	(182)	-
Earnings (Loss) Attributable to taxable entities	(1,823)	-
Statutory Income Tax Rate	27.00%	27.00%
Expected Income Taxes	(492)	-
Increase (Decrease) in taxes from:		
Finance Fees	-	-
Non-Deductible Expense	94	-
Rate Changes	-	-
Unrealized F/X	59	-
Other	-	-
Total Income Tax Expense (Recovery)	**($339)**	**-**

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

Deferred income tax expense	($339)	-
Current income tax expense	0	-
Total Income Tax Expense	**($339)**	**-**

(a) Significant components of the deferred income tax assets at March 31, 2017 and December 31, 2016 are as follows.

	March 31, 2017	**December 31, 2016**
Difference between tax and reported amounts for depreciable assets	($68)	($75)
Tax loss carryforwards recognized	386	7
Finance Fees	616	663
Risk management contracts	-	-
Other	2	2
Deferred Income Taxes	**$936**	**$597**

(b) The Partnership has available the following non-capital loss carry forwards as of March 31, 2017 (December 31, 2016 - $24):

Year of Expiry	**Amount**
2032	$1,430

At March 31, 2017 the Company had tax pools of approximately $3,130 (December 31, 2016 - $3,307). See Subsequent Events Note 18 for reorganization details that will affect the income tax calculation for the combined entities going forward.

8. DEFERRED REVENUE

The Partnership has entered into storage subscription agreements with some customers to provide them with guaranteed proppant storage at the Partnership's facilities. The agreements all expire by August 2017. Under the terms of the agreements customers pay a non-refundable subscription fee entitling them to a discount of $2 per metric tonne from the Partnership's normal sand distribution fees. The subscription fees have been deferred and are recognized as revenue as proppant is transloaded by the subscribers.

In January 2017, one of the storage subscription agreements expired. The Partnership recognized the revenue remaining on this contract, resulting in a gain of $459.

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

The Partnership has estimated the recognition of these deferred revenues with the assumption of equal usage of storage facilities, and minimum frac sand supply over the term of the agreements.

9. LONG TERM DEBT

As at	**March 31, 2017**	**December 31, 2016**
Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	$112,907	$110,171
Asset backed loan facility (the "ABL") due December 2018. Interest is based on floating rates dependent upon the amount of the facility used.	$20,351	$12,291
Finance Lease obligations related to equipment, bearing interest at rates ranging from 4.25% to 12% per annum, with final payments due between April 2017 and September 2020	$1,145	$1,633
Other long term debt	$152	$256
	$134,555	**$124,351**
Less: current portion term portion	(750)	(1,109)
	$133,805	$123,242

On December 8, 2016, the Partnership issued a $130.0M Senior Secured First Lien Notes (the "Notes") which bear interest at 10.5% per annum, and mature December 15, 2021. The Notes are secured by a fixed and floating charge over all of the assets of the business except Accounts Receivable and Inventory, which the Notes have a second charge on. Each debt holder is entitled to a relevant right of 4% of the equity value of the Partnership upon various liquidation or change of control events. There are prepayment options, where the Partnership may redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering by Source at a redemption price of 110.5% of the principal amount. The Partnership may also redeem all or part of the Notes at any time prior to December 15, 2018 for 100% of the principal, accrued and unpaid interest, and the applicable premium as defined in the agreement. After December 15, 2018 the Notes may be redeemed in whole or in part at the applicable percentage (2018 – 107.875%, 2019 –

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

103.9375%, 2020 – 100%), plus accrued and unpaid interest. Both the relevant rights and prepayment option have been classified as a derivative liability and are measured at fair value through profit or loss, for a total of $10,561 for the rights and $247 for the prepayment option as at March 31, 2017 (December 31, 2016 - $14,817 and $125). Changes in fair value of the derivative liabilities are recorded through the Combined Statements of Operations and Comprehensive Income (Loss). The partnership has recorded a fair value gain on the relevant rights of $4,256 and a fair value loss $123 on the prepayment option as of March 31, 2017 (December 31, 2016 – loss of $862 and $48).

The $35,000 ABL facility is secured by floating first lien charge on the Accounts Receivable and Inventory of the Partnership under a general business security agreement and a second lien charge on all other assets of the business. The facilities bear interest based on the bank's prime lending rate, banker's acceptances or LIBOR rates, plus an applicable margin depending on the amount of excess availability. The ABL facility matures on December 8, 2018. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories, at March 31, 2017 $20,967 (December 31, 2016 - $12,995) was drawn under this facility, and $35,000 (December 31, 2016 - $26,032) was available. The borrowing base is updated monthly. Letters of credits have been issued for the amount of $5,923US. To date no amounts have been drawn against these letters of credit.

The ABL facility includes a springing fixed charge ratio of (a) 1.10:1 up to and including June 30, 2017, and then (b) 1.25:1 at all times thereafter to be measured when Source's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. As of March 31, 2017, the excess availability was greater than 20%. Source deferred $727 in financing costs for the ABL facility and $5,915 for the Notes, with $113 and $243 of these costs amortized as at March 31, 2017.

At March 31, 2016, the Partnership had a syndicated bank facility composed of three facilities: a $35 million operating facility, a $45 million term facility, and a $15 million capital facility. The syndicated facility was secured by fixed and floating charges on all the assets of the Partnership under a general business security agreement. The facilities bore interest based on the bank's prime lending rate plus an applicable margin, ranging from Prime plus 0.75% to Prime plus 2.75% per annum. Source deferred $777 in financing costs for the syndicated bank facility, with $312 of these costs being amortized as at March 31, 2016.

Interest on the above facility and notes amounted to $286 and $3,369 for the three months ended March 31, 2017 (three months ended March 31, 2016 - $953). Effective interest rate for the three months ended March 31, 2017 is 11.48% (three months ended March 31, 2016 4.75%).

10. DECOMMISSIONING PROVISION

	March 31, 2017	December 31, 2016
Balance, Beginning of period	**$4,300**	**$1,639**
Liabilities incurred	370	1,144
Liabilities settled	(586)	(3,220)
Accretion	17	56
Changes in estimate	(8)	4,756

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

Changes in discount and inflation rates	-	(26)
Changes in F/X Rate	(44)	(49)
Balance, end of period	**$4,049**	**$4,300**

The Partnership's decommissioning provision relates to reclamation of land and facilities where the mine operates. Management estimates the costs to abandon and re-claim its properties based on current reclamation technology, acres disturbed and the estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provision has been discounted using risk-free rate of 1.50% at March 31, 2017 (December 31, 2016 - 1.50%)

11. PREFERRED SHARES OBLIGATION

As at	**March 31, 2017**	**December 31, 2016**
Balance, Beginning of Period	$70,513	$66,032
Payments	-	-
Accrued preferred distribution	1,264	4,481
	$71,777	$70,513

The Partnership issued class B preferred shares as a result of the reorganization on October 16, 2013. Class B units are non-voting, and are entitled to a preferred distribution as follows:

- 5.92% per annum up to June 30, 2016;
- 6.82% per annum from July 1, 2016 to June 30, 2017;
- 7.7% per annum from July 1, 2017 to June 30, 2018;
- 8.59% per annum from July 1, 2018 and thereafter.

Based on the nature of the Class B preferred shares, the Partnership has an obligation to pay the preferred distribution. The preferred shares are callable by the Partnership, but not by the holder. The Class B preferred shares have the same features of debt, bear a fixed return and obligation. They have been classified as a liability and the corresponding preferred distribution has been treated like interest. There are no specified terms of maturity. See Note 18 Subsequent Events for the details on the settlement of those units.

12. PARTNER'S EQUITY

a) Partners' Capital in 000's

The Partnership has five classes of units which are outlined below.

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

Voting units:

- Class A units are redeemable at option of the Partnership, participating and voting units which earn a return of up to 225% on their originally issued value;
- Class D units: 12,946 US units are non-participating and voting units.

Non-voting units:

- Class C units are non-participating, non-voting units. The units are redeemable after the Class A units earn a 225% return on their original issued value;
- Class E units are non-participating, non-voting units and are redeemable after the Class A units earn a 225% return on their original issued value.

Preferred Units:

- Class B units are non-voting, classified as liability.

	March 31, 2017		December 31, 2016	
	# of Units	**$**	**# of Units**	**$**
Class A	70,968	41,535	70,968	41,535
Class D US	12,946	-	12,946	-
Total voting units	83,914	41,535	83,914	41,535
Class C	12,956	130	12,956	130
Class E	10	-	10	-
Total non-voting units	12,966	130	12,966	130
Total voting and non-voting units	96,880	41,665	96,880	41,665
Class B preferred units	60,807	-	60,807	-
Total units	**157,687**	**41,665**	**157,687**	**41,665**
Cumulative Stock Based Compensation	400	276	400	276
	158,087	41,941	158,087	41,941

b) Warrants in $ and units

As at (in 000's)	March 31, 2017		December 31, 2016	
	# of Units	**$**	**# of Units**	**$**
Warrants	20	500	20	500
	20	500	20	500

In 2016 the Partnership in conjunction with the issuance of a $2,000 promissory note, issued warrants exercisable into 20 units for an aggregate price of $20. Given the nature of the warrants related to the $2,000 promissory note they were recorded at a fair value of $500, as part of finance expense and with a corresponding charge to equity. Each warrant allows the holder to acquire Class D units of the Canadian Partnership and Class F units of the U.S. Partnership. The Warrants are exercisable into an aggregate of 20 Class D units of the Canadian Partnership and 20 Class F units of the US Partnership. As of March 31, 2017, none of the warrants had been exercised. The units issued under these warrants are non-participating voting units which earn a return of up to 225% of their originally issued value. These warrants were settled as part of the reorganization, refer to Note 18 Subsequent Events for further detail.

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

c) Restricted Share Units in $ and units

The Partnership issued 400 restricted share units to its employees as of September 30, 2014, these units have an exercise price of $0.001, vest over a three-year period, and expire five years from the date of grant. As of March 31, 2017, these units are fully vested. Stock based compensation of $24 was expensed for the year ended December 31, 2016. There have been no new restricted share units issued in 2017.

13. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Partnership presents its expenses on the Combined Statements of Operations and Comprehensive Income using the function of expense method whereby expenses are classified according to their function within the Partnership. This method was selected as it is more closely aligned with the Partnership's business structure. The Partnership's functions under IFRS are as follows:

- Cost of sales; and
- Operating, general and administrative

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

Three months ended March 31, 2017	**Cost of Sales**	**Operating and General & Administrative Costs**	**Total**
Direct Materials	$31,773	$-	$31,773
People costs	4,875	2,212	7,087
Equipment costs	2,521	579	3,100
Transportation costs	12,514	-	12,514
Facility costs	1,472	652	2,124
Selling costs	-	48	48
Administration costs	-	393	393
Total	$53,155	$3,884	$57,039

Three months ended March 31, 2016	**Cost of Sales**	**Operating and General & Administrative Costs**	**Total**
Direct Material	$26,639	$-	$26,639
People costs	2,862	2,368	5,230
Equipment costs	1,492	1,351	2,843
Transportation costs	2,036	-	2,036
Facility costs	1,220	626	1,846

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

Selling costs	-	110	110
Administration costs	-	311	311
Total	$34,249	$4,766	$39,015

14. COMMITMENTS AND CONTINGENCIES

The Partnership has various lease commitments regarding equipment, railcars, physical natural gas contracts and office space. The leases expire between May 2017 and December 2025. Estimated annual lease commitments are as follows:

2017	8,451
2018	9,047
2019	7,079
2020	5,648
2021	5,582
Subsequent Years	9,204
Total	**$45,011**

In the ordinary course of conducting business, the Partnership 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 the Partnership believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Partnership.

15. RELATED PARTY TRANSACTIONS

As at	**March 31, 2017**	**December 31, 2016**
Amounts due from related parties:		
Due from GP	$8	$32
	$8	**$32**
Amounts due to related parties:		
Due to Sand Royalty LP	$4,630	$4,599
	$4,630	**$4,599**
Shareholder loan:		
$12,500 promissory note	$21,436	$20,300
$7,500 promissory note	$9,349	$8,970
$2,000 promissory note	$2,000	$2,000
$5,500 promissory note	$5,500	$5,500
	$38,285	**$36,770**

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

Shareholder loan payable consist of four promissory notes. A $12,500 promissory note from common unitholders issued on March 27, 2014. This promissory note bears interest at 25% per annum which is paid with in kind interest. Per the agreement, the Partnership is obligated to pay the 25% interest for a minimum of 3 months after December 31, 2016. In 2015, a fair value adjustment of $3,906 was recorded to record the interest obligation until March 31, 2017. The second promissory note from the common unitholders was advanced on December 21, 2015 in the amount of $7,500. This promissory note bears interest at 18% per annum which is also paid in a combination of cash and in kind interest, the interest increases to 25% per annum after eighteen months. The promissory note and any accrued interest is convertible to equity eighteen months after the date of issue at the option of the shareholder. The conversion and the prepayment represent derivatives; however, the Partnership has elected to designate the shareholder loan as fair value through the Combined Statements of Operations and Comprehensive Income (Loss). The maturity date of these promissory notes is on December 31, 2023. The third promissory note has a face value of $2,000 and was recorded at a fair value of $2,000. It does not bear interest and is due September 7, 2026.

In 2016, certain unitholders provided guarantees to the syndicated bank group totaling $5,500. In exchange for these guarantees, these unitholders were provided with 5,500 warrants at an aggregate price of $55 dollars or a 0%, 10-year promissory note depending on whether the guarantees were drawn or not. A $5,500 promissory note was issued and the warrants were cancelled. See Note 18 Subsequent Events for details on the settlement of the loans.

The amount due to Sand Royalty LP bears interest at 8% per annum with no maturity date. The partnership has accrued all interest due as of March 31, 2017. No payments have been made as at March 31, 2017. See Note 18 Subsequent Events for details on the settlement of the loan.

Interest expense for the three months ended March 31, 2017 includes $1,515 (three months ended March 31, 2016 - $481) relating to long term debt held by common unitholders of the Partnership. Of the 2017 interest expense, $1,515 (three months ended March 31, 2016 - $481) is unpaid and is subject to the Partnership's standard payment policies.

16. FINANCE EXPENSE

Three months ended March 31,	2017	2016
Finance expense	$5	$307
Interest expense	6,609	3,193
Accretion	2,865	-
Total	**$9,479**	**$3,500**

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

17. OPERATING SEGMENTS

The Partnership considers operations to be one operating segment. The performance of this segment is measured based on revenue and gross margin as included in internal management reports. These reports are reviewed monthly by the executive team. The Partnership has operations in both the United States and Canada; the two geographic segments are summarized in the table below.

The Corporate Segment does not represent an operating segment and is included for informational purposes only.

Three months ended March 31, 2017	Canadian Operations	United States Operations	Corporate	Total
Sales	62,113	2,319	-	64,432
Gross Margin (Loss)	10,760	(2,041)	-	8,719

Three months ended March 31, 2016	Canadian Operations	United States Operations	Corporate	Total
Sales	42,951	384	-	43,335
Gross Margin (Loss)	7,034	(308)	-	6,726

Total Assets	Canadian Operations	United States Operations	Corporate	Total
March 31, 2017	91,249	141,787	3,570	236,606
December 31, 2016	71,688	146,329	1,389	219,406

18. SUBSEQUENT EVENTS

On April 13, 2017, Source completed the Reorganization then the Company completed an initial public offering (IPO) of 16,666,667 common shares ("Common Shares") at an offering price of $10.50 on the Toronto Stock Exchange (TSX") for gross proceeds of approximately $175,000. The Common Shares are listed on the TSX under the symbol "SHLE". The Company further granted the underwriters an over-allotment option, exercisable in whole or in part for a period of 30 days following the closing of the IPO, to purchase up to an additional 2.5 million Common Shares at the IPO offering price. As of May 12, 2017, the over-allotment option had not been exercised.

As the Reorganization was a related party transaction, the Company will use continuity of accounting, resulting in the prior year period being restated to the combined accounts of Source combined financial statements with the Company. TriWest Capital Partners IV (US), L.P. indirectly owns 2.7% of Source Canada LP as a minority shareholder and holds a number of class B shares (the "Class B Shares") in the capital of the Company. The Class B Shares are voting shares that are redeemable into Common Shares at the option of the holder. See "Corporate Structure" in the Final Prospectus.

In conjunction with the IPO Source settled several balance sheet obligations including the preferred shares obligation, the Shareholder loan and the due to related parties amount. The preferred shares obligation amount was settled with approximately $17,250 of cash from the proceeds of the IPO and by issuing an aggregate of 5,212,081 Common Shares to the preferred shareholders. The Shareholder loan amount was settled through the issuance of 3,586,518 Common Shares to the Shareholder loan holders. The due to related parties amount was settled with approximately$4,660 million of cash from the proceeds of the IPO.

On April 18, 2017, Source US LP completed a purchase and sale agreement for all the outstanding membership interests of Sand Products Wisconsin, LLC. The transaction involves the purchase of the mineral rights to sand reserves at multiple sites, a sand mine and associated washing, drying and rail facilities and other related assets, and prepaid royalties. The purchase price was US$45,000.

On April 25, 2017, Source Canada LP and Source Energy Services Canada Holdings Ltd. (collectively, the “Notes Issuers”) provided notice to the holders of their 10.5% Senior Secured First Lien Notes due December 15, 2021 (the “Notes”) that an aggregate principal amount of $22,290 (the “Principal Amount”) of the Notes outstanding will be redeemed for cash on June 6, 2017 (the “Redemption Date”) upon payment of a redemption amount of 110.5000% of the Principal Amount, plus all accrued and unpaid interest thereon to the Redemption Date. The accrued interest to be paid per $1,000 principal amount of Notes on the Redemption Date is approximately $51.78. Further, as a result of the completion of the IPO, on May 29, 2017, the Company will issue an aggregate of 1,005,831 Common Shares to the holders of record on May 19, 2017 of the Notes in connection with the relevant transaction rights attached to the Notes.

SOURCE ENERGY SERVICES LTD.

FINANCIAL STATEMENTS

AS AT MARCH 31, 2017

(UNAUDITED)

SOURCE ENERGY SERVICES LTD.
Contents
MARCH 31, 2017

Source Energy Services Ltd.

Balance Sheet

(Unaudited)

Assets	March 31, 2017	February 7, 2017
Cash	$10	$10

Shareholder's Equity		
Share Capital	$10	$10

Source Energy Services Ltd.

Statement of Cash Flows

(Unaudited)

	For the period ended March 31, 2017
Cash Flows Provided by Financing Activities	
Proceeds from share issuance	$10
Increase in cash	$10
Cash and cash equivalents, beginning of period	$-
Cash and cash equivalents, end of period	**$10**

1. **Company Information**

   Source Energy Services Ltd. (the "Company") was formed as an Alberta corporation established under the laws of Business Corporation Act (Alberta), pursuant to articles of incorporation dated February 7, 2017. The Company was established to serve as the public company for Source Energy Services Canada LP after the completion of the closing of the public issuance by the Company. The sole shareholder of the Company is Brad Thomson, CEO of a related entity, Source Energy Services Canada LP.

   The Company's registered office is at 100, 438 – 11th Avenue S.E., Calgary Alberta, Canada, T2G 0Y4.

   The financial statements were approved by the Board of Directors and authorized for issue on May 12, 2017.

2. **Significant accounting policies**

   The Financial Statements were prepared in accordance with International Financial Reporting Standards. Separate statements of Operations and Comprehensive Income and Changes in shareholder's equity have not been presented as there has been no activity since its inception.

   Common Control Transactions

   Business combinations involving entities under common control are excluded from IFRS 3, Business Combinations. As there is no specific guidance in IFRS, management has selected an accounting policy that is consistent with IAS 8, Accounting policies. Management has chosen to apply the predecessor value method since inception for common control transactions. The predecessor value method involves accounting for the acquired assets and liabilities at existing carrying values rather than at fair value, which results in no goodwill being recorded.

3. Share Capital

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of preference shares issuable in series and an unlimited number of voting class B shares. As at March 31, 2017 and February 7, 2017, the Company issued one common share.

4. Subsequent Events

On April 13, 2017, Source completed the Reorganization then the Company completed an initial public offering (IPO) of 16,666,667 common shares ("Common Shares") at an offering price of $10.50 on the Toronto Stock Exchange (TSX") for gross proceeds of approximately $175 million. The Common Shares are listed on the TSX under the symbol "SHLE". The Company further granted the underwriters an over-allotment option, exercisable in whole or in part for a period of 30 days following the closing of the IPO, to purchase up to an additional 2.5 million Common Shares at the IPO offering price. As of May 12, 2017, the over-allotment option had not been exercised.

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