

**SOURCE ENERGY SERVICES**

**COMBINED FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**



February 10, 2017

## **Independent Auditor's Report**

### **To the Board of Directors of Source Energy Services**

We have audited the accompanying combined financial statements of Source Energy Services and its subsidiaries, which comprise the balance sheets as at December 31, 2016, December 31, 2015 and December 31, 2014 and the combined statements of operations and comprehensive income (loss), changes in partners' equity and cash flows for each of the years in the three year period ended December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the combined financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Source Energy Services and its subsidiaries as at December 31, 2016, December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for each of the years in the three year period ended December 31, 2016 in accordance with International Financial Reporting Standards.

---

*PricewaterhouseCoopers LLP*  
111 5<sup>th</sup> Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3  
T: +1 403 509 7500, F: +1 403 781 1825, [www.pwc.com/ca](http://www.pwc.com/ca)

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Emphasis of matter**

Without modifying our opinion, we draw attention the fact that, as described in note 2 to the combined financial statements, the businesses included in the combined financial statements have not operated as a single entity. These combined financial statements are, therefore, not necessarily indicative of results that would have occurred if the businesses had operated as a single business during the year presented or of future results of the combined businesses.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

**SOURCE ENERGY SERVICES**

**Contents**  
**December 31, 2016**

Financial Statements	Page
Combined Balance Sheet .....	FS-11
Combined Statement of Operations and Comprehensive Income .....	FS-12
Combined Statement of Partners' Equity .....	FS-13
Combined Statement of Cash Flows .....	FS-14
Notes to the Combined Financial Statements .....	FS-15 - FS-35

**Source Energy Services**  
**Combined Balance Sheet**

As at (Stated in thousands of Canadian dollars)	Note	December 31 2016	December 31 2015	December 31 2014
<b>Assets</b>				
<b>Current assets</b>				
Cash		\$ –	\$ 276	\$ 3,202
Accounts receivable	4(c)	14,634	21,756	37,562
Prepaid expenses		2,943	2,973	3,398
Inventories	6	27,710	24,415	13,527
Property, plant and equipment available for sale	7	–	–	12,850
<b>Total current assets</b>		<b>45,287</b>	49,420	70,539
<b>Deferred income tax</b>	8	<b>\$ 597</b>	\$ 81	\$ 479
<b>Due from related parties</b>	16	<b>32</b>	145	109
<b>Property, plant and equipment</b>	7	<b>173,490</b>	181,466	123,661
<b>Total Assets</b>		<b>\$219,406</b>	\$231,112	\$194,788
<b>Liabilities and Partners' Equity</b>				
<b>Current liabilities</b>				
Overdraft		\$ –	\$ 475	\$ 2,598
Accounts payable and accruals	4(d)	21,358	25,393	22,498
Deferred revenue	9	1,792	5,245	7,552
Shareholder loan	16	–	–	–
Due to related parties	16	–	–	–
Derivative Liability		14,817	–	–
Current portion of long-term debt	10	1,109	8,164	11,624
<b>Total current liabilities</b>		<b>39,076</b>	39,277	44,272
<b>Deferred revenue</b>	9	<b>\$ –</b>	\$ 22,852	\$ 17,053
<b>Due to related parties</b>	16	<b>4,599</b>	4,363	3,356
<b>Long-term debt</b>	10	<b>123,242</b>	74,950	52,173
<b>Derivative Liability</b>	10	<b>125</b>	–	–
<b>Shareholder Loan</b>	16	<b>36,770</b>	26,841	13,486
<b>Decommissioning provision</b>	11	<b>4,300</b>	1,639	422
<b>Preferred shares obligation</b>	12	<b>70,513</b>	66,032	65,187
<b>Total long-term liabilities</b>		<b>239,549</b>	196,677	151,677
<b>Total liabilities</b>		<b>\$278,625</b>	\$235,954	\$195,949
<b>Equity</b>				
Partners' equity	13	(64,820)	(11,349)	222
Cumulative translation adjustment	13	5,601	6,507	(1,383)
<b>Total equity</b>		<b>(59,219)</b>	(4,842)	(1,161)
<b>Total Liabilities and Equity</b>		<b>\$219,406</b>	\$231,112	\$194,788

Approved on behalf of the Board of Directors of Source Energy Services

(signed) “*CODY CHURCH*”

Cody Church  
Director

(signed) “*BRAD THOMSON*”

Brad Thomson  
President and Chief Executive Officer

## Source Energy Services

### Combined Statements of Operations and Comprehensive Income (Loss)

For the years ended December 31,

(Stated in thousands of Canadian dollars)

	Note	2016	2015	2014
<b>Sales</b>				
Sand revenue		\$112,962	\$139,574	\$118,755
Wellsite Solutions		21,261	6,208	11,782
Terminal Services		4,976	7,353	15,969
<b>Sales</b>		<b>\$139,199</b>	\$153,135	\$146,506
<b>Cost of sales</b>	14	<b>\$123,257</b>	\$116,364	\$95,504
<b>Cost of sales – depreciation</b>		<b>8,039</b>	7,133	4,611
<b>Gross margin</b>		<b>\$ 7,903</b>	\$ 29,638	\$ 46,391
Operating and general & administration expense	14	\$ 23,866	\$ 18,183	\$ 18,913
Depreciation		6,373	5,674	3,146
<b>Income (loss) from operations</b>		<b>\$ (22,336)</b>	\$ 5,781	\$ 24,332
<b>Other expense (income):</b>				
Loss (gain) on asset disposal		\$ 1,082	\$ 94	\$ (3,110)
Loss (gain) on impairment		\$ 1,852	\$ –	\$ –
Finance expense	17	19,491	12,346	8,998
Loss (gain) on derivative liability	13	910	–	–
Fair value adjustment on shareholder loan		–	3,906	–
Other income		\$ (4,859)	\$ (1,796)	\$ (420)
Management Fees	16	1,043	1,683	1,456
Foreign exchange loss/(gain)		2,059	(1,255)	(64)
<b>Total other expense (income)</b>		<b>\$ 21,578</b>	\$ 14,978	\$ 6,860
<b>Income (loss) before income taxes</b>		<b>\$ (43,914)</b>	\$ (9,197)	\$ 17,472
<b>Income taxes</b>				
Current tax		\$ 4	\$ 171	\$ 58
Deferred tax	8	(516)	398	379
<b>Net income (loss)</b>		<b>\$ (43,402)</b>	\$ (9,766)	\$ 17,035
<b>Other comprehensive (income) loss</b>				
Foreign currency translation adjustment (not subject to recycling)		\$ 906	\$ (7,890)	\$ (2,302)
<b>Consolidated comprehensive income (loss)</b>		<b>\$ (44,308)</b>	\$ (1,876)	\$ 19,337

## Source Energy Services

### Combined Statement of Partners' Equity

For the years ended December 31, 2016, 2015 and 2014 (Stated in thousands of Canadian dollars)	Partners Units		Partners' Equity	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Number of Units	\$			
<b>Balance at January 1, 2014</b>	96,880	\$41,665	\$ (58,663)	\$(3,685)	\$(20,683)
Unrealized foreign exchange gain				2,302	2,302
Stock based compensation expense		185			185
Net income			17,035		17,035
<b>Balance at December 31, 2014</b>	96,880	\$41,850	\$ (41,628)	\$(1,383)	\$(1,161)
Unrealized foreign exchange gain				7,890	7,890
Stock based compensation expense		67			67
Payment to unitholders			(1,872)		(1,872)
Net loss			(9,766)		(9,766)
<b>Balance at December 31, 2015</b>	96,880	\$41,917	\$ (53,266)	\$ 6,507	\$(4,842)
Fair Value of Warrants Issuance			\$ 500		500
Promissory Note Issuance			(5,500)		(5,500)
Unrealized foreign exchange loss				(906)	(906)
Stock based compensation expense		24			24
Distribution to Unitholders			(5,093)		(5,093)
Net loss			(43,402)		(43,402)
<b>Balance at December 31, 2016</b>	<b>96,880</b>	<b>\$41,941</b>	<b>\$(106,761)</b>	<b>\$ 5,601</b>	<b>\$(59,219)</b>

## Source Energy Services

### Combined Statements of Cash Flows

For the years ended December 31,

(Stated in thousands of Canadian dollars)

	Note	2016	2015	2014
<b>Cash Flows Provided by (Used in) Operating Activities</b>				
Net income (loss)		\$ (43,402)	\$ (9,766)	\$ 17,035
Adjusted for the following:				
provided by (used in) operating activities:				
Depreciation		14,412	12,807	7,672
Stock based compensation		24	67	185
Loss (Gain) on sale of assets		1,082	94	(3,110)
Loss (Gain) on impairment		1,852	–	–
Finance expense	17	19,491	12,346	8,838
Fair value adjustment on shareholder loan		–	3,906	–
Gain on settlement of deferred revenue		(3,328)	–	–
Deferred income taxes		(516)	398	379
Onerous lease costs		227	–	–
Loss (Gain) on derivative liability		910	–	–
Payments Deferred Revenue		–	(2,860)	(2,686)
Payments made to decommissioning liability		(3,220)	–	–
Net changes in non-cash working capital	5	3,015	6,632	(36,195)
Cash flows provided by operating activities		(9,453)	23,624	(7,882)
<b>Investing Activities</b>				
Purchase of property, plant and equipment		(6,405)	(38,901)	(45,390)
Proceeds on disposal of property, plant and equipment		841	224	5,692
Net changes in non-cash working capital		(4,906)	3,216	2,077
Cash flows used in investing activities		(10,470)	(35,461)	(37,621)
<b>Financing Activities</b>				
Proceeds on long-term debt		38,346	73,770	45,526
Payments on long-term debt		(106,607)	(59,759)	(12,161)
Proceeds on note		130,000	–	–
Payments on Deferred Revenue		(23,571)	–	–
Financing expense paid		(14,953)	(5,481)	(2,787)
Proceeds on shareholder loan		2,000	7,500	15,589
Payments made to preferred shareholders		–	(3,188)	–
Payments made to unitholders		(5,093)	(1,872)	–
Cash flows provided by financing activities		20,122	10,970	46,167
Effect of exchange rate changes on cash		–	64	(139)
Increase (Decrease) in cash		199	(803)	525
Cash and cash equivalents, beginning of year		(199)	604	79
<b>Cash and cash equivalents, end of year</b>		<b>\$ –</b>	<b>\$ (199)</b>	<b>\$ 604</b>
<b>Cash consists of the following:</b>				
Cash		–	276	3,202
Overdraft		–	(475)	(2,598)

## **SOURCE ENERGY SERVICES**

### **Notes to the Combined Financial Statements**

For the Years Ended December 31, 2016, 2015 and 2014

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

#### **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.W., Calgary Alberta, Canada, T2G 0Y4. Source is primarily engaged in mining, processing, storing and transporting frac sand in Western Canada and the United States, and 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 combined financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these combined financial statements are based on IFRS issued and outstanding as at February 10, 2017, the date of the final approval of the financial statements by the Board of Directors.

##### **Basis of measurement**

The financial statements have been combined on the basis of common control, as the users of the financial statements view the Partnership as a whole business, and viewing the business as less than the whole does not portray its results properly.

The combined financial statements of the Partnership include the accounts of all entities over which the Partnership has the ability to exercise control through ownership (“Subsidiaries”). The Partnership controls an entity when the Partnership is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The combined financial statements include the activities of Source Energy Services Canada LP, Source Energy Services Canada Holdings Ltd., Source Energy Services Canadian Logistics LP, Source Energy Services Canadian Chemical LP, Source Energy Services US LP, Source Energy Services Logistics US LP, Source Energy Services Proppants LP, Source Energy Services Chemical US LP, CSP Property Holdings LLC, and Berthold Transload Inc. Intercompany balances and transactions are eliminated on combination.

The combined financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities to estimated fair value. The combined financial statements have also been prepared on the basis that the Partnership will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

##### **Use of estimates and judgments**

The preparation of the combined 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.

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

### *Allowance for Doubtful Accounts*

The Partnership performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions.

### *Inventories*

The Partnership evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against obsolete or damaged inventories and charged to the cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred.

### *Depreciation*

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

### *Decommissioning liabilities*

The amounts recorded for decommissioning liabilities are based on the Company's mining activities and the estimated costs to abandon and reclaim the land and facilities, the estimated time period in which these costs will be incurred in the future and the discount and inflation rates. Any changes to these estimates could change the amount of decommissioning liability and may materially impact the combined financial statements in future periods.

### *Income Taxes*

The amounts recorded for deferred income taxes are based on estimates as to 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 judgement. Income tax filings are subject to audits, re-assessments and changes in facts, circumstances and interpretations of the standards could result in a material change in the Partnerships provision for income taxes. As such, income taxes are subject to measurement uncertainty.

### *Stock-Based Compensation*

The fair value of the restricted share units is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected unit life, estimated forfeitures, and estimated volatility of the Partnership.

### *Cash-Generating Units (CGUs)*

The determination of CGUs is based on management's judgment regarding geographical proximity, shared equipment, and mobility of equipment. Management has determined that the Partnership's operations represent one CGU.

### *Impairment of non-financial assets*

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

### *Embedded Derivatives*

An embedded derivative is a component of a contract that modifies the cash flows of the contract. The relevant transaction rights and the prepayment option included in the \$130M senior secured notes represents a hybrid contract. The embedded derivatives are separated from the note payable and accounted for as derivative liabilities. The embedded derivatives are measured at Fair value through profit or loss (FVTPL). The fair value of the derivatives is based on prices or valuation techniques that require inputs that are not based on observable market data.

### *Shareholder Loans*

Shareholder loans have been recorded at fair value, which represents the amount of the loan plus applicable interest. One of the promissory note bears interest at 25% per annum which is paid in a combination of cash and in kind interest. According to the agreement, the Partnership is obligated to pay the 25% interest for a minimum of 3 months after December 31, 2016. For the year ended December 31, 2016, the Partnership has recorded the interest obligation up to March 31, 2017.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Inventories**

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

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

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

### **Foreign currency translation**

The combined financial statements are presented in Canadian dollars, which is the Partnership's presentation currency. Each entity of the combined statements is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the entities that have a different functional currency are translated into Canadian dollars whereby assets and liabilities are translated at the rate of exchange at the balance sheet date, revenue and expenses are translated at average exchange rate for the period (as this is considered a reasonable approximation of actual rates), and gains and losses in translation are recognized in partners' equity as accumulated other comprehensive income (loss).

Foreign currency transactions in entities that have Canadian dollars as the functional currency are translated into the functional currency using the exchange rate prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency translation and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the Combined Statements of Operations and Comprehensive Income (Loss).

### **Property, plant and equipment**

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

Exchanges or swaps of property, plant and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated.

When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in the Combined Statements of Operations and Comprehensive Income.

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

Buildings	20
Equipment	7 — 15
Vehicles	5 — 7
Computer hardware and software	3 — 5

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

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

In 2015, the Partnership adopted IFRIC 20 “stripping costs in the production phase of a surface mine”. During the production phase of the mine, stripping costs incurred that provide access to a component of reserves that will be produced in future periods and that would not have otherwise been accessible are capitalized. The costs qualifying for capitalization are those costs directly incurred to perform the stripping activity that improves access to the resource body. The stripping activity asset is included as part of the carrying amount of the mining property. Capitalized stripping costs are amortized on a straight-line basis over the production period it relates to. Refer to note 7 for more details.

#### **Property, plant and equipment available for sale**

Property, plant and equipment assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Property, plant and equipment held for sale are measured at the lower of carrying amount and fair value less costs to dispose and presented as a current asset on the Combined Balance Sheet. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment available for sale is reviewed periodically by management and if the fair value less cost to dispose is less than the cost, an impairment loss is recognized in the Combined Statements of Operations and Comprehensive Income (Loss). A previously recognized impairment loss may be reversed to the extent of the improvement and the amount of the reversal is recognized in the Combined Statements of Operations and Comprehensive Income. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the Combined Statements of Operations and Comprehensive Income (Loss).

#### **Impairment of non-financial assets**

The carrying amounts of the Partnership’s non-financial assets, other than deferred tax assets, are reviewed for indicators of impairment at least annually. If indicators of impairment exist, the recoverable amount of the assets is estimated. For purposes of assessing impairment, property, plant and equipment and intangibles are grouped into cash-generating units (“CGUs”), defined as the lowest levels for which there are separately identifiable independent cash inflows.

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses are recognized in Combined Statements of Operations and Comprehensive Income (Loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### **Deferred revenue**

The Partnership has entered into agreements with some of its customers where deposits are paid by the customers in exchange for goods and services at a discounted rate. These deposits received have been recorded as deferred revenue on the Partnership's Combined Balance Sheet, and are recognized as revenue as goods and services are provided to the customers, consistent with the Partnership's revenue recognition policy.

### **Provision and contingent liabilities**

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

### **Decommissioning provision**

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

### **Income taxes**

Current and deferred income tax expenses are recognized in the Combined Statements of Operations and Comprehensive Income (Loss) except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

### **Leases**

Leases that transfer substantially all of the benefits and risks of ownership to the Partnership are accounted for at the commencement of the lease term as finance leases and are recorded as property, plant and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset or the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

### **Preferred shares obligation**

Partnership units that have no voting rights and bear a fixed mandatory return have been classified as liability on the Partnership's Combined Balance Sheet.

### **Restricted share units**

Restricted share units ("RSU") are granted to specific employees, which entitle the participant, at the Partnership's option, to receive either a partnership unit or cash equivalent in exchange for a vested unit. The vesting period for RSUs is one third per year over the three-year period from the grant date. Compensation expense related to the units granted is recognized over the vesting period based on fair value of the units, calculating using the Black Scholes option pricing model.

### **Revenue recognition**

The Partnership's revenue, which is comprised principally of sand sales and other services, is generally subject to contractual arrangements, which specify price and general terms and conditions. The Partnership recognizes sand sales when the risks and rewards of ownership of goods have been transferred to the customer and it is probable that the economic benefits associated with the transaction will flow to the Partnership. The Partnership also considers if it has retained any material involvement in the sand being sold and if the revenue and costs related to the sale can be measured reliably.

Revenue for third party sand and chemical distribution is recognized based on contractual arrangements or when services have been completed. Revenue for trucking is recognized when services are provided. Revenue for rental of tanks is recognized on a monthly basis.

### **Finance income and expenses**

Finance income, consisting of interest income, is recognized as it accrues in the Combined Statements of Operations and Comprehensive Income (Loss), using the effective interest method.

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

Borrowing costs are recognized in the Combined Statements of Operations and Comprehensive Income (Loss) in the period in which they are incurred using the effective interest method.

### **Segment Reporting**

An operating segment is a component of the Partnership that engages in business activities from which it may earn revenues and incur expenses. All operating results are reviewed regularly on a segmented basis by Partnership management to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. Segment results that are reported to management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## **Financial Instruments**

### ***(i) Classification and measurement Recognition***

#### *Recognition*

Financial assets and liabilities are generally initially recognized at fair value when the Partnership becomes a party to the contractual provisions of the instrument. However, where the fair value differs on initial recognition from the transaction price and the fair value is not measured using entirely observable inputs the instrument is recognized at the transaction price. In the case of instruments not measured at fair value through profit and loss, incremental, directly attributable transaction costs are accounted for as an adjustment to the carrying amount and in all other cases such transaction costs are expensed as incurred.

The Partnership evaluates contracts to purchase non-financial items which are subject to net settlement (whether explicitly or in substance) to determine if such contracts should be considered derivatives or if they were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ("Own Use"). If such contracts qualify as "Own Use" they are considered executory contracts outside the scope of financial instrument accounting.

The Partnership evaluates financial and non-financial contracts not measured at fair value through profit and loss to determine whether they contain embedded derivatives. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract — with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. For such instruments, an embedded derivative is separated where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Financial assets and liabilities are not offset unless they are with a counterparty for which the Partnership has a legally enforceable right to settle the financial instruments on a net basis and the Partnership intends to settle on a net basis.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Partnership discloses more details about fair value of financial instruments in Note 4.

#### *Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or it transfers the financial instrument in a manner that qualifies for derecognition through transfer of substantially all risks and rewards or transfer of control.

Financial liabilities are derecognized upon extinguishment. A modification of a financial liability with an existing lender is evaluated to determine whether the amendment results in substantially different terms in which case it is accounted for as an extinguishment.

#### *Classification*

The financial instruments of the Partnership are classified in the following categories: fair value through profit or loss (which includes financial assets and financial liabilities), loans and receivables, available-for-sale and other financial liabilities. The classification depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

Financial assets and financial liabilities acquired principally for the purpose of selling or repurchasing in the short term are classified as "fair value through profit or loss" and are recognized initially at fair value with changes in fair value recognized in the Combined Statements of Operations and Comprehensive Income (Loss). The shareholder loan payable is classified as fair value through the Combined Statements of Operations and Comprehensive Income (Loss).

Financial assets classified as "loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently carried at amortized cost using the effective interest method of amortization. The Partnership's loans and receivables are comprised of cash, accounts receivable, and due from (to) related parties.

Financial assets and liabilities classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Partnership has no available-for-sale financial assets.

Other financial liabilities include overdraft, accounts payable and accruals and long-term debt. Financial instruments in this category are initially recorded at fair value, net of any transaction costs incurred, and subsequently carried at amortized cost using the effective interest method.

**(ii) Equity instruments**

The Partnership’s common units are classified as equity. Incremental costs directly attributable to the issue of common units are recognized as a reduction from equity. Partnership units which have redemption rights and include fixed annual returns have been classified as long term liabilities.

**(iii) Impairment**

At each balance sheet date, the Partnership assesses whether there is objective evidence that financial assets, other than those designated as “fair value through the statement of income” are impaired. When impairment has occurred, the cumulative loss is recognized in the Combined Statements of Operations and Comprehensive Income (Loss). For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the Combined Statements of Operations and Comprehensive Income (Loss) in the period. Impairment losses may be reversed in subsequent periods.

**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, 2017 with earlier application permitted.

**(i) IFRS 9 Financial Instruments**

On January 1, 2018, the Corporation 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.

#### **4. FINANCIAL INSTRUMENT AND RISK MANAGEMENT**

##### **(a) Risk management overview**

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

##### **(b) Fair value of financial instruments**

The fair values of cash, accounts receivable, overdraft, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the 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 December 31, 2016, the fair value of the \$130,000 notes is \$137,800.

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.

December 31, 2016	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
<b>Financial liabilities at Fair value through profit and loss:</b>				
\$12,500 and \$7,500 promissory note	\$ 29,270	–	–	\$29,270
Derivative Liability	\$ 14,941	–	125	\$14,816
<b>Financial liabilities at amortized cost:</b>				
\$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	–

December 31, 2015	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
<b>Financial liabilities at Fair value through profit and loss:</b>				
Shareholder loan	\$ 26,841	–	–	\$26,841
<b>Financial liabilities at amortized cost:</b>				
Finance lease obligations — current	\$ 1,153	–	\$1,153	–
Finance lease obligations — long term	\$ 530	–	\$ 530	–

December 31, 2014	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
<b>Financial liabilities at Fair value through profit and loss:</b>				
Shareholder loan	\$ 13,486	–	–	\$13,486
<b>Financial liabilities at amortized cost:</b>				
Finance lease obligations — current	\$ 994	–	\$ 994	–
Finance lease obligations — long term	\$ 1,197	–	\$1,197	–

### (c) 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 service and are subject to normal industry credit risk.

The Partnership's revenues are generally derived from a group of large and reputable oilfield services and oilfield production customers. Orders for proppants are subject to the Partnership's credit and collection programs. The five largest customers account for 87% of total revenue in 2016 (78% in 2015, 63% in 2014), and two of those customers (four in 2015, four in 2014) account for more than 10% of total revenue individually.

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 cash and accounts receivable on the balance sheet shown net of an appropriate allowance for doubtful accounts.

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 December 31, 2016, 2015 and 2014, the Partnership's accounts receivable comprised the following:

As at	December 31, 2016	December 31, 2015	December 31, 2014
0 - 30 days	\$11,179	\$21,004	\$32,646
31 - 60 days	3,055	265	5,333
61 - 90 days	96	1,234	(420)
91+ days	304	(747)	3
Total Trade Receivables	\$14,634	\$21,756	\$37,562

The Partnership manages the credit exposure related to cash by using major Canadian chartered banks and monitors all short-term deposits to ensure an adequate rate of return. Given these institutions, management does not expect any counterparty to fail to meet its obligations.

For the year ended December 31, 2016, \$2,929 of bad debt expense was recorded (2015 –\$150, 2014 –\$176)

**(d) 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 overdraft, accounts payable and accrued liabilities, long-term debt and shareholder loans. The Partnership manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements. Formal monthly senior management meetings address levels of firm sales and monitor obligations and customer credit facilities.

The Partnership expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through the use of its asset backed loan facility and operating cash flows, as well as future debt and equity financings. If available liquidity is not sufficient to meet the Partnership’s obligations as they come due, expenditures will be reduced as necessary, and additional financing arrangements will be pursued. See Note 10 for ABL facility disclosure.

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

<b>Year ended December 31, 2016</b>	<b>Total</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 and thereafter</b>
Accounts payable and accruals	\$ 21,358	21,358	–	–	–
Capital loan and finance lease	\$ 1,633	1,109	524	–	–
Bank debt <sup>(a)(b)</sup>	\$ 13,410	578	12,832	–	–
Notes Payable <sup>(a)(b)</sup>	\$178,497	13,650	13,650	13,650	137,547
Shareholder loan <sup>(a)(b)</sup>	\$ 57,325	–	–	–	57,325
Due to related parties <sup>(b)</sup>	\$ 4,599	–	–	–	4,599
Preferred shares obligation <sup>(b)</sup>	\$ 70,513	–	–	–	70,513

(a) Includes interest for future periods.

(b) Although these items are long term, the Partnership may settle them within a year, either by cash or common stock.

<b>Year ended December 31, 2015</b>	<b>Total</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 and thereafter</b>
Accounts payable and accruals	\$25,395	25,395	–	–	–
Capital loan and finance lease <sup>(a)</sup>	\$ 2,253	1,329	359	553	12
Bank debt <sup>(a)</sup>	\$90,813	11,453	79,360	–	–
Shareholder loan	\$26,841	–	7,537	–	19,304
Due to related parties	\$ 4,363	–	–	–	4,363
Preferred shares obligation	\$66,032	–	–	–	66,032

(a) Includes interest for future periods.

**(e) 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 U.S. costs of manufacturing and transporting inventory for sale to the extent that the payment of those costs are U.S. dollar denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2016 are \$1,693 (2015 — \$17,611, 2014 — \$32,270) and \$8,380 (2015 — \$14,499, 2014 — \$16,351) denominated in foreign currency respectively. The net effect of each 1% change in foreign exchange would have an impact of \$179 for 2016 net income (2015 — \$189, 2014 — \$161). As at December 31, 2016, December 31, 2015 and December 31, 2014, 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. The Partnership is exposed to interest rate price risk its asset backed loan facility 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 December 31, 2016, December 31, 2015 or December 31, 2014.

For the year ended December 31, 2016, a 1% change to the effective interest rate would have an impact of approximately \$175 (2015 — \$669, 2014 — \$403) on net income and cash flow.

#### **(f) 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 officers are responsible for managing the Partnership’s capital and do so through monthly management meetings and quarterly board meetings including 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.

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. The budget results are regularly reviewed and updated as required.

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 December 31, 2016, the excess availability was greater than 20%. The Partnership is compliant with all covenants as of December 31, 2016.

The Partnerships capital management policy has not changed during the years ended December 31, 2016 2015, or 2014.

## **5. SUPPLEMENTAL CASH FLOW INFORMATION**

Changes in non-cash operating assets and liabilities for the years ended December 31, 2016 and 2015 are as follows:

	<b>2016</b>	2015	2014
Accounts receivable	<b>\$ 7,100</b>	\$16,207	\$(32,166)
Prepaid expenses and deposits	<b>(308)</b>	(169)	(1,949)
Inventory	<b>(5,551)</b>	(9,149)	(10,241)
Accounts payable and accrued liabilities	<b>1,774</b>	(257)	(8,161)
<b>Changes in non-cash working capital</b>	<b>\$ 3,015</b>	\$ 6,632	\$(36,195)

Included in change in inventory is \$1,297 for 2016 (2015 — \$1,544, 2014 — \$384) related to depreciation for sand producing equipment.

Changes in non-cash investing assets and liabilities for the years ended December 31, 2016, 2015 and are as follows:

	2016	2015	2014
Prepaid expenses and deposits	\$ 259	\$1,646	\$1,059
Accounts payable and accrued liabilities	(5,165)	1,570	\$1,018
Changes in non-cash working capital	<b>\$(4,906)</b>	\$3,216	\$2,077

## 6. INVENTORIES

Inventory consists of three main classifications:

As at,	December 31, 2016	December 31, 2015	December 31, 2014
Unprocessed sand and work in progress	<b>\$17,807</b>	\$10,910	\$ 2,396
Sand available for shipment	<b>8,423</b>	11,998	10,084
Spare parts and supplies	<b>1,480</b>	1,507	1,047
Total inventories	<b>\$27,710</b>	\$24,415	\$13,527

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 \$4,108 as of December 31, 2016 (2015 — \$1,362, 2014 — \$430). The total amount of inventory expensed through cost of sales during the year was \$98,143 (2015 — \$107,370, 2014 — \$80,830). An inventory write-down of \$439 was recorded for the year ended December 31, 2016 (2015 — \$0, 2014 — \$0).

## 7. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & vehicles	Other	Construction in Progress	Total
<b>Cost</b>					
Balance as at January 1, 2014	\$ 31,503	\$ 48,611	\$ 1,352	\$ 8,812	\$ 90,278
Assets acquired	18,542	3,754	1,666	24,162	48,124
Reclassification from held for sale	1,600	—	—	—	1,600
Disposals	(2,461)	(3,305)	—	—	(5,766)
CIP Completed	17,460	7,460	—	(24,920)	—
Exchange Differences	2,941	2,971	164	386	6,462
Balance as at December 31, 2014	69,585	59,491	3,182	8,440	140,698
Assets acquired	4,588	7,997	497	26,182	39,264
Reclassification from held for sale	15,231	—	—	—	15,231
Disposals	(3,787)	(354)	—	—	(4,141)
CIP Completed	12,163	7,910	887	(20,960)	—
Exchange Differences	10,473	8,240	483	2,062	21,258
Balance as at December 31, 2015	\$108,253	\$ 83,284	\$ 5,049	\$ 15,724	\$212,310
Assets acquired	9,473	180	223	2,340	12,216
Disposals	(2,235)	(1,641)	(17)	(9)	(3,902)
CIP Completed	661	464	1	(1,126)	—
Exchange Differences	(2,282)	(1,703)	(90)	(137)	(4,212)
Balance as at December 31, 2016	\$113,870	\$ 80,584	\$ 5,166	\$ 16,792	\$216,412
<b>Accumulated Depreciation</b>					
Balance as at January 1, 2014	\$ (2,902)	\$ (7,837)	\$ (566)	—	\$(11,305)
Depreciation	(3,666)	(3,663)	(812)	—	(8,141)
Disposals	1,182	1,652	—	—	2,834
Exchange Differences	(101)	(244)	(80)	—	(425)
Balance as at December 31, 2014	(5,487)	(10,092)	(1,458)	—	\$(17,037)
Moved from Held for Sale	(1,069)	—	—	—	(1,069)
Depreciation	(8,398)	(5,201)	(940)	—	(14,539)
Disposals	3,787	89	—	—	3,876
Exchange Differences	(724)	(1,043)	(308)	—	(2,075)
Balance as at December 31, 2015	\$(11,891)	\$(16,247)	\$(2,706)	—	\$(30,844)

	Land & Building	Equipment & vehicles	Other	Construction in Progress	Total
Moved from Held for Sale					
Depreciation	(6,037)	(6,095)	(927)	–	(13,059)
Disposals	183	377	10	–	570
Exchange Differences	147	201	63	–	411
Balance as at December 31, 2016	\$(17,598)	\$(21,764)	\$(3,560)	–	\$(42,922)
<b>Carrying Amounts</b>					
At December 31, 2014	64,098	49,399	1,724	8,440	123,661
At December 31, 2015	96,362	67,037	2,343	15,724	181,466
At December 31, 2016	96,272	58,820	1,606	16,792	173,490

The Partnership incurred stripping costs of \$3,541 in 2016 (December 31, 2015 — \$3,230, December 31, 2014 — \$1,755). \$445 of it remains unamortized in Property, plant and equipment as of December 31, 2016 (December 31, 2015 — \$160, December 31, 2014 — \$640). Previously these amounts would have been included in Prepaids. The amount of \$3,110 has been included in Cost of sales — depreciation for 2016 (December 31, 2015 — \$2,867, December 31, 2014 — \$896). Previously these expenses would have been included in Cost of sales. Unamortized stripping costs of \$1,624 in 2016 (December 21, 2015 — \$1,540, December 31, 2014 — \$262) remain in inventory.

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

For the year ended December 31, 2016 the partnership recorded impairment of property plant and equipment of \$1,414 (December 31, 2015 — \$0, December 31, 2015 \$0. Current year impairment of assets was based on specific identifiable assets.

Property, plant and equipment are tested annually for impairment in accordance with the accounting policy stated in Note 2. The Partnership recognized that there were indicators for impairment in the industry and performed impairment assessment using a value in use method. The partnership is considered to be one CGU for impairment purposes. Under valuation model, five years of cash flows were utilized using management's best estimates and a discount rate of 12%. No terminal value was factored into the calculation. Based on this assessment, the Partnership has determined that no impairment has occurred as of December 31, 2016.

## 8. 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 December 31, 2016, December 31, 2015 and December 31, 2014.

	December 31, 2016	December 31, 2015	December 31, 2014
Earnings Before Income Taxes	\$ 332	(\$1,175)	\$3,078
Statutory Income Tax Rate	27.00%	26.00%	25.00%
Expected Income Taxes	90	(306)	770
Increase (Decrease) in taxes from:			
Finance Fees	(799)	–	–
Non-Deductible Expense	16	1	14
Rate Changes	–	(21)	–
Unrealized F/X	176	695	(368)
Other	1	30	(36)
<b>Total Income Tax Expense (Recovery)</b>	<b>(\$ 516)</b>	<b>\$ 399</b>	<b>\$ 380</b>
Deferred income tax expense	(\$ 516)	\$ 399	\$ 380
Current income tax expense	–	–	–
<b>Total Income Tax Expense</b>	<b>(\$ 516)</b>	<b>\$ 399</b>	<b>\$ 380</b>

(a) Significant components of the deferred income tax assets at December 31, 2016, December 31, 2015 and December 31, 2014 are as follows.

	December 31, 2016	December 31, 2015	December 31, 2014
Difference between tax and reported amounts for depreciable assets	(\$ 75)	(\$ 98)	(\$264)
Tax loss carryforwards recognized	7	124	667
Finance Fees	663	52	74
Other	2	3	2
<b>Deferred Income Taxes</b>	<b>\$ 597</b>	<b>\$ 81</b>	<b>\$ 479</b>

(b) The Partnership has available the following non-capital loss carry forwards as of December 31, 2016 (December 31, 2015 –\$460, December 31, 2014 –\$2,667:

Year of Expiry	Amount
2032	\$24

At December 31, 2016 the Company had tax pools of approximately \$3,307 (December 31, 2015 –\$1,081, December 31, 2014 \$1,128)

## 9. DEFERRED REVENUE

The Partnership has entered into storage subscription agreements with select 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 September 2011, the Partnership entered into a sale agreement with one of its major customers where the Partnership received \$20,000US as a prepayment for future purchases of processed frac sand. The prepayment clause was such that the customer made three installments upon completion of certain phases of the Partnership’s frac sand plant located in Wisconsin. These pre-payments accrued interest at 5%. In consideration of the prepayment amounts, the cash price per ton to the customer was reduced for each ton of sand sold in the US or Canada. The prepayment amount was also reduced by 50% of the customer’s billings for storage and transloading services provided in North America. The agreement was secured by a first charge mortgage on land the Partnership uses to mine and process frac sand. The Partnership commenced sales under the contract in 2014. These amounts were recognized as deferred revenue on the Combined Balance Sheets. On December 8, 2016, the Partnership settled the above sales agreement for \$16,500US. The total of this customer’s advances and interest accrued at the time of settlement was \$18,985US (December 31, 2015 — \$18,208US, December 31, 2014 –\$19,687US). The Partnership recorded a gain of \$2,485US on the settlement of this contract.

In 2015, one customer failed to meet their minimum sand purchase requirement outlined in their sale agreement. As a result, the Partnership deferred \$922 of revenue relating to this penalty in 2015, and this amount was deemed collectible at that time. Subsequently, this amount was deemed uncollectible in 2016 due to bankruptcy of that customer and was written off.

Due to the 2017 expiry dates of the remaining contracts, 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 as follows

As at	December 31, 2016	December 31, 2015	December 31, 2014
Current	<b>\$1,792</b>	\$ 5,245	\$ 7,552
Long-term:			
2016	–	–	7,524
2017	–	3,512	7,524
2018	–	2,930	2,005
2019	–	2,930	–
2020	–	2,930	–
2021 and later	–	10,550	–
		22,852	17,053
<b>Total</b>	<b>\$1,792</b>	<b>\$28,097</b>	<b>\$24,605</b>

## 10. LONG TERM DEBT

As at	December 31, 2016	December 31, 2015	December 31, 2014
Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	\$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.	\$ 12,291	–	–
Bank facility that was drawn in 2015 and 2014. Consists of three facilities with varying repayment terms. Interest is based on a floating rate is paid monthly on outstanding balances.	–	81,407	61,114
Finance Lease obligations related to equipment, bearing interest at rates ranging from 4.25% to 12% per annum, with final payments due between January 2017 and August 2018	\$ 1,633	1,683	2,192
Other long term debt	\$ 256	–	–
Capital loans payable in monthly instalments of \$43 including interest at 6.5% to 6.9%, final instalments due between June 2015 and December 2015. Collateral provided by equipment with a net book value of \$0 as of December 31, 2016	\$ –	\$ 24	\$ 491
	<b>\$124,351</b>	\$83,114	\$ 63,797
Less: current portion term portion	<b>(1,109)</b>	(8,164)	(11,624)
	<b>\$123,242</b>	\$74,950	\$ 52,173

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 — 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 \$14,817 for the rights and \$125 for the prepayment option as at December 31, 2016. 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 loss on the relevant rights of \$862 and \$48 on the prepayment option as of December 31, 2016 (2015 –\$0, 2014 –\$0).

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 December 31, 2016 \$12,995 was drawn under this facility, and \$26,032 was available. The borrowing base is updated by the bank monthly. Letters of credits were 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 December 31, 2016, the excess availability was greater than 20%.

At December 31, 2015, 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. The amount available under the general operating facility was subject to a

borrowing base formula applied to accounts receivable and inventories. At December 31, 2015, \$24,210 (\$17,008 at December 31, 2014) was drawn under this facility. The borrowing base was updated by the bank monthly. This facility was extinguished on December 8, 2016.

Source has deferred \$727 in financing costs for the ABL facility and \$5,915 for the Notes, with \$23 and \$117 of these costs amortized as at December 31, 2016. Financing costs of \$1,234 relating to the old facility have been expensed for the year ended December 31, 2016.

Interest on the above debt amounted to \$6,833 for 2016 (2015 — \$4,005, 2014 — \$1,960) for the year. Effective interest rate for 2016 is 7.05% (2015 — 5.5%, 2014 — 4.3%).

## 11. DECOMMISSIONING PROVISION

	December 31, 2016	December 31, 2015	December 31, 2014
<b>Balance, Beginning of year</b>	<b>\$ 1,639</b>	\$ 422	\$316
Liabilities incurred	<b>1,144</b>	1,148	56
Liabilities settled	<b>(3,220)</b>		
Accretion	<b>56</b>	15	7
Changes in estimate	<b>4,756</b>		
Changes in discount and inflation rates	<b>(26)</b>	(27)	14
Changes in F/X Rate	<b>(49)</b>	81	29
<b>Balance, end of year</b>	<b>\$ 4,300</b>	\$1,639	\$422

The Partnerships decommission 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 provisions is \$4,765 at December 31, 2016 (December 31, 2015 — \$1,814, December 31, 2014 — \$488), which has been discounted using risk-free rate of 1.50% at December 31, 2016 (December 31, 2015 — 1.39%, December 31, 2014 — 1.79%). These obligations are to be settled based on the economic lives of the underlying assets, which is currently estimated to be between 8 and 20 years.

## 12. PREFERRED SHARES OBLIGATION

As at	December 31, 2016	December 31, 2015	December 31, 2014 (Restated)
Preferred shares obligation	<b>\$66,032</b>	\$60,807	\$60,807
Payments	-	(3,159)	-
Accrued preferred distribution	<b>4,481</b>	8,384	4,380
	<b>\$70,513</b>	\$66,032	\$65,187

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 specific terms of repayment.

### 13. PARTNER'S EQUITY

#### a) Partners' Capital in 000's

The Partnership has six classes of units. The table below shows the combined units of Canada and US LP, as the Partnership agreements mirror each other.

##### 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.

	December 31, 2016		December 31, 2015		December 31, 2014	
	# of Units	\$	# of Units	\$	# of Units	\$
Class A	70,968	41,535	70,968	41,535	70,968	41,535
Class D US	12,946	–	12,946	–	12,946	–
Total voting units	83,914	41,535	83,914	41,535	83,914	41,535
Class C	12,956	130	12,956	130	12,956	130
Class E	10	–	10	–	10	–
Total non-voting units	12,966	130	12,966	130	12,966	130
Total voting and non-voting units	96,880	41,665	96,880	41,665	96,880	41,665
Class B preferred units	60,807	–	60,807	–	60,807	–
<b>Total units</b>	<b>157,687</b>	<b>41,665</b>	<b>157,687</b>	<b>41,665</b>	<b>157,687</b>	<b>41,665</b>
Cumulative Stock Based Compensation	400	276	400	252	400	185
	<b>158,087</b>	<b>41,941</b>	<b>158,087</b>	<b>41,917</b>	<b>158,087</b>	<b>41,850</b>

#### b) Warrants in \$ and units

As at (in 000's)	December 31, 2016		December 31, 2015 & 2014	
	# of Units	\$	# of Units	\$
Warrants	20	500	–	–
	<b>20</b>	<b>500</b>	<b>–</b>	<b>–</b>

During 2016 the Partnership in conjunction with the issuance of a \$2,000 promissory note and the receipt of \$2,000, 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 have been 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 December 31, 2016 none of the warrants had been exercised. The shares issued under these warrants are non-participating voting warrants which earn a return of up to 225% of their originally issued value.

### 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. Stock based compensation of \$24 was expensed as for the year ended December 31, 2016 (December 31, 2015 — \$67, December 31, 2014 — \$185) and was included in the operating and general & administration expense on the Partnership's Combined Statement of Operations and Comprehensive Income. There have been no new restricted share units issued during 2016.

### 14. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Partnership presents its expenses on the Combined Statements of Operations and Comprehensive Income (Loss) using the function of expense method whereby expenses are classified according to 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:

Year ended December 31, 2016	Operating and General & Administrative Costs		Total
	Cost of Sales	Administrative Costs	
Direct Materials	\$ 74,138	\$ -	\$ 74,138
People costs	12,451	8,446	20,897
Equipment costs	6,720	5,229	11,949
Transportation costs	24,695	-	24,695
Facility costs	5,253	3,064	8,317
Selling costs	-	3,521	3,521
Administration costs	-	3,606	3,606
<b>Total</b>	<b>\$123,257</b>	<b>23,866</b>	<b>147,123</b>

Year ended December 31, 2015	Operating and General & Administrative Costs		Total
	Cost of Sales	Administrative Costs	
Direct Material	\$ 78,157	\$ -	\$ 78,157
People costs	13,094	9,389	22,483
Equipment costs	10,912	3,278	14,190
Transportation costs	9,633	-	9,633
Facility costs	4,568	2,703	7,271
Selling costs	-	(20)	(20)
Administration costs	-	2,833	2,833
<b>Total</b>	<b>\$116,364</b>	<b>\$18,183</b>	<b>\$134,547</b>

Year ended December 31, 2014	Operating and General & Administrative Costs		Total
	Cost of Sales	Administrative Costs	
Direct Material	61,496	-	61,496
People costs	11,232	10,869	22,101
Equipment costs	5,054	3,186	8,240
Transportation costs	13,833	-	13,833
Facility costs	3,889	2,531	6,420
Selling costs	-	(1,011)	(1,011)
Administration costs	-	3,338	3,338
<b>Total</b>	<b>95,504</b>	<b>18,913</b>	<b>114,417</b>

## 15. COMMITMENTS AND CONTINGENCIES

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

2017	10,225
2018	7,348
2019	5,631
2020	5,011
2021	4,994
Subsequent Years	9,124
	<hr/>
	\$42,333

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.

In 2016, the Partnership was named as a defendant in a lawsuit regarding underpayment of a contract. The lawsuit alleges that the Plaintiff fulfilled all terms of the agreement with the Partnership and that there are amounts owing to the Plaintiff under the contract. The maximum aggregate settlement under the claim is estimated to be approximately \$617 US as at December 31, 2016. A provision of \$617 US has been recorded in these combined financial statements.

## 16. RELATED PARTY TRANSACTIONS

As at	December 31, 2016	December 31, 2015	December 31, 2014
<b>Amounts due from</b>			
Shareholder receivable	\$ -	\$ 98	\$ 82
Due from GP	32	47	27
	<hr/>		
	\$ 32	\$ 145	\$ 109
<b>Amounts due to related</b>			
Due to Sand Royalty LP	\$ 4,599	\$ 4,363	3,356
	<hr/>		
	\$ 4,599	\$ 4,363	\$ 3,356
<b>Shareholder loan</b>	<hr/>		
	\$36,770	\$26,841	\$13,486

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. According to the agreement, the Partnership is obligated to pay the 25% interest for a minimum of 3 months after December 31, 2016. Therefore, for the year ended December 31, 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.

During 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. The promissory note would be issued for an amount equal to the amount that the guarantee was less than \$5,500 prior to February 28, 2017, for reasons other than the call of the guarantee by the syndicated banking group. The agreements governing such guarantees stipulated that if the syndicated bank facility was repaid, promissory notes for the full amount of the guarantee would be issued and the related warrants would be cancelled. The promissory notes come due if there was a change of control. The syndicated bank facility was repaid and the related warrants were cancelled. The \$5,500 promissory note was issued.

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 December 1, 2022. No payments have been made.

Interest expense includes \$2,428 (2015 — \$2,753, 2014 — \$1,736) relating to long term debt held by common unitholders of the Partnership. Of the 2016 interest expense, \$2,428 (2015 — \$2,367, 2014 \$986) is unpaid and is subject to the Partnership's standard payment policies.

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

	2016	2015	2014
Short term employment benefits	\$1,099	\$1,081	\$ 991
Management Fees owing to common unitholders that are not executive officers	1,043	1,683	1,456
<b>Total</b>	<b>\$2,142</b>	<b>\$2,764</b>	<b>\$2,447</b>

## 17. FINANCE EXPENSE

	2016	2015	2014 <sup>(1)</sup>
Finance expense	\$ 3,094	\$ 252	\$ 128
Interest expense	16,202	12,079	8,838
Reorganization expense	—	—	26
Accretion	195	15	6
<b>Total</b>	<b>\$19,491</b>	<b>\$12,346</b>	<b>\$8,998</b>

(1) Certain prior year amounts have been reclassified to conform to current year presentation.

## 18. 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. For major customer information, refer to Note 4(c).

The Corporate Segment does not represent an operating segment and is included for informational purposes only. Corporate segment administrative expenses consist of salary and office expenses and other general costs related to corporate employees.

Year ended December 31, 2016	Canadian Operations	United States Operations	Corporate	Total
Sales	136,909	2,290	—	139,199
Gross Margin	12,773	(4,870)	—	7,903
Total Assets	71,688	146,329	1,389	219,406

  

Year ended December 31, 2015	Canadian Operations	United States Operations	Corporate	Total
Sales	144,447	8,688	—	153,135
Gross Margin	32,382	(2,744)	—	29,638
Total Assets	83,719	146,442	951	231,112

  

Year ended December 31, 2014	Canadian Operations	United States Operations	Corporate	Total
Sales	113,096	33,410	—	146,506
Gross Margin	35,755	10,636	—	46,391
Total Assets	84,402	109,733	653	194,788

## 19. SUBSEQUENT EVENTS

On February 9, 2017, the Partnership entered into a purchase and sale agreement with Sand Products Wisconsin, LLC. The transaction involves the purchase of the mineral rights to sand reserves at multiple sites, a sand mine and associated rail facilities, property, plant and equipment, and prepaid royalties. The purchase price is \$45,000 US. Closing of the transaction is subject to Source Energy Services Ltd. completing an initial public offering for stock to be traded on the Toronto Stock Exchange, and various other conditions. The transaction is expected to close within 5 business days of the initial public offering.