MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

www.sourceenergyservices.com
500, 438 – 11 Ave SE, Calgary, AB Canada T2G 0Y4 |Telephone 403-262-1312

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") dated October 31, 2018 of the operating and financial results of Source Energy Services Ltd. ("Source" or, the "Company") as at and for the three and nine months ended September 30, 2018 compared with the corresponding periods in the prior year. The MD&A is provided to assist readers in understanding the Company's financial performance and position during the periods presented and significant trends that may impact the future performance of Source.

This discussion should be read in conjunction with each of Source's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 and audited consolidated financial statements for the year ended December 31, 2017, together with the accompanying notes (the "Financial Statements"). The Financial Statements and other information relating to Source, including the Annual Information Form ("AIF"), are available under the Company's SEDAR profile at www.sedar.com. The Financial Statements and interim statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, all amounts are expressed in Canadian dollars.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. "EBITDA" and "Adjusted EBITDA" are used by management as a representation of earnings generated to fund capital investments and meet financial obligations and "Adjusted Gross Margin" is used by management as a comparable margin with peers. See "Non-IFRS Measures" for further information regarding the following non-IFRS measures used in this MD&A: "EBITDA", "Adjusted EBITDA" and "Adjusted Gross Margin". These non-IFRS measures are reconciled to IFRS measures on page 15 in the "Non-IFRS Measures" section in this MD&A.

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

About Source

Source is a fully integrated producer, supplier and distributer of high quality Northern White frac sand. Source provides its customers with a full end-to-end solution supported by its Wisconsin mines and processing facilities, its unit train capable rail assets, its Western Canadian terminal network and its "last mile" logistics capabilities. In addition to its industry leading frac sand transload terminal network and in-basin frac sand storage capabilities, Source also provides storage and logistics services for other bulk oil and gas well completion materials that aren't produced by Source.

Source's full-service approach allows customers to rely on its logistics capabilities to increase reliability of supply and to ensure the timely delivery of their growing requirements for frac sand and other bulk completion materials.

Third Quarter 2018 Highlights

Source achieved the following results in the third quarter of 2018:

- Sand sales volumes of 730,915 MT, up 43% compared to the same period in 2017;
- Net Loss of $1.0 million or $(0.02) per share;
- Gross Margin of $16.7 million and Adjusted Gross Margin(1) of $23.9 million;
- Adjusted EBITDA(1) of $16.9 million;
- Adjusted Gross Margin(1) per MT of $32.64 which includes a mine gate sales impact of $2.30 per MT;
- Delivered 94% of sand sales volumes into the Western Canadian Sedimentary Basin (the "WCSB");
- Entered into a three-year agreement with Shell Canada Energy to provide Northern White proppant for Shell's Duvernay wells;
- Entered into a three-year agreement with Strath Resources Ltd. to provide Northern White proppant for Strath's Montney wells; and
- Deployed a fifth Sahara unit in August 2018.

Notes:

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

Results Overview

($000's, except MT and per unit amounts)	Three months ended September 30 **2018**	2017	Nine months ended September 30 **2018**	2017
Sand Volumes (MT)(1)	**730,915**	510,446	**2,187,683**	1,344,743
Sand Revenue	**99,804**	62,232	**296,970**	164,417
Wellsite Solutions	**21,937**	17,439	**59,965**	44,603
Terminal Services	**1,633**	1,547	**4,028**	5,289
Sales	**123,374**	81,218	**360,963**	214,309
Cost of Sales	**99,518**	59,779	**278,629**	168,354
Cost of Sales – Depreciation and Depletion	**7,189**	2,582	**16,899**	7,950
Cost of Sales	**106,707**	62,361	**295,528**	176,304
Gross Margin	**16,667**	18,857	**65,435**	38,005
Operating and General and Administrative Expenses	**7,219**	6,680	**22,868**	16,282
Depreciation	**3,356**	1,671	**8,927**	4,479
Income from operations	**6,092**	10,506	**33,640**	17,244
Other expense(income):				
Loss (gain) on asset disposal	**2,598**	—	**4,986**	(3)
Finance expense	**5,320**	3,879	**15,127**	22,767
Loss (gain) on derivative liability	**(460)**	1,267	**(1,871)**	(2,897)
Share based compensation expense	**567**	984	**2,775**	4,854
Other income	**(142)**	(158)	**(390)**	(1,122)
Management fees	**—**	—	**—**	417
Foreign exchange loss (gain)(2)	**(134)**	583	**(464)**	1,107
Total other expense	**7,749**	6,555	**20,163**	25,123
Income (loss) before income taxes	**(1,657)**	3,951	**13,477**	(7,879)
Current income tax expense (recovery)	**—**	3,578	**—**	5,268
Deferred income tax expense (recovery)	**(687)**	(2,636)	**1,535**	(5,315)
Net Income (Loss)	**(970)**	3,009	**11,942**	(7,832)
Net Income (Loss) per share ($/share)	**(0.02)**	0.08	**0.19**	(0.18)
Diluted Net Income (Loss) per share ($/share)	**(0.02)**	0.06	**0.18**	(0.18)
Adjusted EBITDA(3)	**16,913**	14,334	**62,204**	30,537
Sand Revenue Sales/MT	**136.55**	121.92	**135.75**	122.27

	September 30, 2018	December 31, 2017
Total Assets	**525,176**	467,957
Total non-current financial liabilities	**163,855**	112,361

Notes:

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

(2) The average Canadian to US dollar exchange rate for the three and nine months ended September 30, 2018 was $0.7651 and $0.7766, respectively, (2017 - $0.7982 and $0.7652, respectively).

(3) Adjusted EBITDA is not defined under IFRS. See "Non-IFRS Measures" below.

For the third quarter of 2018, Adjusted EBITDA was $16.9 million, which was $2.6 million higher than the $14.3 million of Adjusted EBITDA generated in the same period in 2017. The Net Loss for the third quarter of 2018 was $1.0 million, which was $4.0 million lower than the $3.0 million of Net Income earned in the same period in 2017.

Sand volumes in the third quarter of 2018 increased by 220,469 MT, or 43%, compared to the volume of sand sold in the third quarter of 2017. Source's sand revenue increased in the third quarter of 2018 by $37.6 million, or 60%, compared to the third quarter of 2017. This increase in revenue was attributable to the increase in sand sales volumes as well as a 12% increase ($14.63 per MT) in average realized sand price. In the third quarter of 2018, Source's sand revenue decreased by $10.5 million, or 10%, when compared to the second quarter of 2018, primarily due to a 10% decrease in sand volumes (83,080 MT), partially offset by an increase ($1.07 per MT) in the average sales price. The increase in the average price and decrease in sales volumes were primarily due to the decrease in the quantity of mine gate sales in the third quarter of 2018. Sales volumes were also negatively impacted by lower than anticipated activity levels in the WCSB in the third quarter of 2018.

During the third quarter of 2018, revenue from wellsite solutions increased by $4.5 million, compared with the third quarter of 2017 primarily due to increased trucking activity associated with the increased sand sales volumes. Wellsite solutions revenue also increased by $1.2 million in the third quarter of 2018, compared with the second quarter of 2018, primarily due to the deployment of the fourth Sahara unit in April 2018 and the fifth Sahara unit in August 2018 while trucking revenue was virtually unchanged despite the decrease in sand sales volumes.

In the third quarter of 2018, Gross Margin decreased by $2.2 million and Adjusted Gross Margin increased by $2.4 million, when compared to the third quarter of 2017. However, during the same period, Gross Margin per MT decreased by $14.14 per MT and Adjusted Gross Margin per MT decreased by $9.36 per MT, primarily due to increased production costs per MT associated with targeted production of sales of specific mesh sizes needed to meet required product sales mix during the quarter. In the third quarter of 2018, sand sales volumes of 40/70 mesh sand increased 4%, or over 148,000 MT, as compared to the third quarter of 2017, which led to higher production costs. Adjusted Gross Margin was $32.64 per MT in the third quarter of 2018 including a $2.30 per MT impact from mine gate sales.

In the nine months ended September 30, 2018 Gross Margin and Adjusted Gross Margin increased by $27.4 million and $36.4 million, or $1.65 per MT and $3.47 per MT, respectively, when compared to the nine months ended September 30, 2017 primarily due to a 63% increase in sand volumes and a $13.48 per MT increase in average realized sand prices which more than offset increased production costs. Adjusted Gross Margin was $37.64 per MT for nine months ended September 30, 2018 which includes a $2.07 per MT impact from mine gate sales and a $0.87 per MT impact from the purchase of inventory in the Preferred Acquisition that was acquired at fair value. Adjusted Gross Margin decreased in the third quarter of 2018 from the second quarter of 2018 by $8.2 million, primarily due to the impact of fixed rail car lease costs and increased costs of production combined with a 10% decrease in sand volumes sold.

	Three months ended September 30		**Nine months ended September 30**	
($000's, except MT and per unit amounts)	**2018**	2017	**2018**	2017
Gross Margin	**$16,667**	$18,857	**$65,435**	$38,005
Cost of Sales – depreciation and depletion	**7,189**	2,582	**16,899**	7,950
Adjusted Gross Margin(1)	**23,856**	21,439	**82,334**	45,955
Gross Margin/MT	**$22.80**	$36.94	**$29.91**	$28.26
Adjusted Gross Margin/MT(1)	**$32.64**	$42.00	**$37.64**	$34.17
Percentage of Mine Gate Sand Volumes	**6%**	10%	**9%**	8%
Percentage of Sand Volumes Sold in the WCSB	**94%**	90%	**91%**	92%
Sales Mix Impact of Mine Gate Sales/MT	**$2.30**	$0.53	**$2.07**	$1.36
Impact of Preferred Acquisition Inventory Acquired at Fair Value/MT	$—	$—	**$0.87**	$—

Notes:

(1) Adjusted Gross Margin (including on a per MT basis) is not defined under IFRS, see "Non-IFRS Measures" below.

Business Outlook

While commodity prices remain favorable, WCSB exploration and production ("E&P") companies have been impacted by very wide differentials and an unpredictable operating environment. These factors have led to a significant slowdown in completion activity in the fourth quarter of 2018.

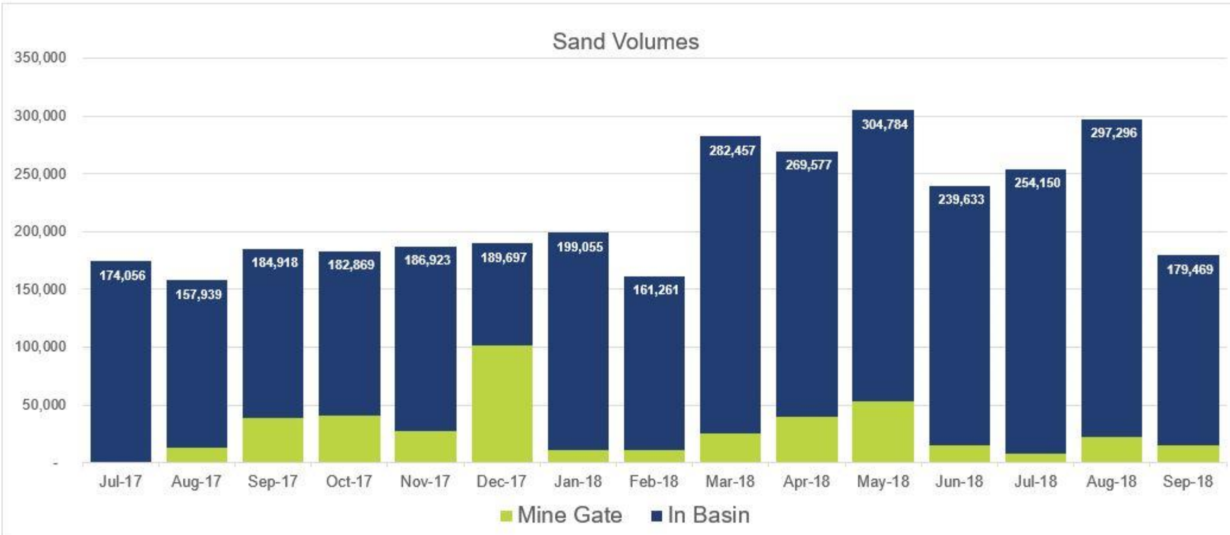
Source also expects that E&P companies will conservatively manage their remaining 2018 capital spending programs given these conditions. This has led Source to lower its fourth quarter sales volume expectations.

For 2019, Source has confidence that its 2019 sales volumes should improve from those seen in 2018 due to the addition of Montney and Duvernay customer contracts, as previously announced, that help provide a broader customer base and more balanced sales portfolio, refreshed capital budgets from E&P companies and continued positive economics for Montney and Duvernay production.

Review of Operations

Sales

Total sales for the three months ended September 30, 2018 increased by $42.2 million, or 52%, to $123.4 million, compared with $81.2 million generated in the three months ended September 30, 2017. The increase was primarily driven by a 43% increase in sand volumes and a $14.63 per MT average realized sand price increase combined with increased wellsite solutions sales associated with the higher sand volumes. Total sales for the nine months ended September 30, 2018 increased by $146.7 million, or 68%, to $361.0 million, compared with $214.3 million generated in the nine months ended September 30, 2017. The increase was primarily driven by a 63% increase in sand volumes and a $13.48 per MT average realized sand price increase combined with increased wellsite solutions sales associated with the higher sand volumes. Total sales for the third quarter of 2018 were $123.4 million, which were 7% lower than the second quarter of 2018, primarily due to a 10% decrease in sand volumes as a result of decreased mine gate sales and some slowdown in WCSB activity levels near the end of the third quarter of 2018.



Sand revenue is predominately made up of sand sales into the WCSB at a Source terminal or customer wellsite ("In Basin") and represents Source's core business and the utilization of the fully integrated logistics business model. Sand revenue also includes mine gate sand sales, which include the sale of products that are in lower demand in the WCSB, and are sold at the mine sites in the US, and are undertaken to maximize production efficiencies and sand volumes but are not considered Source's core business. Wellsite solutions revenue is comprised of revenue from the "last mile" logistics, (i.e., from a Source terminal to the wellsite), and wellsite service offerings including Sahara units. Source believes these services benefit its customers as the services help the customers manage their overall trucking costs and sand supply reliability, which in turn drives operational efficiencies. Source also provides terminal services for certain well-completion products that aren't produced by Source. These products primarily consist of hydrochloric acid and resin coated proppants. Terminal services revenue generally follows completion activity trends in the WCSB.

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Source's sand revenue for the three months ended September 30, 2018 increased by $37.6 million, or 60%, compared to the three months ended September 30, 2017, primarily due to a 43% increase in sand volumes (220,469 MT) combined with a 12% increase, or $14.63 per MT, in average realized sand price. Sand volumes increased as a result of an increase in well completion activity and sand intensity levels, particularly by customers in the liquids rich portion of the Montney and Duvernay regions. The trend of increasing sand intensity levels in completion programs in western Canada in 2018, combined with higher commodity prices in 2018, were key contributors to the increased sand sales volumes. The average realized sand price increase was primarily due to increased demand driven by higher commodity prices, contractual price increases, rail rate flow through increases and the impact of a weakening of the Canadian dollar. During the third quarter of 2018, approximately 87% of sand revenue was denominated in US dollars, which increased the average realized sand price by approximately $5.52 per MT due to the Canadian dollar weakening by 4.3%, when compared to the third quarter of 2017. Mine gate sales of products in lower demand in the WCSB at lower average prices accounted for 6% of sand volumes in the third quarter of 2018, compared with 10% of sand volumes in the third quarter of 2017, a decrease of 6,760 MT of mine gate sales, which increased the average realized sand price by approximately $0.41 per MT as compared with the third quarter of 2017.

Wellsite solutions revenue increased by $4.5 million in the third quarter of 2018, compared with the third quarter of 2017, due to a 50% increase in trucking revenue partially offset by a 28% decrease in Sahara related revenue. The increased trucking revenue was primarily due to the 43% increase in sand volumes with 94% of sand volumes going to the terminal or wellsite in the WCSB. Despite the addition of a fifth Sahara unit to the fleet in August 2018 and a Sahara utilization of 71% in the third quarter of 2018, compared with 87% utilization in the third quarter of 2017, Sahara related revenues were down due to decreased ancillary logistics flow through revenues for services such as conveyor rentals. Terminal services revenue increased by $0.1 million, or 6%, in the third quarter of 2018, compared with the third quarter of 2017, due to a 38% increase in hydrochloric acid transloading revenue partially offset by a 13% decrease in revenue from transloading services for resin coated proppant.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Source's sand revenue for the nine months ended September 30, 2018 increased by $132.6 million, or 81%, compared to the nine months ended September 30, 2017, due to a 63% increase in sand volumes of 842,940 MT, combined with an 11.0% increase, or $13.48 per MT in average realized sand price. Sand volumes increased as a result of a significant increase in well completion activity and sand intensity levels, particularly by customers in the Montney and Duvernay regions of the WCSB. Average realized sand price increase was primarily due to increased demand driven by higher commodity prices, and the absence of price concessions given in the first half of 2017. These items were partially offset by the impact of increased volume of mine gate sales and a strengthening of the Canadian dollar. Mine gate sales, which are undertaken to maximize production efficiencies, accounted for 9% of sand volumes in the first nine months of 2018 compared with 8% of sand volumes in the first nine months of 2017. The sales mix price impact of the 93,300 MT increase in mine gate sales volumes decreased the average realized sand price by approximately $2.90 per MT in the first nine months of 2018 compared to the first nine months of 2017. During the first nine months of 2018 approximately 77% of sand revenue was denominated in US dollars, which reduced the average realized sand price by approximately $1.99 per MT due to the Canadian dollar strengthening by 1.5%, when compared to the first nine months of 2017.

Wellsite solutions revenue increased by $15.4 million in the nine months ended September 30, 2018, compared with the nine months ended September 30, 2017, due to a 47% increase in trucking revenue partially offset by a 7% decrease in Sahara related revenue. The increased trucking revenue was primarily due to the 63% increase in sand volumes with 91% of sand volumes going to the terminal or well site in the WCSB. Sahara related revenue decreased despite the deployment of the third, fourth and fifth Sahara units to the fleet in 2018 and a Sahara utilization of 71% in 2018, compared with 79% utilization in 2017, combined with a reduction in ancillary logistics flow through revenues for services such as conveyor rentals. Terminal services revenue decreased by $1.3 million, or 24%, in 2018, compared with 2017, due to a 37% decrease in revenue from transloading services for resin coated proppant and a 6% decrease in hydrochloric acid transloading revenue.

Three Months Ended September 30, 2018 Compared to Three Months Ended June 30, 2018

Source's sand revenue for the third quarter of 2018 decreased by $10.5 million, or 10%, compared to the second quarter of 2018, due to a 10% decrease in sand volumes (83,080 MT) partially offset by a small increase of $1.07 per MT in average realized sand price. Decreased sand volumes were primarily due to decreased mine gate sales and a softening of demand in the WCSB as E&P companies are managing their 2018 capital spend programs. Mine gate sales accounted for 6% of sand volumes in the third quarter of 2018 compared with 13% of sand volumes in the second quarter of 2018. The sales mix price impact of the 63,840 MT decrease in mine gate sales volumes increased the average realized sand price by approximately $5.85 per MT in the third quarter of 2018. During the third quarter of 2018 approximately 87% of sand revenue was denominated in US dollars, which increased the average realized sand price by approximately $1.63 per MT due to the Canadian dollar weakening by 1%, when compared with the second quarter of 2018. The increase in average realized sand price due to fewer mine gate sales volumes and weakening of the Canadian dollar were primarily offset by a change in the sales mix with a greater percentage of sales at lower prices and decreased spot prices due to softening of demand.

Wellsite solutions revenue increased by $1.2 million in the third quarter of 2018, compared with the second quarter of 2018, primarily due to a 43% increase in Sahara related revenues while trucking revenue was relatively unchanged despite the 10% decrease in sand volumes. Sahara utilization was 71% in the third quarter of 2018 versus 74% in the second quarter of 2018 but the additions of the fourth Sahara unit in April 2018 and the fifth unit in August 2018 combined with the addition of ancillary flow through revenues for services such as conveyor rentals in August 2018 more than offset the decreased utilization. Terminal services revenue increased by $0.5 million, or 39%, in the third quarter of 2018, compared with the second quarter of 2018, due to a 59% increase in revenue from transloading services for resin coated proppant and a 22% increase in hydrochloric acid transloading revenue.

Cost of Sales

($000's, except MT and per unit amounts)	Three months ended September 30 2018	2017	Nine months ended September 30 2018	2017
Direct Materials	**59,670**	28,569	**160,756**	90,822
People Costs	**9,289**	8,160	**26,794**	19,083
Equipment Costs	**5,837**	5,587	**19,240**	10,751
Transportation Costs	**21,676**	15,605	**63,463**	42,845
Facility Costs	**3,046**	1,858	**8,376**	4,853
Cost of Sales	**99,518**	59,779	**278,629**	168,354
Cost of Sales - depreciation and depletion	**7,189**	2,582	**16,899**	7,950

Cost of sales increased by $39.7 million, or 66%, to $99.5 million for the three months ended September 30, 2018, as compared to the three months ended September 30, 2017, while sales volumes increased by 43%. The increase in cost of sales is primarily due to increased costs associated with higher sales volumes, increased size and scope of operations and the increased use of third party trucking firms to support the "last mile" solution for Source's customers, combined with the negative impact of a 4.3% weakening of the Canadian dollar on US dollar denominated components of cost of sales. Significant components of cost of sales are mainly US dollar denominated costs including sand processing, rail freight, and rail car leases and are therefore subject to exchange rate fluctuations. The increased size and scope of operations are primarily due to the acquisitions of the Blair and Preston facilities in 2017, along with the expanded Sahara fleet size from two to five units and the Fox Creek and Wembley expansion terminals becoming fully operational in early 2018. Sand production costs excluding depreciation and depletion per unit increased by 16.3%, or $19.04 per MT, in the three months ended September 30, 2018, compared to the same period in 2017, as the negative impact of a weaker Canadian dollar combined with increased costs of production associated with targeted production of desirable product and the associated increased costs of flowing less desirable products back to earlier stages of processing more than offsetting the positive impact of increased production and the fixed cost elements of production being spread over more units. The rail car fleet was at 2,612 cars at September 30, 2018, and is considered the right size to serve the business for anticipated 2018 and 2019 activity levels.

Cost of sales, excluding depreciation and depletion, increased by $110.3 million, or 66%, to $278.6 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, while sales volumes increased by 63%. The increase in cost of sales is primarily due to increased costs associated with higher sales volumes, increased size and scope of operations, the increased use of third party trucking firms to support the "last mile" solution for Source's customers and the increased costs associated with targeted production of desirable product, partially offset by the positive impact of a 1.5% strengthening of the Canadian dollar on US dollar denominated components of cost of sales. As part of the Preferred Acquisition all assets acquired, including inventory, were acquired at fair market value which negatively impacted cost of sales as the fair value of inventory acquired at both the mine and terminal were greater than Source's internal costs to produce would have been. The fair value of inventory acquired is estimated to have negatively impacted cost of sales by $1.9 million, or approximately $0.87 per MT, in 2018. All inventory acquired in the Preferred Acquisition was fully processed and sold by March 31, 2018.

Cost of sales, excluding depreciation and depletion, was virtually unchanged, but increased by $13.05 per MT, in the third quarter of 2018 compared to the second quarter of 2018, despite sales volumes decreasing by 10%. The positive impact on cost of sales due to the decreased costs associated with lower sales volumes was offset by the increased impact of the fixed rail car lease costs on a per MT basis associated with the lower sales volumes and increased production costs associated with targeted production of desirable product combined with the negative impact of a 1.2% weakening of the Canadian dollar on US dollar denominated components of cost of sales.

Cost of sales depreciation and depletion increased by $4.6 million for the third quarter of 2018 compared with the third quarter of 2017, primarily due to increased production and the impact of having additional production equipment in the third quarter of 2018. Cost of sales depreciation and depletion increased by $8.9 million for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017 due to higher unit of production costs associated with the increased mining. Cost of sales depreciation and depletion decreased by $0.5 million for the third quarter of 2018 compared with the second quarter of 2018 primarily due to decreased production associated with lower sales volumes.

Gross Margin

($000's, except MT and per unit amounts)	Three months ended September 30 **2018**	2017	Nine months ended September 30 **2018**	2017
Gross Margin	**16,667**	18,857	**65,435**	38,005
Cost of Sales — depreciation and depletion	**7,189**	2,582	**16,899**	7,950
Adjusted Gross Margin(1)	**23,856**	21,439	**82,334**	45,955
Gross Margin %	**13.5%**	23.2%	**18.1%**	17.7%
Gross Margin/MT	**$22.80**	$36.94	**$29.91**	$28.26
Adjusted Gross Margin %(1)	**19.3%**	26.4%	**22.8%**	21.4%
Adjusted Gross Margin/MT(1)	**$32.64**	$42.00	**$37.64**	$34.17

Notes:

(1) Adjusted Gross Margin is not defined under IFRS, see "Non-IFRS Measures" below.

Adjusted Gross Margin increased by $2.4 million, but was $9.36 per MT lower, in the third quarter of 2018 compared to the third quarter of 2017. Adjusted Gross Margin percentage also decreased 7.1%, to 19.3%, due to increased production and rail car lease costs per MT, as discussed above, more than offsetting increased sales volumes and higher average realized sand prices. Adjusted Gross Margin increased by $36.4 million, or $3.47 per MT, for the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017, as the 63% increase in sales volumes and higher average realized sand prices more than offset the increased production costs discussed above. Adjusted Gross Margin decreased $8.2 million and $6.68 per MT, in the third quarter of 2018 compared with the second quarter of 2018, primarily due to the 10% reduction in sand volumes, combined with increased production costs and rail car lease costs per MT, excluding depreciation and depletion, discussed above.

Gross Margin of $16.7 million, or 14%, for the third quarter of 2018 decreased $2.2 million, or $14.14 per MT, from the third quarter of 2017, for the same reasons the Adjusted Gross Margin decreased. Gross margins were also impacted by a $4.6 million increase in cost of sales – depreciation and depletion. Gross Margin of $65.4 million for the nine months ended September 30, 2018 increased $27.4 million, or $1.65 per MT, compared to the nine months ended September 30, 2017, for the same reasons the Adjusted Gross Margin increased above, combined with an increase in cost of sales – depreciation and depletion as discussed above. Gross Margin decreased $7.6 million, or $7.07 per MT, in the third quarter of 2018, compared with the second quarter of 2018, due to the decreased Adjusted Gross Margin discussed above.

Operating and General and Administrative Expense

($000's, except MT and per unit amounts)	Three months ended September 30 **2018**	2017	Nine months ended September 30 **2018**	2017
People	**3,583**	3,909	**11,059**	9,776
Equipment	**550**	724	**1,033**	1,845
Facility	**953**	716	**3,769**	2,175
Selling and Administrative	**2,133**	1,331	**7,007**	2,486
Operating and General and Administrative Expense	**7,219**	6,680	**22,868**	16,282

Operating and general and administrative expenses for the third quarter of 2018 were $7.2 million, an increase of $0.5 million from the same period in 2017. Costs associated with people and equipment remained relatively consistent with a decrease $0.3 million and $0.2 million respectively. Facility costs were $0.2 million higher due to property tax increases related to the increase in size and scope of operations. Selling and administrative costs increased $0.8 million due to increased costs associated with the increase in size and scope of the operations, such as insurance expense and professional fees. Operating and general and administrative expenses for the nine months ended September 30, 2018 were $6.6 million higher than the nine months ended September 30, 2017 at $22.9 million, mainly due to the significant growth of the organization and corresponding increases in the number of employees. Operating and general and administrative expenses for the third quarter of 2018 decreased $0.4 million from the second quarter of 2018 to $7.2 million primarily due to decreased professional fees.

Depreciation

Depreciation expense of $3.4 million in the third quarter of 2018 was an increase of $1.7 million from the third quarter of 2017 primarily due to the increase in size and scope of the business resulting in a significant increase in property, plant and equipment balances. Depreciation expense increased $4.4 million for the nine months ended September 30, 2018, compared with the nine months ended September 30, 2017, primarily due to the increase in size and scope of the business. Depreciation expense increased slightly by $0.4 million in the third quarter of 2018, compared with the second quarter of 2018.

Finance Expense

Finance expense is primarily composed of interest expense on: (a) the Notes; (b) the $88 million asset backed loan facilities ("Credit Facilities"), which include (i) a revolving credit facility with availability thereunder subject to the limit of the lesser of: (A) $88 million, and (B) the borrowing base, to be used to finance day-to-day operations of Source and its subsidiaries and for general working capital requirements, including financing receivables, inventory and capital expenditures that have been approved by the lenders, and (ii) a US$5 million standby letter of credit facility to be used to issue one or more standby letters of credit; (c) the preferred shares obligation; (d) the amount due to related parties; and (e) the shareholder loans. These items are all further described in the notes to the Financial Statements and items (c), (d) and (e) were settled in conjunction with the completion of the Company's IPO.

Finance expenses increased by $1.4 million to $5.3 million in the third quarter of 2018, compared with the same period in 2017 due primarily to the additional interest accrued relating to the additional $50 million of Notes issued in the second quarter of 2018.

Other Expense and Income

Source recorded $0.6 million in share based compensation for the third quarter of 2018 associated with the deferred share units ("DSUs"), restricted share units ("RSUs"), performance share units ("PSUs") and accrued expense related to the stock options ("Options"). The initial grant of Options at the time of the IPO was the first grant, and one-third of the Options vested immediately, with the remaining two-thirds vesting in 2018 and 2019 respectively, resulting in a larger expense being recognized in 2017. Future grants of Options will vest, as will grants of RSUs and PSUs, in equal thirds over a three-year period, with the first vesting date being one year after the initial grant. DSUs are expensed upon grant and vest when a director or other participant ceases in their role and are payable only when a director or participant leaves the company.

Source recorded an unrealized gain on derivative of $0.5 million in the third quarter of 2018, compared with a $1.3 million loss in the third quarter of 2017. The derivative loss or gain fluctuates with changes in the US dollar to Canadian dollar exchange rates combined with other inputs into the valuation technique and their corresponding impact on the foreign exchange rate collars.

Source realized a foreign exchange gain of $0.1 million in the third quarter of 2018, compared with a $0.6 million loss in the third quarter of 2017. Foreign exchange loss or gain fluctuates with settlement of US dollar denominated accounts receivables and payables and changes in the corresponding Canadian dollar exchange rates.

Source recorded a deferred tax recovery in the third quarter of 2018 of $0.7 million, compared to an expense of $0.9 million in the third quarter of 2017. The reorganization in April 2017 changed Source's organizational structure from a series of partnerships to a corporate structure, which caused a more traditional tax provision to be recorded. Source has not recorded any current tax expense in 2018, despite having taxable income, primarily due to the US tax reform allowing for 100% tax deductions on qualifying machinery and equipment purchases.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2017				2018			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sand Sales MT	*281,472*	*420,011*	*414,286*	*510,446*	*557,363*	*642,773*	*813,995*	*730,915*
Sand Revenue	35,840	51,630	50,555	62,232	63,986	86,884	110,281	99,804
Wellsite Solutions	8,922	10,535	16,629	17,439	10,308	17,270	20,758	21,937
Terminal Services	1,285	2,267	1,475	1,547	894	1,221	1,174	1,633
Sales	46,047	64,432	68,659	81,218	75,188	105,375	132,213	123,374
Cost of Sales	39,205	53,155	55,420	59,779	57,572	78,905	100,206	99,518
Cost of Sales Depreciation	1,612	2,558	2,810	2,582	3,998	2,138	7,694	7,189
Cost of Sales	40,817	55,713	58,230	62,361	61,570	81,043	107,900	106,707
Gross Margin	5,230	8,719	10,429	18,857	13,618	24,332	24,313	16,667
Operating and General and Admin Expenses	6,750	3,884	5,718	6,680	8,227	8,007	7,641	7,219
Depreciation	2,351	1,267	1,540	1,671	2,081	2,619	2,951	3,356

($000's, except MT and per unit amounts)	2017					2018		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Income (loss) from operations	(3,871)	3,568	3,171	10,506	3,310	13,706	13,721	6,092
Other expense (income):								
Loss (gain) on asset disposal	(1,788)	—	(3)	—	(3)	2,396	(8)	2,598
Loss on impairment	1,852	—	—	—	—	—	—	—
Finance expense	7,105	9,479	9,409	3,879	5,575	4,757	4,928	5,320
Loss (gain) on derivative liability	910	(4,133)	(31)	1,267	1,316	376	(1,787)	(460)
Share based compensation expense	—	—	3,870	984	1,770	905	1,304	567
Other income	(3,466)	(532)	(432)	(158)	(144)	(199)	(49)	(142)
Management Fees	153	417	—	—	—	—	—	—
Foreign exchange loss (gain)	1,063	681	(157)	583	(1,971)	2	(332)	(134)
Total other expense	5,829	5,912	12,656	6,555	6,543	8,237	4,056	7,749
Income (loss) before income taxes	(9,700)	(2,344)	(9,485)	3,951	(3,233)	5,469	9,665	(1,657)
Income taxes expense (recovery)	(597)	(339)	(649)	942	(2,131)	1,756	466	(687)
Net Income (loss)	(9,103)	(2,005)	(8,836)	3,009	(1,102)	3,713	9,199	(970)
Net Income (loss) Per Share ($/Share)	(0.38)	(0.08)	(0.24)	0.08	(0.02)	0.06	0.15	(0.02)
Diluted Net Income (loss) Per Share ($/Share)	(0.38)	(0.08)	(0.24)	0.06	(0.02)	0.06	0.15	(0.02)
Net Income (loss)	(9,103)	(2,005)	(8,836)	3,009	(1,102)	3,713	9,199	(970)
Interest	4,844	6,609	3,394	2,987	3,631	3,767	4,157	4,381
Income taxes	(597)	(339)	(649)	942	(2,131)	1,756	466	(687)
Depreciation	2,351	1,267	1,540	1,671	2,081	2,619	2,951	3,356
Cost of Sales Depreciation	1,612	2,558	2,810	2,582	3,998	2,138	7,694	7,189
EBITDA(1)	(893)	8,090	(1,741)	11,191	6,477	13,993	24,467	13,269
Add:								
Loss (gain) on asset disposal	(1,788)	—	(3)	—	(3)	2,396	(8)	2,598
Loss (gain) on impairment	1,852	—	—	—	—	—	—	—
Finance expense	2,261	2,870	6,015	892	1,944	990	771	939
Loss (gain) on derivative liability	910	(4,133)	(31)	1,267	1,316	376	(1,787)	(460)
Share based compensation expense	—	—	3,870	984	1,770	905	1,304	567
Management Fees	153	417	—	—	—	—	—	—
Transaction and professional fees	—	—	849	—	—	—	—	—
Preferred Acquisition inventory acquired at fair value	—	—	—	—	1,568	1,884	—	—
Gain on settlement of deferred revenue	(3,328)	—	—	—	—	—	—	—
Adjusted EBITDA(1)	(833)	7,244	8,959	14,334	13,072	20,544	24,747	16,913
Sand Revenue Sales/MT	127.00	123.00	122.00	122.00	115.00	135.00	135.48	136.55
Gross Margin	5,230	8,719	10,429	18,857	13,618	24,332	24,313	16,667
Cost of Sales Depreciation	1,612	2,558	2,810	2,582	3,998	2,138	7,694	7,189
Adjusted Gross Margin(1)	6,842	11,277	13,239	21,439	17,616	26,470	32,007	23,856
Gross Margin/MT	18.58	20.76	25.17	36.94	24.43	37.85	29.87	22.80
Adjusted Gross Margin/MT(1)	24.31	26.85	31.96	42.00	31.61	41.18	39.32	32.64

Notes:

(1) EBITDA, Adjusted EBITDA and Adjusted Gross Margin are not defined under IFRS see "Non-IFRS Measures" below.

In the third quarter of 2018 Source achieved a 43% increase in sand volumes compared to the third quarter of 2017, however, this represented a 10% decrease in sand volumes from the second quarter of 2018, partially due to a 7% reduction in Source's US based mine gate sales. Sales for third quarter of 2018 were $123.4 million, an increase of $42.2 million over the same period in 2017 and a decrease of $8.8 million from the second quarter of 2018 due primarily to the decreased sand volumes. Wellsite solutions revenue for the third quarter of 2018 was $21.9 million, an increase of $4.5 million from the same period in 2017 and an increase of $1.2 million from the second quarter of 2018. Increased wellsite solutions revenue is primarily due to increased trucking and Sahara revenue associated with increased number of units in the fleet and increased sand volumes delivered to the WCSB.

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

As a general industry practice, frac sand washing facilities in Wisconsin are not operated during the winter months. However, Source's sand washing facility at the Sumner Facility is fully enclosed and heated, making it capable of operating year-round. Winter operations at the Sumner Facility are an important aspect of Source's business, as the WCSB is seasonally busiest in the winter months. Regardless of its ability to wash sand in the winter, Source excavates and washes more sand than current delivery requirements during the warmer months when Source's processing facilities are more efficient. The excess sand is placed in stockpiles that feed drying operations throughout the year. Source's Blair Facility and Preston Facility washing plants are not enclosed and therefore are not operated during the winter months, but the dry plants are operated year-round.

Liquidity and Capital Resources

Source operates in a working capital and capital expenditure intensive industry where capital is required to fund working capital growth and continued development of its transload terminal network and processing facilities. To date, cash flows provided by operating activities, amounts available under the Notes, the Credit Facilities and equity offerings have been the primary sources of liquidity that allow Source to meet its financial requirements to grow and operate its business operations in the short and long term. Source funded its 2017 capital requirements through a combination of cash flows provided by operating activities and funds received from equity issuance and available credit facilities. In 2018, Source intends to fund its working capital and remaining capital expenditures through a combination of cash flows provided by operating activities and amounts available under the existing Credit Facilities. Source intends to fund future working capital and capital expenditures using cash flows from operating activities, amounts available under the existing Credit Facilities and additional debt or equity issuances as may be required. The availability of any additional future funding will depend on, among other things, operating performance and the current state of the equity and debt capital markets.

Capital Expenditures	**Three months ended September 30**		**Nine months ended September 30**	
($000's, except MT and per unit amounts)	**2018**	2017	**2018**	2017
Terminal Expansion	**2,126**	4,383	**12,855**	4,666
Wellsite Solutions	**3,423**	2,391	**10,142**	2,943
Production Expansion	**8,100**	3,219	**21,155**	9,608
Overburden Removal	**1,679**	4,118	**4,469**	6,414
Other	**24**	1,821	**258**	2,338
Capital Expenditures	**15,352**	**15,932**	**48,879**	**25,969**

Source's capital expenditures fall into three main categories: capital expenditures at existing terminals and mine facilities to make improvements and maintain operations, growth capital expenditures for new capacity to grow production or distribution, and overburden removal. Capital expenditures for the third quarter of 2018 were $15.4 million, a decrease of $0.6 million from the third quarter of 2017. The decreased capital expenditures were primarily driven by a decrease in overburden spend as well as decreased terminal expansion, offset by an increase in production expansion for the Blair slurry line. Capital expenditures for the nine months ended September 30, 2018 were $22.9 million higher than the nine months ended September 30, 2017 primarily due to increased production expansion, terminal expansion, and expenditures associated with new Sahara units. Capital expenditures for the third quarter of 2018 were $5.7 million lower than the second quarter of 2018 primarily due to a decrease in terminal expansion due to the majority of the Wembley expenditures being incurred in the second quarter of 2018. Source intends to grow its Sahara fleet to seven units by the end of 2018 and is exploring the potential of expanding Sahara into the US markets.

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

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

Source's share capital is not subject to external restrictions but the amount of the Credit Facilities is determined with reference to current inventory and accounts receivable.

Source's capital management policy has not changed during the nine months period ended September 30, 2018 or for the year ended December 31, 2017.

Source intends to meet its future capital requirements primarily through cash flows provided by operating activities, the Credit Facilities and by raising additional debt and equity issuances as required. Source expects these sources will be sufficient to meet its capital needs. However, Source's ability to fund future operating expenses and capital expenditures, to make scheduled payments of interest on the Notes and the Credit Facilities and to satisfy any of Source's other present or future debt obligations will depend on Source's future operating performance which will be affected by general economic, financial and other factors, including the risks described under the heading "Risk Factors" in the AIF.

On December 8, 2016, the Company's wholly owned subsidiaries, Source Energy Services Canada LP and Source Energy Services Canada Ltd. (the "Note Issuers") issued the original $130.0 million of 10.5% senior secured first lien notes due on December 15, 2021 and on May 31, 2018 the note issuers issued an additional $50.0 million, proceeds of which were used to pay down existing balances on the Credit Facilities, of 10.5% senior secured first lien notes due on December 15, 2021, (collectively the "Notes"). The Notes are secured by a fixed and floating charge over all the assets of the business except accounts receivable and inventory, on which the Notes carry a second charge. Each holder of the original note issuance was entitled to a relevant right of 4% of the equity value of the note Issuers upon an initial public offering and various liquidation or change of control events. On May 29, 2017, Source elected to settle these relevant rights through the issuance of 1,005,831 common shares of the Company ("Common Shares") to the holders of the original Notes with net proceeds from the IPO. There were no relevant rights granted on the additional Notes issued on May 31, 2018. There are prepayment options, where the Note Issuers may redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering at a redemption price of 110.5% of the principal amount. The Note Issuers may also redeem all or part of the Notes at any time prior to December 15, 2018 for 100% of the principal plus accrued and unpaid interest and the applicable premium as defined in the corresponding trust indenture. After December 15, 2018, the principal amount of 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. The prepayment option has been classified as a derivative liability and is measured at fair value through profit or loss. In connection with the closing of the IPO, Source exercised its right to repay a portion of the Notes, and on June 5, 2017 it repaid $22.3 million of the principal amount of the original Notes along with accrued interest and a make-whole premium of 10.5%. At September 30, 2018, the principal outstanding on the Notes was $157.7 million.

At September 30, 2018, the fair value of the Notes prepayment option, an embedded derivative in a customer contract that includes foreign exchange rate collars (see "Fair Value of Financial Instruments" below), and offsetting foreign exchange rate collars to manage embedded derivative risk in the customer contract was $1.0 million ($2.8 million - December 31, 2017). Changes in fair values of derivative liabilities are recorded through the Consolidated Statements of Operations and Comprehensive Income (Loss). Source has recorded a fair value gain on the Notes' prepayment option plus the exchange rate collars and embedded derivative of $0.5 million for the third quarter of 2018 (third quarter of 2017 – loss of $1.3 million).

On May 18, 2018 the Company increased the Credit Facilities from $70.0 million to $88 million. On September 14, 2018 the Credit Facilities were amended to extend the term for another year to now mature on December 8, 2020 and also to cancel the US$5 million standby letter of credit facility. The Credit Facilities are secured by a floating first lien charge on the accounts receivable and inventory of Source under a general security agreement and a second lien charge on all other assets of the business. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories. As of September 30, 2018, $2 million was drawn under this facility (less $6.6 million of cash on hand and unamortized finance costs of $0.5 million) for a net balance of $(0.5) million drawn under the Credit Facilities and an additional $18.8 million was committed to supporting letters of credit under the facilities with $69.2 million liquidity available. The borrowing base is updated by the bank monthly. Source is subject to externally imposed capital requirements for the Credit Facilities, requiring Source Energy Services Canada LP to maintain a springing fixed charge ratio of 1.25:1 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 September 30, 2018, the excess availability was more than 20%. Source Canada LP was in compliance with all covenants of the Credit Facilities as of September 30, 2018.

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on cost of manufacturing and transporting inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at September 30, 2018 are $43.3 million (December 31, 2017 - $34.1 million) and $25.7 million (December 31, 2017 - $18.9 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $0.07 million for the three months ended September 30, 2018 (September 30, 2017 - $0.2 million).

Cash and Net Working Capital

As at September 30, 2018, Source had $4.6 million cash on hand ($6.6 million of cash on hand less $2 million drawn on Credit Facilities) and had senior long-term debt outstanding of $148.1 million, as compared to $129.3 million as at December 31, 2017. For the third quarter of 2018, Source had cash flows provided by operating activities of $32.8 million compared to cash flows used by operating activities of $2.6 million for the same period in 2017, primarily due to the $20.1 million increase in total current assets less total current liabilities (the "Net Working Capital"), partially offset by a $4.0 million decrease in net income for the quarter. Capital expenditures for the three months ended September 30, 2018 were $15.4 million compared to $15.9 million in the same period in 2017. Capital expenditures in both periods were funded through a combination of cash flows provided in operating activities and amounts available under the Credit Facilities.

Net Working Capital as at September 30, 2018 was $83.6 million, as compared to $35.1 million as at December 31, 2017. The increase was primarily due to higher accounts receivable and inventory balances as Source had significantly higher sales and production in the three months ended September 30, 2018 compared to three months ended December 31, 2017, combined with a decrease in current liabilities due to the successful maturity extension of the Credit Facilities and the subsequent reclassification to long-term debt during the first quarter of 2018.

Deferred Revenue

Source entered into an agreement with one of its customers, effective January 1, 2018, where Source received $14.8 million ($11.5 million US dollars) as a prepayment for future purchases of proppant. In consideration of the prepayment, the price per MT to the customer was reduced for each MT of sand sold to the customer. The cash price per MT is also reduced for each MT of sand sold or pumped by the customer. During the third quarter of 2018, $3.4 million of this obligation was satisfied with a balance of $6.1 million remaining.

Contractual Obligations

Source has various lease commitments regarding equipment, railcars, a physical natural gas contract and office space. The leases expire between October 2018 and September 2026. The financial liabilities on Source's Consolidated Statement of Financial Position consist of the Notes, Credit Facilities and finance leases. Source's planned cash outflows relating to lease commitments and financial liabilities are outlined in the table below:

($000's, except MT and per unit amounts)	Total	2018	2019	2020	2021	2022	2023 and thereafter
Finance leases	2,030	256	583	380	266	420	125
Leases and other commitments	87,047	7,179	23,836	15,941	12,772	11,368	15,951
Credit Facilities(1)	—	—	—	—	—	—	—
Notes	214,944	8,280	16,560	16,560	173,544	—	—

Notes:

(1) Interest payments on such balances have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Based on September 30, 2018 balances and interest rates, and assuming amounts stay outstanding until maturity, estimated total interest expense would be $nil.

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

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

Off-Balance Sheet Arrangements

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

Outstanding Shares

The weighted average number of Common Shares outstanding for the three and nine months ended September 30, 2018 was 61,551,712 (three and nine months ended September 30, 2017 - 50,316,712 and 40,256,934, respectively).

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Common Shares outstanding, beginning of period	**61,551,712**	50,316,712	**61,551,712**	23,845,618
Issued upon closing of IPO	—	0	—	10,439,561
Issued on repayment of preferred share obligation	—	0	—	460,545
Issued on settlement of shareholder loan	—	0	—	3,264,710
Issued on settlement of Relevant Transaction Rights	—	0	—	2,246,500
Weighted average common shares outstanding, end of period	**61,551,712**	50,316,712	**61,551,712**	40,256,934
Common shares issuable pursuant to conversion option of Class B Shares(a)	**—**	1,300,154	**1,300,154**	—
Weighted average number of diluted common shares outstanding, end of period	**61,551,712**	51,616,866	**62,851,866**	40,256,934

Notes:

(a) Only attributable to non-controlling interest shareholders when in an income position.

As at October 31, 2018, Source had issued and outstanding (i) 61,331,566 Common Shares; (ii) 1,300,154 Class B shares, each redeemable for a Common Share on a one-to-one ratio at the option of the holder; and (iii) 2,580,843 stock options. See "Corporate Structure" in the AIF.

Subsequent Event

Source has applied to the Toronto Stock Exchange (the "TSX") to amend its previously approved normal course issuer bid ("NCIB") to purchase approximately 1% of its outstanding common shares for cancellation through the facilities of the TSX. Previously, Source was approved to purchase approximately 315,000 common shares; Source has applied to the TSX to have the NCIB amended to permit Source to purchase up to $1.6 million worth of its common shares, which, based on current market prices, would represent a purchase of an aggregate of approximately 615,000 common shares including the 315,000 previously approved. As of October 31, 2018, Source has purchased 251,640 common shares for $0.7 million with $0.9 million available NCIB space remaining. The amendment of the NCIB, the date on which the amended NCIB will commence and the number of common shares that Source will be permitted to purchase for cancellation under the amended NCIB remains subject to TSX review and approval.

Transactions between Related Parties

During the third quarter of 2018 there were no related party transactions.

Proposed Transactions

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

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certificate for interim filings requires the Chief Executive Officer and the Chief Financial Officer to certify the design of Source's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at September 30, 2018. There were no material weaknesses in the design of the DC&P and the ICFR at September 30, 2018, and no changes in ICFR during the period beginning on January 1, 2018 and ended on September 30, 2018 that have materially affected, or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. While the Company's certifying officers believe that the Company's DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Financial Instruments and Other Instruments

Risk Management Overview

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

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

Fair Value of Financial Instruments

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 Credit Facilities approximate the carrying value as they bear interest at market floating rates consistent with market rates for similar debt. Based on the closing market price as of September 30, 2018, the fair value of the Notes are $167.2 million.

During the third quarter of 2017, Source entered into a customer contract that included foreign exchange rate collars. Under the terms of the contract, pricing would be adjusted if the daily US dollar to Canadian dollar closing exchange rate was below $1.25 or exceeded $1.40. The embedded derivative is separated from the contract and accounted for as a derivative liability and is measured at fair value through profit or loss. The fair value of the derivative is based on valuation techniques that are not based on observable market data.

During the second quarter of 2018, Source entered into foreign exchange rate collars to help mitigate the risk associated with the embedded derivative contained in a customer contract. The fair value of the derivative is based on the US dollar to Canadian dollar foreign exchange forward curve.

Notional amount of Contract (per month)	Exchange rate floor	Notional amount of Contract (per month)	Exchange rate ceiling	Contract expiry
USD $1,500	1.25	USD $3,000	1.36	April 30, 2020
USD $1,500	1.25	USD $3,000	1.40	April 30, 2020

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, 2019, with earlier application permitted.

IFRS 16 Leases

On January 1, 2019, the Company 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. The Company is in the process of assessing the impact of IFRS 16, however, given the significant use of leased rail cars and equipment, the Company expects the standard to have a material impact on its financial statements. The Company expects to use the Modified Retrospective approach for evaluating all leases where comparative data will not be restated, and the cumulative effect will be recognized at January 1, 2019 in opening equity. Under the Modified Retrospective approach, the Company may also, on a lease-by-lease basis, not recognize leases whose term ends within 12 months of the initial application, as well as not recognize leases whose assets are considered to be a low dollar value.

Critical Accounting Estimates

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

Source 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

Source 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 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 and Depletion

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.

Mineral resources are depleted using the unit-of-production method based on indicated and inferred reserves. Depletion is recorded on a per tonne basis as the reserves are mined.

Decommissioning Liabilities

The amount recorded for decommissioning liabilities and accretion expense depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures, and the timing of those expenditures.

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. They are also based on estimates of the probability of Source utilizing certain tax losses in future periods and tax rates applicable to those periods.

Share Based Compensation

The fair value of stock options to purchase Common Shares 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 Source. At the annual general meeting on May 3, 2018, the Shareholders approved a long term incentive program that provides for the settlement of RSUs and PSUs in Common Shares or cash. DSUs, RSUs and PSUs can be settled for cash payments and accordingly are considered a liability settled award for accounting purposes.

Cash Generating Units

The determination of cash-generating units is based on management's judgment regarding geographic proximity, shared equipment, and mobility of equipment. Management has determined that the Company's operations represent one cash-generating unit.

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, prior to impairments of non-financial assets and 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. In respect of the Notes, the relevant transaction rights and the prepayment option included in the 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. The fair value of the derivatives is based on prices or valuation techniques that require inputs that are not based on observable market data. The Company has a customer contract that includes foreign exchange rate collars. Under the terms of the contract, pricing will be adjusted if the daily US dollar to Canadian dollar closing exchange rate is below $1.25 or exceeds $1.40. The embedded derivative is separated from the contract and accounted for as a derivative liability and is measured at fair value through profit or loss. The fair value of the derivative is based on valuation techniques that are not based on observable market data.

Fair Value of Assets and Liabilities Acquired in a Business Combination

Values are allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items is ultimately based on management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party information and assessments. Any excess of the cost of the acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

NON-IFRS MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. These financial measures do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), Gross Margin and other measures of financial performance as determined in accordance with IFRS. Source believes that these non-IFRS measures are useful to both management and investors in providing relative performance and measuring changes in respect of Source as well as measuring Source's financial performance in the context of earnings generated to fund capital investments and meet financial obligations. More specifically, Adjusted EBITDA and Adjusted Gross Margin are considered key non-IFRS measures as they reflect the ability of Source to generate earnings necessary to meet its capital investments and financial obligations. Adjusted EBITDA per MT and Adjusted Gross Margin per MT are calculated by taking the non-IFRS measures and dividing by sand volumes for the periods stated.

Adjusted EBITDA represents earnings generated to fund capital investments and meet financial obligations. It represents, for the period presented, EBITDA as adjusted to add back or deduct, as applicable, the following expenses, costs, charges or benefits incurred in such period which in management's view are not indicative of the underlying business performance: (a) finance expense excluding interest expense; (b) management fee; (c) fair value adjustment of the shareholder loan; (d) loss (gain) on asset disposal; (e) loss on impairment; (f) transaction and professional fees; (g) on November 7, 2017, Source completed an asset purchase for certain assets and operations of Preferred Proppants, LLC (the "Preferred Acquisition") including inventory acquired at fair value; (h) loss (gain) on derivative liability; (i) gain on settlement of deferred revenue; and (j) share based compensation.

EBITDA represents, for the period presented, net income (loss) plus: (a) income taxes; (b) interest expense; (c) cost of sales – depreciation; (d) depreciation; and (e) amortization, in each case to the extent deducted from net income in such period determined on a combined basis in accordance with IFRS.

Adjusted Gross Margin represents a margin more comparable to our peers. It represents, for the period presented, Gross Margin plus costs of sales – depreciation and depletion.

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

Reconciliation of EBITDA and Adjusted EBITDA to Net Income

	Three months ended September 30		**Nine months ended September 30**	
($000's, except MT and per unit amounts)	**2018**	2017	**2018**	2017
Net income (loss)	**(970)**	3,009	**11,942**	(7,832)
Add:				
Tax expense	**(687)**	942	**1,535**	(47)
Interest expense	**4,381**	2,987	**12,305**	12,990
Cost of sales – depreciation and depletion	**7,189**	2,582	**16,899**	7,950
Depreciation	**3,356**	1,671	**8,927**	4,479
EBITDA	**13,269**	11,191	**51,608**	17,540
Add:				
Finance expense excluding interest expense	**939**	892	**2,822**	9,777
Share based compensation expense	**567**	984	**2,775**	4,854
Management fee	**—**	—	**—**	417
Loss (gain) on asset disposal	**2,598**	—	**4,986**	(3)
Loss (gain) on derivative liability	**(460)**	1,267	**(1,871)**	(2,897)
Transaction and professional fees	**—**	—	**—**	849
Preferred Acquisition inventory acquired at fair value	**—**	—	**1,884**	—
Adjusted EBITDA	**16,913**	14,334	**62,204**	30,537

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended September 30		**Nine months ended September 30**	
($000's, except MT and per unit amounts)	**2018**	2017	**2018**	2017
Gross Margin	**16,667**	18,857	**65,435**	38,005
Cost of Sales — depreciation and depletion	**7,189**	2,582	**16,899**	7,950
Adjusted Gross Margin	**23,856**	21,439	**82,334**	45,955

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and Source's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "estimates", "forecasts", "intends", "anticipates", "believes", "plans", "seeks", "projects" or variations of such words and phrases, or state that certain actions, events or results "may" or "will" be taken, occur or be achieved. Such forward-looking statements reflect Source's beliefs, estimates and opinions regarding its future growth, results of operations, future performance (both operational and financial), and business prospects and opportunities at the time such statements are made, and Source undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change. Forward-looking statements are necessarily based upon a number of estimates and assumptions made by Source that are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Forward-looking statements are not guarantees of future performance. In particular, this MD&A contains forward-looking statements pertaining, but not limited, to: expectations regarding the price of proppants and sensitivity to changes in such prices; outlook for operations and sales volumes; expectations respecting future competitive conditions; industry activity levels; industry conditions pertaining to the frac sand industry; expectations regarding increased demand for and sales volumes of sand in 2018; increased activity levels and sand intensity levels in 2018; the ability of and manner by which Source expects to meet its capital needs; increased drilling and well completion activity in 2018; the continued increase of sand sales volumes and sand spot pricing in 2018; increased sand intensities for Canadian well completions; the effectiveness of internal controls over Source's internal financial reporting; and Source's objectives, strategies and competitive strengths.

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

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

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; risks the Commissioner of Competitions with authority under the *Competition Act* (Canada) may successfully challenge the Preferred Acquisition which may cause Source to not fully realize anticipated benefits of the Preferred Acquisition; uninsured and underinsured losses; risks related to the transportation of Source's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the ability of Source to retain and attract qualified management and staff in the markets in which Source operates; labour disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavourable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; and the use and suitability of Source's accounting estimates and judgments.

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

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