SOURCE ENERGY SERVICES

news release

Source Energy Services Reports Q1 2020 Results

Calgary, Alberta (June 29, 2020) **TSX: SHLE**

Source Energy Services Ltd. ("Source" or, the "Company") is pleased to announce its 2020 first quarter financial results.

HIGHLIGHTS

Source achieved the following results for the three months ended March 31, 2020:

- grew market share in the Western Canadian Sedimentary Basin ("WCSB") with a 9% growth in sand volumes;
- distributed total volumes through Source's WCSB terminal network of 785,574 metric tonnes ("MT");
- executed a contract extension with a major Duvernay customer;
- continued to diversify the business by increasing non-sand terminal revenue by $0.4 million compared to the same period last year;
- reduced operating and general and administrative costs by 31% due to previously implemented cost reduction initiatives and other significant cost control measures taken in the quarter;
- realized Adjusted EBITDA(1) of $14.6 million; and
- realized gross margin of $6.4 million and Adjusted Gross Margin(1) of $19.8 million.

In the latter part of the first quarter of 2020, the oil and gas industry was significantly impacted by a reduction to global demand caused by the coronavirus ("COVID-19") pandemic, and uncertainty surrounding production level decisions amongst the Organization of the Petroleum Exporting Countries ("OPEC") and other oil exporting nations. Governments worldwide, including Canada and the United States ("US") in which the Company operates, have enacted emergency measures to combat the spread of the virus. These measures have caused a material disruption to businesses globally, resulting in an economic slowdown and decreased demand for oil (refer to "COVID-19" below). The impacts of COVID-19 on the industry outlook lead to Source recognizing a net loss of $185.3 million or $(3.08) per share, including non-cash pre-tax charges for impairment and deferred tax asset write-down of $180.0 million.

Note:

(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

	Three months ended March 31,	
($000's, except MT and per unit amounts)	**2020**	2019(5)
Sand volumes (MT)(1)	**762,322**	698,347
Sand revenue	**83,019**	91,149
Wellsite solutions	**12,113**	15,480
Terminal services	**1,331**	1,504
Sales	**96,463**	108,133
Cost of sales	**76,656**	83,794
Cost of sales – depreciation and depletion	**13,430**	13,984
Cost of sales	**90,086**	97,778
Gross margin	**6,377**	10,355
Operating expenses	**4,297**	5,803
General & administrative expenses	**2,557**	4,143
Depreciation	**4,257**	4,306
Loss from operations	**(4,734)**	(3,897)
Total other expense(2)(4)	**149,263**	6,607
Loss before income taxes	**(153,997)**	(10,504)
Current income tax recovery	**—**	—
Deferred income tax expense (recovery)	**31,350**	(3,182)
Net loss	**(185,347)**	(7,322)

($000's, except MT and per unit amounts)	Three months ended March 31, 2020	2019(5)
Net loss per share ($/share)	**(3.08)**	(0.12)
Diluted net loss per share ($/share)	**(3.08)**	(0.12)
Adjusted EBITDA(3)	**14,609**	14,813
Sand revenue sales/MT	**108.90**	130.52
Gross margin/MT	**8.37**	14.83
Adjusted Gross Margin(3)	**19,807**	24,339
Adjusted Gross Margin/MT(3)	**25.98**	34.85
Percentage of sand volumes sold in the WCSB	**100 %**	100 %

Notes:

(1) One MT is approximately equal to 1.102 short tons.
(2) The average Canadian to US dollar exchange rate for the three months ended March 31, 2020 was $0.7435 (2019 - $0.7522).
(3) Adjusted EBITDA and Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS. See "Non-IFRS Measures" below.
(4) Other expense includes a pre-tax impairment charge. See "COVID-19" below.
(5) Prior year operating expenses and general and administrative expenses have been reclassified to conform to current year presentation.

Q1 2020 RESULTS

Sand sales volumes increased by 9% for the three months ended March 31, 2020 compared to the first quarter of 2019, despite the slowdown in activity levels in the oil and gas industry with the onset of the pandemic. While Source achieved higher volumes for the quarter, sand revenue and total sales revenue were lower by 9% and 11%, respectively, compared to the three months ended March 31, 2019, due to lower realized sand prices.

Wellsite solutions revenue decreased by $3.4 million, or 22%, for the three months ended March 31, 2020 compared to the first quarter of 2019, primarily due to reduced trucking revenue as a result of varying distance to wellsites, customer mix and lower trucking rates. Sahara revenue also decreased, as the available fleet of eight units were 56% utilized for the three months ended March 31, 2020 compared to the 89% utilization rate of a seven-unit Sahara fleet for the same period last year. Utilization was impacted in March due to COVID-19 related cancellations.

Cost of sales, excluding depreciation and depletion, decreased in aggregate by 9% in the quarter primarily due to lower production costs, which decreased on a per tonne basis by approximately 16%. The reduction in cost of sales was further impacted by increased efficiencies and ongoing optimization efforts related to logistics costs.

Gross margin and Adjusted Gross Margin decreased by $4.0 million and $4.5 million, respectively, compared to the first quarter of 2019, due to a $21.62 per MT decrease in sand sales prices impacted by terminal and customer mix. Activity levels in the WCSB remain limited by egress issues which kept pricing pressure high in a pre-COVID-19 environment.

On a quarter-over-quarter basis, operating and general and administrative expenses for the three months ended March 31, 2020 were lower by $3.1 million, or 31%. Workforce optimization efforts implemented in 2019 as well as cost control measures undertaken in response to COVID-19 drove further reductions in people costs.

For the three months ended March 31, 2020, Adjusted EBITDA was $14.6 million which was $0.2 million, or 1%, lower than the $14.8 million of Adjusted EBITDA generated in the three months ended March 31, 2019. Lower realized prices, as noted above, contributed to the decrease.

COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Measures enacted to prevent the spread of the virus have resulted in global business disruption with significant economic repercussions. The current economic climate has caused uncertainty and extraordinary volatility in the oil and gas industry, particularly in the WCSB. The demand for oil has significantly deteriorated and has been further impacted by certain actions taken by OPEC. The convergence of these events has created an unprecedented simultaneous impact of a decline in global oil demand and a risk of a substantial increase in oil supply.

Notwithstanding Source's first quarter performance, these events have negatively impacted and are expected to continue to negatively impact Source's business. Although countries have begun the slow process of restarting economies, the demand for the Company's products and services has declined as customers revise capital budgets and adjust operations in response to the volatility in oil prices. In order to mitigate the impact of the current operating environment, Source has implemented operational cost reductions and other measures which include the following:

- implemented a COVID-19 Program to protect the health and well-being of employees;
- reduced operating staff levels and hours of operations;
- reduced board, executive and salaried employee compensation and benefits;
- eliminated all discretionary expenditures;

- executed deferrals for certain lease obligation payment commitments;
- received proceeds from the US Small Business Administration's Paycheck Protection Program; and
- received proceeds from the Canadian Emergency Wage Subsidy program.

Source continues to evaluate and apply for relevant government economic relief programs as they become available.

The extent to which COVID-19 will impact the Company's financial position remains highly uncertain and cannot be predicted, but continued adverse impacts may result in further decreased revenues, increased counterparty credit risk and uncertainties with respect to debt covenant compliance and liquidity.

During the period ended March 31, 2020, as a result of the weakening economic climate due to the pandemic and the decrease in global demand for crude oil, the Company carried out an assessment of the recoverable value of its operations. A discounted cash flow analysis was completed using an updated weighted average cost of capital ("WACC") and included projections based on revised cash flow forecasts. Ongoing uncertainty in the current climate has created increased credit spreads and risk adjustments resulting in an increased WACC used in the assessment. As a result, an impairment loss was recognized in the quarter, of which $143.7 million related to property, plant and equipment and the remainder was attributed to future income tax assets and foreign exchange differences.

Future Operations

As at March 31, 2020, the Company was in compliance with its financial covenants on its credit facility. However, management forecasts indicate a potential breach of its fixed charge ratio covenant is possible within the next fiscal quarter. In the event of an occurrence of a covenant violation the Company would be in default, allowing lenders to demand immediate repayment of all outstanding amounts. Consequently, Source obtained covenant relief from its banking syndicate for a specified period subsequent to March 31, 2020. Source has also entered into a Support and Interest Deferral Agreement with noteholders. Under the agreement, the supporting noteholders have agreed to defer the payment of the June 15, 2020 interest payment on the Notes for a period of 60 days. The Company is currently involved in ongoing discussions with its lenders and noteholders to seek further relief, but no agreement has been finalized as of the date of this MD&A. There can be no assurance that such an agreement will be reached, and therefore there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Liquidity and Capital Resources

The Company has a banking operating facility, comprised of an asset backed loan facility ("ABL") and a standby letter of credit facility (collectively, with the ABL, the "Credit Facility"). As of March 31, 2020, Source had $34.5 million drawn under its ABL. The Credit Facility was also being used to support $17.1 million of letters of credit leaving $7.8 million of available liquidity. Source is subject to externally imposed capital requirements for the Credit Facility, 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. In February 2020 an amendment to the ABL was completed, effective January 1, 2020, which included a reduction of the springing fixed charge ratio from 1.25:1 to 1.10:1 for all periods ending on or before December 31, 2020. As of March 31, 2020, the excess availability was 13% and the fixed charge coverage ratio was 1.27:1. Subsequent to March 31, 2020, the Company's ABL facility was amended to temporarily waive the application of the fixed charge coverage ratio covenant from May 31, 2020 to August 13, 2020. As of August 13, 2020, the covenant requirement will revert back to 1.10:1 for the remainder of 2020.

Capital expenditures	**Three months ended March 31,**	
($000's, except MT and per unit amounts)	**2020**	2019
Terminal expansion	**4**	7,067
Wellsite solutions	**205**	4,017
Production expansion	**484**	2,849
Overburden removal	**828**	1,837
Other	**100**	—
Capital expenditures	**1,621**	**15,770**

In the first quarter of 2020, capital expenditures were $1.6 million, $14.1 million lower than the same period last year. Source previously announced that capital spending for 2020 was expected to be limited to $5.6 million. Previous investment in processing assets and logistics infrastructure will allow for modest capital expenditures through 2020 and beyond even as industry activity returns to more normalized levels.

BUSINESS OUTLOOK

While Source's financial results for the first quarter of 2020 were not materially impacted by the events described above, the Company expects a decline in revenue and profitability for the remainder of 2020. As governments across Canada and the US begin the slow process of relaxing restrictions previously implemented to combat the spread of COVID-19, Source's activity levels have begun to increase as customers revisit spending in a dynamic environment. However, Source cannot predict the extent of the impact COVID-19 may have on energy demand nor how OPEC will react to those changes in demand and how those events could impact the Company's operations. Given the fluid nature of these events, Source cannot reasonably estimate the period of time that adverse business conditions will persist, the impact they will have on the Company's business, liquidity, consolidated results of operations and consolidated financial condition, or the pace of any subsequent recovery.

Beyond 2020, we continue to remain optimistic about the longer-term industry prospects, including increased demand for LNG on WCSB activity levels. Analysis of pipeline egress capacity, coal to natural gas power generation conversions and the potential for additional hydrocarbon shipments by rail continue to support the Company's expectation that activity levels should substantially increase in the coming years.

Source has seen exploration and production ("E&P") companies drive additional efficiencies in their completion programs by completing fracs over much shorter periods of time, requiring larger volumes of frac sand. Source's terminal network and logistics capabilities have become a key component in the success of these accelerated frac programs, further enhanced by the delivery capability of the Sahara units. Source is ideally positioned to serve the increase in demand for frac sand and logistics services as activity levels rebound.

Source continues to focus on improving logistics for other items needed at the wellsite, in response to customer requests to expand its service offerings, and continues to develop opportunities to further utilize its existing Western Canadian terminals to provide additional diversification of its business. Over the longer-term, Source anticipates that these new terminal services will be a meaningful part of its business.

FIRST QUARTER CONFERENCE CALL

Due to the uncertain operating environment as a result of COVID-19, as well as ongoing negotiations with the Company's noteholders, Source will not be holding a conference call this quarter.

ABOUT SOURCE ENERGY SERVICES

Source is a logistics company that focuses on the production and distribution of high quality Northern White frac sand, as well as the distribution of other bulk completion materials not produced by Source. Source provides its customers with an end-to-end solution for frac sand supported by its Wisconsin mines and processing facilities, its Western Canadian terminal network and its "last mile" logistics capabilities. Source also provides storage and logistics services for other bulk oil and gas well completion materials and has developed Sahara, a proprietary wellsite mobile sand storage and handling system.

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

IMPORTANT INFORMATION

These results should be read in conjunction with each of Source's unaudited condensed consolidated financial statements for the three months ended March 31, 2020 and 2019, and Source's audited consolidated financial statements for the year ended December 31, 2019, together with the accompanying notes (the "Financial Statements") and its corresponding management's discussion and analysis for such period (the "MD&A"). The Financial Statements and MD&A and other information relating to Source, including the Annual Information Form ("AIF"), is available under the Company's SEDAR profile at www.sedar.com. The Financial Statements and comparative 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.

NON-IFRS MEASURES

In this press release Source has used the terms Adjusted Gross Margin and Adjusted EBITDA, including per MT, which 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. For additional information regarding non-IFRS measures, including their use to management and investors and reconciliations to measures recognized by IFRS, please refer to the MD&A, which is available online at www.sedar.com and through Source's website at www.sourceenergyservices.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this press release 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 press release contains forward-looking statements pertaining, but not limited, to: expectations regarding increased demand for and sales volumes of sand beyond 2020; expectations regarding increased demand for LNG on WCSB activity levels; anticipated improvements in pipeline egress and transportation capacity, coal to natural gas power generation conversions and the potential for additional hydrocarbon shipments by rail; outlook for operations and sales volumes; expectations respecting future conditions; industry activity levels; the impact of COVID-19 on the global economy and the effect it may have on the Company's business, liquidity, operations and financial condition and the pace of any subsequent recovery; expectations regarding market share; industry conditions pertaining to the frac sand industry; expectations regarding customer relationships and counterparty risk; the anticipated effect of terminal services on Source's business; sand sales volumes and sand spot pricing in 2020; expectations regarding funding for future working capital and capital expenditures; the ability to secure future funding; expectations on Source's ability to meet their capital needs; the ability to find relief for a potential breach of a covenant on its Credit Facility; the ability of the Company to reach further agreement with its noteholders; expectations regarding fluctuations in foreign currency; expectations regarding the severity and outcome of legal claims and proceedings; expectations regarding the impact of climate change; risks associated with information systems and cyber security; and operational risks.

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 press release 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, Source's rail car fleet and the accessibility of additional transportation by rail and truck; the maintenance of Source's key customers and the financial strength of its key customers; the maintenance of Source's significant contracts or their replacement with new contracts on substantially similar terms and that contractual counterparties will comply with current contractual terms; operating costs; that the regulatory environment in which Source operates will be maintained in the manner currently anticipated by Source; future exchange and interest rates; geological and engineering estimates in respect of Source's resources; the recoverability of Source's resources; the accuracy and veracity of information and projections sourced from third parties respecting, among other things, future industry conditions and product demand; demand for horizontal drilling and hydraulic fracturing and the maintenance of current techniques and procedures, particularly with respect to the use of proppants; Source's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which Source conducts its business and any other jurisdictions in which Source may conduct its business in the future; future capital expenditures to be made by Source; future sources of funding for Source's capital program; Source's future debt levels; the impact of competition on Source; and Source's ability to obtain financing on acceptable terms.

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; uninsured and underinsured losses;

risks related to the transportation of Source's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the impact of climate change risk; 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; implementation of recently issued accounting standards; the use and suitability of Source's accounting estimates and judgments; and the impact of information systems and cyber security breaches.

Although Source has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will materialize or prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking statements contained in this press release 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 press release. 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.

FOR FURTHER INFORMATION PLEASE CONTACT:

Media inquiries:
Meghan Somers
Communications Advisor
(403) 262-1312 (ext. 295)
communications@sourceenergyservices.com

Investor relations inquiries:
Brad Thomson
Chief Executive Officer
(403) 262-1312 (ext. 225)
investorrelations@sourceenergyservices.com