CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

UNAUDITED

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SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Financial Position - Unaudited

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

	Note	September 30, 2020	December 31, 2019
Assets			
Current assets			
Accounts receivable	5(c)	$ 51,443	$ 49,538
Prepaid expenses		4,643	2,554
Inventories	7	47,626	60,930
Total current assets		103,712	113,022
Deferred income tax asset		—	30,574
Property, plant and equipment	8	150,154	296,933
Right-of-use assets	9	35,412	56,136
Total assets		$ 289,278	$ 496,665
Liabilities and equity			
Current liabilities			
Accounts payable and accruals	5(d)	$ 50,837	$ 44,082
Contract liabilities	17	1,540	2,035
Lease liabilities	12	11,332	19,706
Decommissioning provision	13	1,883	1,603
Total current liabilities		65,592	67,426
Lease liabilities	12	32,468	40,319
Long-term debt	11	181,130	178,840
Contract liabilities	17	—	1,125
Decommissioning provision	13	10,226	9,646
Total long-term liabilities		223,824	229,930
Total liabilities		$ 289,416	$ 297,356
Shareholders' equity			
Shareholders' equity	14	$ 397,911	$ 397,911
Contributed surplus		7,910	7,910
Accumulated deficit		(412,731)	(205,947)
Cumulative translation adjustment		12,038	2,004
Shareholders' equity		5,128	201,878
Non-controlling interests	14	(5,266)	(2,569)
Total equity		$ (138)	$ 199,309
Total liabilities and equity		$ 289,278	$ 496,665

See accompanying notes to the condensed consolidated interim financial statements.

COVID-19 and future operations (Note 4)

Commitments and contingencies (Note 19)

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss) - Unaudited

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

			For the three months ended September 30,				For the nine months ended September 30,		
	Note		**2020**		**2019**		**2020**		**2019**
Sales									
Sand revenue	17	$	65,240	$	67,639	$	161,085	$	223,465
Wellsite solutions	17		12,636		10,999		27,062		36,973
Terminal services	17		669		1,200		2,762		3,874
Total sales			78,545		79,838		190,909		264,312
Cost of sales	18	$	61,242	$	61,158	$	150,383	$	201,633
Cost of sales - depreciation and depletion			10,264		10,936		26,935		35,692
Gross margin		$	7,039	$	7,744	$	13,591	$	26,987
Operating expense	18	$	2,753	$	4,753	$	9,287	$	15,287
General & administrative expense	18		2,220		2,398		8,176		9,535
Depreciation			3,158		3,875		11,213		12,192
Loss from operations		$	(1,092)	$	(3,282)	$	(15,085)	$	(10,027)
Other expense (income):									
Finance expense	20	$	7,651	$	7,230	$	21,942	$	20,952
Share-based compensation expense (recovery)	15		(22)		(113)		(91)		404
Loss (gain) on asset disposal			(155)		80		(150)		153
Loss (gain) on derivative liability	5(e)		—		51		—		(1,183)
Other income			(127)		(156)		(1,853)		(599)
Other expense	21		66		7,780		186		21,708
Impairment expense	8		—		61,215		143,656		61,215
Foreign exchange gain			(562)		(362)		(644)		(984)
Total other expense			6,851		75,725		163,046		101,666
Loss before income taxes		$	(7,943)	$	(79,007)	$	(178,131)	$	(111,693)
Income taxes									
Deferred tax expense (recovery)	10		—		(18,020)	$	31,350	$	(24,357)
Total income taxes			—		(18,020)		31,350		(24,357)
Net loss		$	(7,943)	$	(60,987)	$	(209,481)	$	(87,336)
Net loss attributable to shareholders			(7,595)		(60,249)		(206,784)		(85,660)
Net loss attributable to non-controlling interests			(348)		(738)		(2,697)		(1,676)
Total net loss		$	(7,943)	$	(60,987)	$	(209,481)	$	(87,336)
Other comprehensive income (loss)									
Foreign currency translation adjustment (subject to recycling)			(3,001)		2,970		10,034		(9,899)
Consolidated comprehensive loss		$	(10,944)	$	(58,017)	$	(199,447)	$	(97,235)
Loss per share (in dollars)									
Basic	16	$	(0.13)	$	(1.01)	$	(3.47)	$	(1.42)
Diluted	16	$	(0.13)	$	(1.01)	$	(3.47)	$	(1.42)

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Changes in Equity - Unaudited

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

	Note	Common share capital		Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
		Number of Shares	$					
Balance at December 31, 2019		**60,953**	**$ 397,911**	**$ 7,910**	**$ 2,004**	**$ (205,947)**	**$ (2,569)**	**$ 199,309**
Unrealized foreign exchange income					10,034			**10,034**
Net loss						(206,784)	(2,697)	**(209,481)**
Balance at September 30, 2020		**60,953**	**$ 397,911**	**$ 7,910**	**$ 12,038**	**$ (412,731)**	**$ (5,266)**	**$ (138)**

	Common share capital		Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
	Number of Shares	$					
Balance at December 31, 2018	**62,237**	**$ 399,511**	**$ 7,554**	**$ 16,162**	**$ (117,425)**	**$ (1,136)**	**$ 304,666**
Unrealized foreign exchange loss				(9,899)			**(9,899)**
Share-based compensation expense			356				**356**
Repurchase and cancellation of shares under NCIB	(1,284)	(1,600)					**(1,600)**
Net loss					(85,660)	(1,676)	**(87,336)**
Balance at September 30, 2019	**60,953**	**$ 397,911**	**$ 7,910**	**$ 6,263**	**$ (203,085)**	**$ (2,812)**	**$ 206,187**

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Cash Flows - Unaudited

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

		For the three months ended September 30,		For the nine months ended September 30,	
	Note	**2020**	**2019**	**2020**	**2019**
Cash Flows Provided by Operating Activities					
Net loss		$ (7,943)	$ (60,987)	$ (209,481)	$ (87,336)
Adjusted for the following:					
Depreciation and depletion		13,422	14,811	38,148	47,884
Share-based compensation	15	(22)	(113)	(91)	404
Loss (gain) on sale of assets		(155)	80	(150)	153
Write-off of damaged Fox Creek assets	21	—	—	—	10,071
Finance expense	20	7,651	7,230	21,942	20,952
Write-down of assets	21	—	9,869	—	9,869
Impairment	8	—	61,215	143,656	61,215
Deferred income taxes	10	—	(18,020)	31,350	(24,357)
Unrealized loss (gain) on derivative liability		—	51	—	(1,183)
Satisfaction of performance obligations, net of proceeds on contract liabilities	17	(83)	(539)	(1,452)	(1,506)
Payments for share-based compensation		—	(9)	(14)	(68)
Payments made for decommissioning provision	13	—	(364)	(535)	(667)
Payments made for short-term, low-value lease agreements	12	(43)	—	(252)	(78)
Net changes in non-cash working capital	6	(19,077)	23,070	3,199	10,420
Cash flows provided by (used in) operating activities		$ (6,250)	$ 36,294	$ 26,320	$ 45,773
Investing Activities					
Purchase of property, plant and equipment		(386)	(1,785)	(2,545)	(23,705)
Proceeds on disposal of property, plant and equipment		155	—	155	—
Net changes in non-cash working capital	6	(341)	(17,685)	(2,463)	(15,143)
Cash flows used in investing activities		$ (572)	$ (19,470)	$ (4,853)	$ (38,848)
Financing Activities					
Proceeds on long-term debt		18,669	18,993	27,829	60,916
Repayments on long-term debt		(5,954)	(27,901)	(31,839)	(38,700)
Proceeds from the US Payroll Protection Program		—	—	1,586	—
Repurchase and cancellation of shares under NCIB	14	—	—	—	(1,600)
Repayment of finance lease obligations	12	(3,640)	(5,688)	(12,229)	(17,999)
Financing expense paid		(2,253)	(2,228)	(6,814)	(14,116)
Cash flows provided by (used in) financing activities		$ 6,822	$ (16,824)	$ (21,467)	$ (11,499)
Decrease in cash		$ —	$ —	$ —	$ (4,574)
Cash and cash equivalents, beginning of period		—	—	—	4,574
Cash and cash equivalents, end of period		$ —	$ —	$ —	$ —
Supplementary information for cash flows from operating activities					
Interest paid		(2,062)	(2,172)	(6,386)	(13,891)

See accompanying notes to the condensed consolidated interim financial statements.

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. and its subsidiaries ("Source" or the "Company") 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. The Company's head and principal office is located at 500, 438 – 11th Avenue SE, Calgary, Alberta, T2G 0Y4.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as at and for the three and nine months ended September 30, 2020, and do not include all the information required for full annual financial statements. As such, they should be read in conjunction with the December 31, 2019 annual consolidated audited financial statements. These financial statements are available on SEDAR.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors as at October 29, 2020.

Use of estimates and judgments

The preparation of these condensed consolidated interim financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. These estimates are further described in the Company's December 31, 2019 annual consolidated audited financial statements which can be found on SEDAR.

Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated audited financial statements as at and for the year ended December 31, 2019, except as noted below:

Government assistance

Claims for assistance under various government grant programs are recorded as a reduction of the cost of the related expenses in the period in which the eligible expenditures are incurred. Where government grants are provided in the form of a forgivable loan, proceeds are recorded as a financial liability and not recognized as a reduction of the cost of the related expenses incurred until reasonable assurance of forgiveness has been obtained.

New and amended standards

The following amendments have been issued by the IASB and were adopted by the Company on January 1, 2020:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

The Company completed its assessment of the impact of the amendments and concluded that they do not have a material impact on the condensed consolidated interim financial statements.

Comparative figures

Current and prior year mine preparation costs have been removed from construction in progress and presented separately in the fixed asset continuity schedule in Note 8.

3. SEASONALITY OF OPERATIONS

The Company's business is seasonal in nature with the majority of activity normally being in the first and third quarters. Lower activity levels are usually realized in the fourth quarter, as exploration and production ("E&P") companies evaluate remaining capital spend for the year, and 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, the Company's operating results may vary on a quarterly basis. There are other factors that will impact the Company's activities quarter-to-quarter including commodity prices and E&P companies' completion activity levels.

4. COVID-19 AND FUTURE OPERATIONS

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 resulted in global business disruption with significant economic repercussions and caused uncertainty and extraordinary volatility in the oil and gas industry, particularly in the Western Canadian Sedimentary Basin ("WCSB"). The demand for oil significantly deteriorated and was further impacted by certain actions taken by the Organization of Petroleum Exporting Countries. The convergence of these events created an unprecedented simultaneous impact of a decline in global oil demand and a risk of a substantial increase in oil supply.

These events have caused a significant contraction in capital spending in the WCSB and the demand for the Company's products and services has been impacted as customers adjust operations in response to the volatile economic climate. As a result of these circumstances, Source implemented operational cost reduction measures including reductions to operating staff headcount and work hours, reductions to compensation for Board, executive and salaried employees and benefits rollbacks. 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.

As a result of the uncertain operating environment and its impact on the Company's operations, Source has negotiated a proposed recapitalization transaction (the "Recapitalization Transaction") with its key stakeholders which addresses the maturity of the Company's Notes (as defined in Note 11) and provides enhanced liquidity including access to new funding (refer to Note 23 for additional information related to the Recapitalization Transaction). The Recapitalization Transaction is subject to approval by shareholders, bondholders and final approval of the Court of Queen's Bench of Alberta (the "Court"). Additionally, Source has obtained covenant relief from its banking syndicate through October 30, 2020 and has completed a Support and Interest Deferral Agreement (the "Deferral Agreement") with noteholders holding approximately 72% of Source's Notes. Under the Deferral Agreement, the June 15, 2020 interest payment on the Notes has been deferred until October 31, 2020 (refer to Note 23 for additional information related to the interest deferral). While the proposed Recapitalization Transaction currently has significant support for approval, as noted above, there can be no assurance that the proposed Recapitalization Transaction will be completed, and therefore there is material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements have been prepared on a going concern basis and do not reflect adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

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

(b) Fair value of financial instruments

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the asset backed loan ("ABL") facility approximates its carrying value as it bears interest at market floating rates consistent with market rates for similar debt. Based on the closing market price at September 30, 2020, the fair value of the senior secured notes is $33,119 ($21 dollars per $100 dollars).

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

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

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

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

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

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

			Fair Value	
September 30, 2020	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at amortized cost:				
$157.71M of Senior Secured First Lien Notes	$ 152,724	$ 33,119	$ —	$ —
Lease liabilities – current	$ 11,332	$ —	$ 11,332	$ —
Lease liabilities – long-term	$ 32,468	$ —	$ 32,468	$ —

			Fair Value	
December 31, 2019	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities at amortized cost:				
$157.71M of Senior Secured First Lien Notes	$ 150,028	$ 76,489	$ —	$ —
Lease liabilities – current	$ 19,706	$ —	$ 19,706	$ —
Lease liabilities – long-term	$ 40,319	$ —	$ 40,319	$ —

(c) Credit risk

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

The Company's revenues are generally derived from a group of large and reputable oilfield E&P companies and oilfield services customers. Orders for proppants are subject to the Company's credit and collection programs. Source's five largest customers account for 98% of the revenue for the three months ended September 30, 2020, with the three largest making up 89% of revenue (three months ended September 30, 2019, five customers accounted for 84%, three customers accounted for 70%). The Company's five largest customers account for 87% of the revenue for the nine months ended September 30, 2020, with the three largest making up 72% of revenue (nine months ended September 30, 2019, five customers accounted for 86%, three customers accounted for 72%). Three of those customers (three for the nine months ended September 30, 2019), account for 10% or more of total revenue individually in the nine months ended September 30, 2020.

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is materially mitigated by the size and reputation of the companies to which they extend credit. As at September 30, 2020 and December 31, 2019, the Company's trade receivables, net of loss allowances, were comprised of the following:

As at	**September 30, 2020**	**December 31, 2019**
Not yet due	$ 35,600	$ 28,261
0 – 30 days	15,548	19,596
31 – 60 days	3	697
61 – 90 days	5	857
91+ days	287	127
Total trade receivables	**$ 51,443**	**$ 49,538**

The Company's maximum exposure to credit risk is the fair value of accounts receivable on the balance sheet. During the first nine months of 2020, Source wrote off $1,580 of receivables related to an oilfield services customer, not under contract, that recently filed for creditor protection. Source has filed a Proof of Claim for amounts owed related to this write-off and is awaiting confirmation of potential recoveries.

The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on the lifetime expected loss provision. The Company uses an allowance matrix to estimate the credit losses of trade receivables from customers. The matrix considers historical default rates as well as the days past due. The current operating climate has had a significant impact on general credit risk (refer to Note 4 for additional detail related to the impact of COVID-19). The Company has taken these factors into consideration as part of its credit evaluations and assessment of credit risk.

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

As shown by the matrix below, a loss allowance of $71 is recorded as at September 30, 2020:

September 30, 2020	Total	Not yet due	0-30 days	31-60 days	61-90 days	91+ days
Gross carrying amount	$ 51,514	$ 35,636	$ 15,579	$ 3	$ 5	$ 291
Expected loss rate		0.10 %	0.20 %	0.25 %	1.00 %	1.25 %
Loss allowance	**$ 71**	**$ 36**	**$ 31**	**$ —**	**$ —**	**$ 4**

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk includes preparing operating and capital budgets and forecasts and monitoring performance against the budgets and forecasts. The Company may seek additional financing based on the results of these processes. The Company's ongoing liquidity is impacted by various external events and conditions, including foreign currency fluctuations and commodity price fluctuations as well as global economic conditions.

The financial liabilities on the condensed consolidated interim statement of financial position consist of accounts payable and accrued liabilities, lease liabilities, long-term debt and senior secured notes. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future debt and equity financings. The Company also has a credit facility to facilitate the management of liquidity risk (refer to Note 4 for additional information relating to liquidity risk and COVID-19).

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

As at September 30, 2020	Total	2020	2021	2022	2023	2024	2025 and beyond
Accounts payable and accruals	$ 50,837	$ 50,837	$ —	$ —	$ —	$ —	$ —
Lease liabilities[(1)]	$ 47,341	$ 3,919	$ 11,971	$ 8,900	$ 7,100	$ 5,854	$ 9,597
Credit facilities[(2)]	$ 25,668	$ —	$ 25,668	$ —	$ —	$ —	$ —
Contract liabilities	$ 1,540	$ 1,540	$ —	$ —	$ —	$ —	$ —
Notes payable[(1)]	$ 190,104	$ 16,560	$ 173,544	$ —	$ —	$ —	$ —

Notes:
(1) Includes interest for future periods.
(2) The timing and amount of interest payments on such balances will fluctuate depending on balances outstanding and applicable interest rates.

(e) Market risk

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

Foreign currency risk

The Company is exposed to currency price risk on sales denominated in United States ("US") dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing of 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. Included in accounts receivable and accounts payable and accrued liabilities at September 30, 2020 are $32,183 (December 31, 2019 - $31,413) and $14,540 (December 31, 2019 - $31,938) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) by $190 for the three months ended September 30, 2020 ($268 in 2019) and $537 for the nine months ended September 30, 2020 ($934 in 2019).

The Company previously had a customer contract that included foreign exchange rate collars. The embedded derivative was separated from the contract and accounted for as a derivative asset or liability at fair value through profit or loss based on valuation techniques that were not based on observable market data. The fair value of the derivative asset as at September 30, 2020 is $nil (December 31, 2019 - $nil). The Company had entered into the following foreign exchange rate collars to help mitigate the risk associated with the embedded derivative contained in the above noted customer contract. The fair value of the derivative is based on the US dollar to Canadian dollar foreign exchange forward curve. The collars were wound up and settled in January 2020.

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

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	January 2020
USD $1,500	1.25	USD $3,000	1.40	January 2020

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility. The Company is exposed to interest rate price risk on the long-term debt that bears interest at floating rates. The net effect of each 1% change in market interest rates would impact the related interest expense (income) for the Company's floating rate borrowings by $261 at September 30, 2020 and $290 at December 31, 2019. The Company had no interest rate swaps or financial contracts in place as at or during the periods ended September 30, 2020 and December 31, 2019.

(f) Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain shareholder and creditor confidence and to provide a platform to create value for its common shareholders. The Company's management is responsible for managing the Company's capital and does so through regular reviews of financial information including budgets and forecasts. The Company's directors are responsible for overseeing this process. The Company considers its capital structure to include equity, senior secured notes, credit facilities and leases.

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

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

The Company's share capital is not subject to external restrictions; however, the amount of the bank operating facility available for use is determined by levels of accounts receivable and inventory.

The Company is subject to externally imposed capital requirements for the ABL facility, requiring the Company to maintain a springing fixed charge ratio of 1.10:1 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. The fixed charge coverage ratio is defined as the ratio of (i) earnings before interest, tax, depreciation and amortization for the twelve calendar months ending at such fiscal quarter end less unfinanced capital expenditures, cash taxes and distributions to shareholders and (ii) the interest expense paid in cash plus the amount of debt which has a scheduled due date or is otherwise required to be repaid or paid for the twelve calendar months ending at such fiscal quarter end. In May 2020, and subsequently thereafter, the ABL was amended to include a waiver of the application of the fixed charge coverage ratio from May 31, 2020 to October 30, 2020.

The Company's capital management policy has not changed during the periods ended September 30, 2020 or December 31, 2019.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Accounts receivable	$ (35,841)	$ 15,547	$ (2,014)	$ (9,974)
Prepaid expenses and deposits	(1,023)	2,222	(1,332)	5,226
Inventory	5,822	(618)	10,529	3,300
Accounts payable and accrued liabilities	11,965	5,919	(3,984)	11,868
Changes in non-cash working capital	**$ (19,077)**	**$ 23,070**	**$ 3,199**	**$ 10,420**

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

Changes in non-cash investing assets and liabilities for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Accounts payable and accrued liabilities	$ (341)	$ (17,685)	$ (2,463)	$ (15,143)
Changes in non-cash working capital	**$ (341)**	**$ (17,685)**	**$ (2,463)**	**$ (15,143)**

	Senior Secured Notes	ABL facility
As at December 31, 2018	$ 146,869	$ (477)
Cash changes:		
Proceeds	—	68,002
Repayments	—	(38,805)
Non-cash and other changes:		
Accretion	3,159	222
Unrealized foreign exchange gain	—	(152)
Financing costs incurred	—	(133)
As at December 31, 2019	$ 150,028	$ 28,657
Cash changes:		
Proceeds	—	27,829
Repayments	—	(31,839)
Non-cash and other changes:		
Accretion	2,696	264
Unrealized foreign exchange gain	—	1,106
Financing costs incurred	—	(349)
As at September 30, 2020	**$ 152,724**	**$ 25,668**

7. INVENTORIES

Inventory consists of three main classifications:

As at	September 30, 2020	December 31, 2019
Unprocessed sand and work in progress	$ 28,952	$ 32,358
Sand available for shipment	14,327	24,060
Spare parts and supplies	4,347	4,512
Total inventories	**$ 47,626**	**$ 60,930**

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is the depreciation expense related to sand producing properties of $10,476 as at September 30, 2020 (December 31, 2019 - $14,080). The total amount of inventory expensed through cost of sales during the three and nine months ended September 30, 2020 was $50,454 and $124,863, respectively (three and nine months ended September 30, 2019 - $50,872 and $165,468). Under the normal course of operations, no inventory write-downs or reversals of prior write-downs were recorded during the three and nine months ended September 30, 2020. Sand inventory of $627 was written off as a result of the damaged assets that were under construction at Fox Creek in 2019.

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

8. PROPERTY, PLANT AND EQUIPMENT

		Land & Building		Equipment & Vehicles		Other		Construction in Progress		Mine Preparation Costs		Total
Cost												
Balance as at December 31, 2018	$	220,824	$	184,730	$	6,005	$	43,118	$	10,161	$	464,838
Additions		(1,994)		537		149		20,784		3,691		23,167
Disposals		—		(351)		(2)		—		—		(353)
Completed construction in progress		7,666		22,359		301		(30,326)		—		—
Transfers		—		(101)		—		—		—		(101)
Write-off of damaged Fox Creek assets under construction		—		—		—		(10,071)		—		(10,071)
Write-down of assets		(12,701)		(3,487)		(2)		—		—		(16,190)
Exchange differences		(7,894)		(6,671)		(164)		(919)		(565)		(16,213)
Balance as at December 31, 2019	$	205,901	$	197,016	$	6,287	$	22,586	$	13,287	$	445,077
Additions		1,881		150		—		1,255		1,203		4,489
Disposals		—		(268)		(4)		(71)		—		(343)
Completed construction in progress		4		1,930		137		(2,071)		—		—
Transfers		—		(1,700)		—		—		—		(1,700)
Exchange differences		3,998		3,779		89		263		346		8,475
Balance as at September 30, 2020	**$**	**211,784**	**$**	**200,907**	**$**	**6,509**	**$**	**21,962**	**$**	**14,836**	**$**	**455,998**

		Land & Building		Equipment & Vehicles		Other		Construction in Progress		Mine Preparation Costs		Total
Accumulated depreciation												
Balance as at December 31, 2018	$	(36,130)	$	(46,206)	$	(4,623)	$	—	$	(6,940)	$	(93,899)
Depreciation		(11,457)		(15,642)		(763)		—		—		(27,862)
Write-down of assets		4,732		1,588		1		—		—		6,321
Impairment		(16,787)		(15,320)		(131)		—		—		(32,238)
Disposals		—		121		1		—		—		122
Transfers		—		158		—		—		—		158
Exchange differences		1,541		1,938		150		—		(4,375)		(746)
Balance as at December 31, 2019	$	(58,101)	$	(73,363)	$	(5,365)	$	—	$	(11,315)	$	(148,144)
Depreciation		(6,259)		(7,609)		(399)		—		(2,269)		(16,536)
Impairment		(75,371)		(67,565)		(409)		—		—		(143,345)
Disposals		—		263		2		—		—		265
Transfers		—		291		—		—		—		291
Exchange differences		1,242		727		(77)		—		(267)		1,625
Balance as at September 30, 2020	**$**	**(138,489)**	**$**	**(147,256)**	**$**	**(6,248)**	**$**	**—**	**$**	**(13,851)**	**$**	**(305,844)**
Carrying amounts												
December 31, 2019	$	147,800	$	123,653	$	922	$	22,586	$	1,972	$	296,933
September 30, 2020	**$**	**73,295**	**$**	**53,651**	**$**	**261**	**$**	**21,962**	**$**	**985**	**$**	**150,154**

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

As at March 31, 2020, as a result of the weakening economic climate due to COVID-19 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 over five years was completed using a discount rate tied to its current cost of capital. The discounted cash flow projections were based on cash flow forecasts, trailing twelve-month earnings before interest, taxes, depreciation and amortization, historical experience, actual operating results and industry trends and forecasts. Key assumptions included a terminal growth rate of 2% and a discount rate of 15.1%. As a result of the assessment, an impairment expense of $143,656 was recognized during the period of which a portion was allocated to the deferred tax asset and the remainder allocated to property, plant and equipment (December 31, 2019 -

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

$61,215). The Company performed a sensitivity analysis and noted an increase of 1.5% in discount rates could result in a further impairment loss of approximately $8,359. At September 30, 2020, no further impairment indicators were noted.

9. RIGHT-OF-USE ASSETS

	Land & Building	Equipment & Vehicles	Rail cars	Total
Cost				
Balance as at January 1, 2019	$ 7,409	$ 10,224	$ 58,438	$ 76,071
Additions	879	6,640	1,387	8,906
Expired leases	(92)	(1,857)	(2,532)	(4,481)
Exchange differences	(28)	(487)	(2,643)	(3,158)
Balance as at December 31, 2019	$ 8,168	$ 14,520	$ 54,650	$ 77,338
Additions(1)	748	4,060	(10,753)	(5,945)
Expired leases	(772)	(5,299)	(1,358)	(7,429)
Transfers	—	1,699	—	1,699
Exchange differences	82	258	1,443	1,783
Balance as at September 30, 2020	**$ 8,226**	**$ 15,238**	**$ 43,982**	**$ 67,446**

Note:
(1) Includes lease modifications for certain rail car leases completed in the period (refer to Note 12 for additional information related to the modifications).

	Land & Building	Equipment & Vehicles	Rail cars	Total
Accumulated depreciation				
Balance as at Balance as at January 1, 2019	$ —	$ —	$ —	$ —
Depreciation	(1,678)	(9,289)	(15,135)	(26,102)
Expired leases	92	1,857	2,532	4,481
Exchange differences	3	153	263	419
Balance as at December 31, 2019	(1,583)	(7,279)	(12,340)	(21,202)
Depreciation	(2,080)	(5,967)	(9,472)	(17,519)
Expired leases	772	5,299	1,358	7,429
Transfers	—	(290)	—	(290)
Exchange differences	(63)	(166)	(223)	(452)
Balance as at September 30, 2020	**$ (2,954)**	**$ (8,403)**	**$ (20,677)**	**$ (32,034)**
Carrying amounts				
December 31, 2019	$ 6,585	$ 7,241	$ 42,310	$ 56,136
September 30, 2020	**$ 5,272**	**$ 6,835**	**$ 23,305**	**$ 35,412**

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

10. INCOME TAXES

During the second quarter of 2019, the Government of Alberta enacted new legislation to reduce the provincial corporate income tax rate from 12% to 8%. Under the new legislation, the tax rate will decline by 1% each year over the next four taxation years beginning July 1, 2019, resulting in a combined federal and provincial corporate tax rate of 23% by 2022. Deferred income tax benefits have not been recognized in respect of temporary differences.

The following table reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 25% (2019 - 26.5%) for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Loss before income taxes	$ (7,943)	$ (79,007)	$ (178,131)	$ (111,693)
Statutory income tax rate	25.00 %	26.50 %	25.00 %	26.50 %
Expected income taxes	(1,986)	(20,937)	(44,533)	(29,599)
Increase (decrease) in taxes from:				
Non-deductible expenses	131	19	370	308
Share based compensation	—	(29)	3	33
Unrealized foreign exchange and derivatives	—	1	—	(543)
Prior period adjustments	—	(6)	—	(6)
Unrecognized deferred tax assets	(2,442)	3,788	75,150	3,814
Provincial tax rate change	152	270	1,009	3,022
Rate differential on foreign activities	4,855	(1,321)	(891)	(1,479)
Other	(710)	195	242	93
Total income tax expense (recovery)	**$ —**	**$ (18,020)**	**$ 31,350**	**$ (24,357)**

The Company has Canadian and foreign non-capital losses as at September 30, 2020 of $93,139 (September 30, 2019 - $54,185) and $23,960 (September 30, 2019 - $37,778), respectively. Canadian and foreign losses expire beginning in 2037.

11. LONG-TERM DEBT

As at	**September 30, 2020**	**December 31, 2019**
$157.71M of Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	$ 152,724	$ 150,028
ABL due December 2021. Interest is based on floating rates dependent upon the amount of the facility used	26,142	29,046
Unamortized debt issuance costs for the ABL	(474)	(389)
Other long-term debt	2,738	155
Ending balance	**$ 181,130**	**$ 178,840**
Less: current portion	—	—
Long-term portion	**$ 181,130**	**$ 178,840**

On December 8, 2016, the Company issued $130,000 Senior Secured First Lien Notes and an additional $50,000 Senior Secured First Lien Notes on May 31, 2018 (collectively, the “Notes”), which bear interest at 10.5% per annum and mature December 15, 2021. The Notes are secured by a fixed and floating charge over all assets of the business except accounts receivable and inventory, over which the Notes have a second charge.

On June 20, 2019, the ABL was amended to extend the term for another year to mature on December 8, 2021 and added a US$5 million standby letter of credit that does not affect the facility’s borrowing base. The ABL is secured by a floating first lien charge on the accounts receivable and inventory of the Company under a general business security agreement and a second lien charge on all other assets of the business. The facilities bear interest based on the bank’s prime lending rate, banker’s acceptances or LIBOR rates, plus an applicable margin depending on the amount of excess availability. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories and, at September 30, 2020, $26,142 is drawn under this facility (less unamortized finance costs of $474 for a net balance of $25,668) (December 31, 2019 - $29,046). Any excess cash on hand is applied against amounts drawn on the ABL. The amount committed to supporting letters of credit under the facility was $15,973 at September 30, 2020 (December 31, 2019 - $17,535). The borrowing base is updated monthly, with $20,961 of remaining availability at September 30, 2020 (December 31, 2019 - $18,430).

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

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. The springing fixed charge ratio is to be measured when the Company's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. In May 2020, and subsequently thereafter, the ABL was amended to include a waiver of the application of the fixed charge coverage ratio from May 31, 2020 to October 30, 2020.

Interest on the above facility amounted to $930 and $2,877, respectively, for the three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - $1,032 and $2,105, respectively). Interest on the Notes amounted to $4,163 and $12,397, respectively, for three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - $4,163 and $12,393, respectively). In June 2020, Source completed the Deferral Agreement with noteholders which deferred the June 15, 2020 interest payment on the Notes for a period of 60 days. Subsequent amendments to the Deferral Agreement were completed, in August and September 2020, respectively, further extending the grace period to October 31, 2020 (refer to Note 23 for additional detail related to the interest deferral). Effective interest rate for the nine months ended September 30, 2020 is 11.5% (nine months ended September 30, 2019 - 12.0%).

In April 2020, the Company applied for the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act (the "PPP Loan"), administered by the US Small Business Administration. Under the PPP Loan the Company received US$2,097 on April 28, 2020, which bears interest at a rate of 1.00% per annum and matures on April 18, 2022. Subsequently, as a result of the US Paycheck Protection Flexibility Act, the term of the loan was extended and now matures on April 18, 2025. As at September 30, 2020, $2,673 related to this loan is recorded in other long-term debt. The PPP Loan may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The Company can obtain loan forgiveness on eligible expenses, including amounts incurred for US payroll costs and US utility expenses during the twenty-four-week period following the disbursement received under this program. The Company expects to meet the criteria required for the loan to be fully forgiven; however, no recovery related to the loan was recognized as at September 30, 2020.

12. LEASE LIABILITIES

As at		**September 30, 2020**		**December 31, 2019**
Balance, beginning of period	$	60,025	$	1,569
Additions on adoption of IFRS 16		—		76,071
Additions during period		7,442		9,472
Lease modifications		(12,781)		(668)
Lease payments		(12,229)		(23,118)
Changes in F/X rate		1,343		(3,301)
Balance, end of period	**$**	**43,800**	**$**	**60,025**
Less: current portion		(11,332)		(19,706)
Long-term portion	**$**	**32,468**	**$**	**40,319**

The Company incurs lease payments related to rail cars, equipment and vehicles, office buildings and surface leases. Lease liabilities are measured at the present value of the remaining lease payments at the incremental borrowing rate of 8%. Leases with a lease term of twelve months or less for certain classes of assets and low-value assets of $43 and $252, respectively, were expensed to cost of sales or operating expense in the three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - $nil and $78, respectively).

As a result of the uncertain economic operating environment, the Company completed the renegotiation of rail car lease contracts with certain of its rail car lessors, resulting in a reduction to lease obligations and a modification to the related right-of-use assets for the period ended September 30, 2020. The Company recognized $1,260 and $3,268, respectively, of interest on lease payments for the three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - $1,493 and $3,979, respectively).

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

13. DECOMMISSIONING PROVISION

As at	September 30, 2020	December 31, 2019
Balance, beginning of period	$ 11,249	$ 17,229
Liabilities incurred	548	1,541
Liabilities settled	(535)	(2,665)
Accretion	73	190
Changes in estimate[1]	449	(4,333)
Changes in F/X rate	325	(713)
Balance, end of period	**$ 12,109**	**$ 11,249**
Less: current portion	$ (1,883)	$ (1,603)
Long-term portion	**$ 10,226**	**$ 9,646**

Note:
(1) The change in estimate of the decommissioning provision in 2019 is due to the adoption of IFRS 16.

The Company's decommissioning provision relates to reclamation of land and facilities where its mines operate. Management estimates the costs to abandon and reclaim its properties based on current reclamation technology, acres disturbed and the estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provision has been discounted using a risk-free rate of 0.57% at September 30, 2020 (December 31, 2019 - 1.61%). These obligations are to be settled based on the economic lives of the underlying assets, currently estimated to be between 8 and 20 years.

14. SHAREHOLDERS' EQUITY

The Company has issued and outstanding common and Class B shares. The 1,300,154 Class B shares are held by SES Sand Holdings US, a subsidiary of TriWest Capital Partners ("TriWest") which is a related party, who own 3.74% of the shares of Source Energy Services Canada LP, a subsidiary of Source, and may be converted at the option of the holder into common shares of Source on a one for one basis. Class B shares are entitled to vote at shareholder meetings, but are not entitled to dividends from Source. However, they are entitled to an equivalent distribution on a per share basis from Source Energy Services Canada LP. As at September 30, 2020, TriWest owned 27.36% of the outstanding shares of Source.

Normal Course Issuer Bid

In 2019, the Company completed its existing Normal Course Issuer Bid ("NCIB") that allowed Source to purchase and cancel 1,283,981 common shares for a total consideration of $1,600 at a weighted average price per share of $1.2461.

(stated in thousands, except share and per share amounts)	2020	2019
Number of common shares repurchased	—	1,283,981
Weighted average price per share	—	$ 1.2461
Amount of repurchase	**—**	**$ 1,600**

The following table outlines the issued and outstanding shares as at September 30, 2020:

	Number of shares	Amount
Balance as at December 31, 2019 and September 30, 2020	**60,952,885**	**$ 397,911**

15. SHARE-BASED COMPENSATION

The Company's share-based compensation Plan (the "Plan"), effective as of April 13, 2017, is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase common shares to a maximum number equal to 10% of the issued and outstanding common shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's shares on the date of the grant.

Options issued to date were granted in connection with the IPO and therefore vest 1/3 on the grant date and 1/3 on the anniversary date of the grant over a two-year period and expire 5 years from the issue date. Future grants may not follow this vesting profile.

As at September 30, 2020, all options issued under the Plan have been surrendered to the Company by management. As a result, no options remain outstanding.

	Options outstanding (‘000s)	Range of exercise price
Outstanding at December 31, 2018	2,581	$10.50
Canceled	(2,065)	$10.50
Outstanding at December 31, 2019	516	$10.50
Canceled	(516)	$10.50
Outstanding at September 30, 2020	**—**	**$—**

The liability settled compensation plans include restricted share units (“RSU”), performance share units (“PSU”) and deferred share units (“DSU”). The following table provides a summary of the status of the Company’s liability settled compensation plans and changes during the nine months ended September 30, 2020:

(number of units)	RSU	PSU	DSU
Balance at December 31, 2018	460,353	328,707	117,855
Granted	872,601	320,145	361,524
Exercised	(156,899)	(5,236)	(21,071)
Forfeited	(208,875)	(209,278)	—
Balance as at December 31, 2019	967,180	434,338	458,308
Granted	1,125,418	622,786	555,660
Exercised	(201,452)	—	—
Forfeited	(64,725)	(149,732)	—
Balance as at September 30, 2020	**1,826,421**	**907,392**	**1,013,968**
Vested as at September 30, 2020	**364,888**	**58,027**	**—**

The RSUs will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from issue date. Subject to achievement of performance criteria set out by the Board of Directors, the PSUs awarded will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from the issue date. The RSUs and PSUs may be settled in cash or shares and accordingly are considered a liability settled award for accounting purposes.

The DSUs vest and are expensed over the earlier of three years or when a director or other participant ceases in their role and are payable only when a director or participant leaves the Company. The DSUs are expected to be settled for cash payment and accordingly are considered a liability settled award for accounting purposes.

Total share-based compensation expense (recovery) for the share-based payment plans for the three and nine months ended September 30, 2020 was $(22) and $(91), respectively (three and nine months ended September 30, 2019 - $(113) and $404, respectively).

16. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the three and nine months ended September 30, 2020 was based on the losses available to holders of common shares of $(7,595) and $(206,784), respectively (three and nine months ended September 30, 2019 - $(60,249) and $(85,660), respectively), and a weighted average number of common shares outstanding for the three and nine months ended September 30, 2020 of 59,652,731 (three and nine months ended September 30, 2019 - 59,652,731 and 60,232,907, respectively).

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Common shares outstanding, beginning of period	59,652,731	59,652,731	59,652,731	60,936,712
Weighted average shares repurchased and canceled under NCIB	—	—	—	(703,805)
Weighted average common shares outstanding, end of period	**59,652,731**	**59,652,731**	**59,652,731**	**60,232,907**
Common shares issuable pursuant to conversion option of Class B shares(1)	—	—	—	—
Weighted average number of diluted common shares outstanding, end of period	**59,652,731**	**59,652,731**	**59,652,731**	**60,232,907**

Note:
(1) Only attributable to NCI shareholders when in an income position.

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

Diluted earnings (loss) per share

Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive options as well as exchangeable shares are ignored in calculating diluted earnings per share. The exchangeable shares were not considered dilutive at September 30, 2020 as the Company was in a loss position.

17. REVENUE

The following table presents the Company's sales, disaggregated by revenue source:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenue from contracts with customers:				
Sand revenue	$ 65,240	$ 67,639	$ 161,085	$ 223,465
Wellsite solutions	12,261	10,699	25,937	36,073
Terminal services	426	605	1,975	2,018
Total revenue from contracts with customers	$ 77,927	$ 78,943	$ 188,997	$ 261,556
Storage facilities[(1)]	618	895	1,912	2,756
Total revenue	**$ 78,545**	**$ 79,838**	**$ 190,909**	**$ 264,312**

Note:
(1) Storage facilities includes revenue for proppant storage at terminals as well as longer term Sahara rentals.

Contract Liabilities

The Company entered into an agreement with a customer, effective January 1, 2018, where the Company received $14,761 (US$11,505) as a prepayment for future purchases of proppant. In consideration of the prepayment, the price per metric tonne to the customer was reduced for each tonne of sand sold to the customer. The cash price per tonne is also reduced for each tonne of sand sold to or pumped by the customer.

The Company expects the period between the transfer of the promised goods to the customer and payment by the customer to exceed one year. As such, the Company has adjusted the transaction price for the time value of money.

The following table provides a summary of the contract liability as of September 30, 2020:

As at	**September 30, 2020**	**December 31, 2019**
Balance, beginning of period	$ 3,160	$ 5,899
Satisfaction of performance obligations	(1,452)	(2,453)
Non-cash interest income	(168)	(286)
Balance, end of period	**$ 1,540**	**$ 3,160**
Less: current portion	(1,540)	(2,035)
Long-term portion	**$ —**	**$ 1,125**

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

18. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the condensed consolidated interim statement of operations and comprehensive income (loss) using the function of expense method whereby expenses are classified according to their function within the Company. This method was selected as it is more closely aligned with the Company's business structure. The Company's functions under IFRS are as follows:

- Cost of sales;
- Operating; and
- General & administrative.

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

Three months ended September 30,	2020				2019			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$ 50,448	$ —	$ —	$ 50,448	$ 50,873	$ —	$ —	$ 50,873
Salary costs(1)	1,672	1,102	1,159	3,933	2,855	1,769	1,457	6,081
Equipment costs	427	125	—	552	564	270	16	850
Transportation costs	8,649	—	—	8,649	6,763	—	—	6,763
Facility costs	46	289	25	360	103	787	23	913
Selling costs	—	1,237	39	1,276	—	1,927	(11)	1,916
Administration costs	—	—	997	997	—	—	913	913
Total	**$ 61,242**	**$ 2,753**	**$ 2,220**	**$ 66,215**	**$ 61,158**	**$ 4,753**	**$ 2,398**	**$ 68,309**

Note:
(1) Included in 2020 cost of sales, operating, and general & administrative salary costs are wage subsidies of $1,092 received as part of the Canadian Emergency Wage Subsidy ("CEWS") program.

Nine months ended September 30,	2020				2019			
	COS	OPEX	G&A(1)	Total	COS	OPEX	G&A	Total
Direct material	$124,863	$ —	$ —	$124,863	$165,450	$ —	$ —	$165,450
Salary costs(2)	5,343	3,832	3,924	13,099	8,584	5,904	6,063	20,551
Equipment costs	1,482	778	1	2,261	1,652	1,172	16	2,840
Transportation costs	18,020	—	—	18,020	25,565	—	—	25,565
Facility costs	675	978	50	1,703	382	2,356	155	2,893
Selling costs	—	3,699	1,570	5,269	—	5,855	20	5,875
Administration costs	—	—	2,631	2,631	—	—	3,281	3,281
Total	**$150,383**	**$ 9,287**	**$ 8,176**	**$167,846**	**$201,633**	**$ 15,287**	**$ 9,535**	**$226,455**

Notes:
(1) Selling costs include amount written off for receivables deemed uncollectible (refer to Note 5 for additional information).
(2) Included in 2020 cost of sales, operating, and general & administrative salary costs are wage subsidies of $2,200 received as part of the CEWS program.

19. COMMITMENTS AND CONTINGENCIES

The Company has commitments regarding a physical natural gas contract. The agreement expires March 2023. Estimated annual commitments are as follows:

2020	$ 336
2021	1,249
2022	1,249
2023	329
Total	**$ 3,163**

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

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

20. FINANCE EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest expense	$ 6,373	$ 6,255	$ 18,436	$ 18,071
Accretion	1,067	915	3,035	2,651
Finance expense	211	60	471	230
Total	**$ 7,651**	**$ 7,230**	**$ 21,942**	**$ 20,952**

21. OTHER EXPENSE

In May 2019, an incident occurred during the construction of assets to provide additional storage capacity at the Company's Fox Creek terminal facility which resulted in the dismantlement of all related assets, as well as incremental costs associated with the cleanup. Source has received $8,527 of insurance proceeds related to the incident. An investigation into the cause of the incident remains underway and further actions will be determined pending its outcome.

A breakdown of the costs included in the consolidated statement of operations and comprehensive income (loss) is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Write-off of damaged Fox Creek assets	$ —	$ —	$ —	$ 10,071
Other costs related to Fox Creek	66	521	186	4,378
Insurance proceeds	—	(2,610)	—	(2,610)
Total costs related to Fox Creek incident	**66**	**(2,089)**	**186**	**11,839**
Write-down of assets	—	9,869	—	9,869
Total other expense	**$ 66**	**$ 7,780**	**$ 186**	**$ 21,708**

22. OPERATING SEGMENTS

The Company has operations in both the US and Canada; the two geographic segments are summarized in the table below:

Sales for the three months ended September 30,	Canadian Operations	US Operations	Corporate[(1)]	Total
2020	**$ 78,240**	**$ 305**	**$ —**	**$ 78,545**
2019	$ 79,838	$ —	$ —	$ 79,838

Sales for the nine months ended September 30,	Canadian Operations	US Operations	Corporate[(1)]	Total
2020	**$ 190,604**	**$ 305**	**$ —**	**$ 190,909**
2019	$ 263,783	$ 529	$ —	$ 264,312

Total Assets	Canadian Operations	US Operations	Corporate[(1)]	Total
September 30, 2020	**$ 111,715**	**$ 171,872**	**$ 5,691**	**$ 289,278**
December 31, 2019	$ 162,428	$ 299,922	$ 34,315	$ 496,665

Note:
(1) The Corporate Segment does not represent an operating segment and is included for informational purposes only.

23. SUBSEQUENT EVENTS

On October 7, 2020, the Company announced the Recapitalization Transaction, supported by 74% of Source's existing noteholders and 45% of holders of Source's outstanding common shares. Source intends to implement the Recapitalization Transaction by way of a corporate plan of arrangement (the "Plan of Arrangement") under the Canada Business Corporations Act (the "CBCA").

The Recapitalization Transaction will, among other things:

- proactively address the maturity and obligations (including all accrued and unpaid interest) under the Notes through an exchange of the Notes for a combination of new senior secured first lien notes due March 15, 2025 (the "New Secured Notes"), resulting in a $32.7 million decrease of the principal amount and the issuance of new common shares of Source, constituting approximately 62.5% of the common shares outstanding on a fully diluted basis, immediately following completion of the Recapitalization Transaction;
- enable Source to access new funding under a $20.0 million term loan facility (the "BDC Facility") from Business Development Bank of Canada ("BDC"), with participation from the Company's existing lending syndicate, as contemplated under a non-binding term sheet executed between the Company and BDC;
- provide enhanced liquidity and financial flexibility as a result of the terms of the New Secured Notes and the BDC Facility, which enable the Company to pay interest in kind, rather than in cash, on the New Secured Notes for all quarterly interest payments up to and including February 15, 2022 and on the BDC Facility for all interest payments during its first 12 months;
- enable Source to obtain the support of its lending syndicate through an amendment to Source's revolving credit facility providing the Company with an extended maturity date, ongoing financial flexibility and access to liquidity under the amended credit facility; and
- result in existing shareholders retaining approximately 37.5% of the outstanding common shares on a fully-diluted basis following completion of the Recapitalization Transaction.

On October 26, 2020, in connection with the Company's application pursuant to section 192 of the CBCA, the Court issued an interim order (the "Interim Order") authorizing Source to call and conduct meetings of its noteholders and shareholders to vote upon the Plan of Arrangement to implement the Recapitalization Transaction. As all obligations (including unpaid interest) under the Notes will be addressed pursuant to the Plan of Arrangement, Source does not intend to pay the June 15, 2020 interest payment on the Notes in cash when the deferral period ends on October 31, 2020. The Interim Order contains a stay of proceedings preventing any person from exercising any rights or remedies as a result of the non-payment when due of any interest or other amounts payable under the Notes.