CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2021 AND 2020

UNAUDITED

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

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Financial Position - Unaudited

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

	Note		June 30, 2021		December 31, 2020
Assets					
Current assets					
Cash		$	3,027	$	—
Accounts receivable	4(c)		33,137		33,644
Prepaid expenses			2,977		4,436
Derivative asset	4(b)		105		—
Inventories	6		51,692		53,467
Total current assets			90,938		91,547
Derivative asset	4(b)		315		—
Property, plant and equipment	7		132,299		140,927
Right-of-use assets	8		28,970		33,787
Total assets		$	252,522	$	266,261
Liabilities and equity					
Current liabilities					
Accounts payable and accruals	4(d)	$	33,277	$	33,219
Contract liabilities	16		—		776
Lease liabilities	11		10,626		11,036
Current portion of long-term debt	10		7,500		—
Decommissioning provision	12		235		1,006
Total current liabilities			51,638		46,037
Lease liabilities	11		27,548		31,293
Long-term debt	10		143,757		147,281
Decommissioning provision	12		7,439		8,963
Total long-term liabilities			178,744		187,537
Total liabilities		$	230,382	$	233,574
Shareholders' equity					
Shareholders' equity	13(a)	$	410,632	$	410,632
Contributed surplus			2,459		2,459
Accumulated deficit			(394,880)		(388,622)
Cumulative translation adjustment			3,929		8,218
Total equity		$	22,140	$	32,687
Total liabilities and equity		$	252,522	$	266,261

See accompanying notes to the condensed consolidated interim financial statements.

Commitments and contingencies (Note 18)

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss - Unaudited

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

		For the three months ended June 30,		For the six months ended June 30,	
	Note	**2021**	**2020**	**2021**	**2020**
Sales					
Sand revenue	16	$ 58,098	$ 12,826	$ 124,213	$ 95,845
Wellsite solutions	16	14,033	2,313	28,154	14,426
Terminal services	16	605	762	2,258	2,093
Total sales		72,736	15,901	154,625	112,364
Cost of sales	17	$ 56,526	$ 12,485	$ 120,145	$ 89,141
Cost of sales - depreciation		4,528	3,241	12,110	16,671
Gross margin		$ 11,682	$ 175	$ 22,370	$ 6,552
Operating expense	17	$ 4,048	$ 2,237	$ 7,766	$ 6,534
General & administrative expense	17	2,390	3,399	4,994	5,955
Depreciation		2,326	3,798	5,111	8,055
Income (loss) from operations		$ 2,918	$ (9,259)	$ 4,499	$ (13,992)
Other expense (income):					
Finance expense	19	$ 7,410	$ 7,045	$ 14,873	$ 14,292
Share-based compensation expense (recovery)	14	(16)	27	170	(69)
Loss (gain) on asset disposal		(9)	—	(9)	5
Gain on derivative asset	4(b)	(420)	—	(420)	—
Other income	10(d)	(2,760)	(382)	(2,922)	(1,726)
Other expense		—	12	44	120
Impairment expense	7	—	—	—	143,656
Foreign exchange loss (gain)		(415)	230	(979)	(82)
Total other expense		3,790	6,932	10,757	156,196
Loss before income taxes		$ (872)	$ (16,191)	$ (6,258)	$ (170,188)
Income taxes					
Deferred tax expense	9	$ —	$ —	$ —	$ 31,350
Total income taxes		—	—	—	31,350
Net loss		$ (872)	$ (16,191)	$ (6,258)	$ (201,538)
Net loss attributable to shareholders		(872)	(15,725)	(6,258)	(199,189)
Net loss attributable to non-controlling interests	13(a)	—	(466)	—	(2,349)
Total net loss		$ (872)	$ (16,191)	$ (6,258)	$ (201,538)
Other comprehensive income (loss)					
Foreign currency translation adjustment (subject to recycling)		(2,145)	(3,651)	(4,289)	13,035
Consolidated comprehensive loss		$ (3,017)	$ (19,842)	$ (10,547)	$ (188,503)
Loss per share (in dollars)					
Basic	15	$ (0.06)	$ (3.16)	$ (0.46)	$ (40.07)
Diluted	15	$ (0.06)	$ (3.16)	$ (0.46)	$ (40.07)

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)

	Common share capital		Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Total Equity
	Number of Shares	$				
Balance at December 31, 2020	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ 8,218**	**$ (388,622)**	**$ 32,687**
Net loss					(6,258)	**(6,258)**
Unrealized foreign exchange loss				(4,289)		**(4,289)**
Balance at June 30, 2021	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ 3,929**	**$ (394,880)**	**$ 22,140**

	Common share capital		Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
	Number of Shares	$					
Balance at December 31, 2019	**5,079,388**	**$ 397,911**	**$ 7,910**	**$ 2,004**	**$ (205,947)**	**$ (2,569)**	**$ 199,309**
Net loss					(199,189)	(2,349)	**(201,538)**
Unrealized foreign exchange income				13,035			**13,035**
Balance at June 30, 2020	**5,079,388**	**$ 397,911**	**$ 7,910**	**$ 15,039**	**$ (405,136)**	**$ (4,918)**	**$ 10,806**

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)

	Note	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Cash Flows Provided by Operating Activities					
Net loss		$ (872)	$ (16,191)	$ (6,258)	$ (201,538)
Adjusted for the following:					
Depreciation		6,854	7,039	17,221	24,726
Share-based compensation	14	(16)	27	170	(69)
Loss (gain) on asset disposal		(9)	—	(9)	5
Finance expense	19	7,410	7,045	14,873	14,292
Impairment	7	—	—	—	143,656
Deferred income taxes	9	—	—	—	31,350
Unrealized gain on derivative liability		(420)	—	(420)	—
Loss on lease modifications		—	—	6	—
Satisfaction of performance obligations, net of proceeds on contract liabilities	16	(15)	(1)	(842)	(1,369)
Payments for share-based compensation		(12)	(3)	(32)	(14)
Payments made for decommissioning provision	12	(598)	(16)	(821)	(535)
Net changes in non-cash working capital	5	3,919	24,538	(2,282)	20,721
Cash flows provided by operating activities		$ 16,241	$ 22,438	$ 21,606	$ 31,225
Investing Activities					
Purchase of property, plant and equipment		(1,307)	(538)	(2,623)	(2,159)
Proceeds on disposal of property, plant and equipment		9	—	9	—
Net changes in non-cash working capital	5	326	(346)	(46)	(2,122)
Cash flows used in investing activities		$ (972)	$ (884)	$ (2,660)	$ (4,281)
Financing Activities					
Proceeds on long-term debt	5	21,275	—	33,051	9,160
Repayments on long-term debt	5	(28,476)	(19,671)	(38,330)	(25,885)
Proceeds from the US Paycheck Protection Program		—	2,931	—	2,931
Repayment of lease obligations	11	(3,030)	(2,787)	(6,488)	(8,589)
Financing expense paid		(2,011)	(2,027)	(4,152)	(4,561)
Cash flows used in financing activities		$ (12,242)	$ (21,554)	$ (15,919)	$ (26,944)
Increase in cash		$ 3,027	$ —	$ 3,027	$ —
Cash and cash equivalents, beginning of period		—	—	—	—
Cash and cash equivalents, end of period		$ 3,027	$ —	$ 3,027	$ —
Supplementary information for cash flows from operating activities					
Interest paid		(1,855)	(1,874)	(3,842)	(4,324)

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 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 six months ended June 30, 2021, 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, 2020 annual consolidated audited financial statements which are available on SEDAR.

These condensed consolidated interim financial statements were authorized for issuance by the board of directors (the "Board") as at July 28, 2021.

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, 2020 annual consolidated audited financial statements which can be found on SEDAR.

Impact of COVID-19

In March 2020, the coronavirus ("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.

In 2020, Source undertook numerous initiatives to enhance liquidity and address the challenges resulting from the significant downturn in the Western Canadian oil industry, further impacted by COVID-19. Source completed its Recapitalization Transaction (as defined in Note 13) and implemented operational cost reduction measures to mitigate the impact of the volatile operating environment. It appears now that the pandemic is slowing; however, globally, recovery remains inconsistent. In Canada, improving vaccination rates and decreasing case numbers have resulted in the easing of restrictions. The extent to which COVID-19 will impact the Company's operating environment remains uncertain and cannot be predicted, but adverse impacts may result in decreased revenues, increased counterparty credit risk and uncertainties with respect to debt covenant compliance and liquidity. Source continues to assess the potential impact of COVID-19 on the estimates and judgements used in determining the value of its assets, liabilities and equity.

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, 2020, except as noted below:

Standards and interpretations adopted during the period

The following amendments have been issued by the International Accounting Standards Board and were adopted by the Company effective for the fiscal year beginning January 1, 2021:

Standard	Description of change
Interest rate benchmark reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	The amendments introduce a practical expedient to account for a change in the basis for determining the contractual cash flows of financial instruments that are affected by IBOR reform.
COVID-19 related rent concessions (Amendment to IFRS 16)	The amendment provides a practical expedient that relieves a lessee from determining whether a COVID-19 rent-related concession is a lease modification.

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

Prior year share and per share amounts reflect the consolidation of outstanding common shares on a twelve-for-one basis, pursuant to the Recapitalization Transaction completed in 2020.

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. 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 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 credit facilities approximate their carrying values as they bear interest at floating market rates consistent with market rates for similar debt.

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.

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.

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

June 30, 2021		Carrying amount		Fair Value Level 1		Level 2		Level 3
Financial assets at fair value through profit and loss:								
Derivative asset[(1)(2)]	$	(1,891)	$	—	$	—	$	(1,891)
Financial liabilities at amortized cost:								
Senior secured notes[(1)]	$	135,992	$	—	$	37,233	$	—
Lease liabilities	$	38,174	$	—	$	38,174	$	—

Notes:
(1) The senior secured notes contain prepayment options that have been classified as a derivative asset and have been presented on a net basis in the condensed consolidated interim statements of financial position.
(2) In June 2020, the Company entered into a customer contract, ending in 2022, which contains an embedded derivative and has been classified as a derivative asset. The fair value was determined using various inputs including the timing of estimated sales volumes related to the contract.

December 31, 2020		Carrying amount		Fair Value Level 1		Level 2		Level 3
Financial assets at fair value through profit and loss:								
Derivative asset	$	(1,471)	$	—	$	—	$	(1,471)
Financial liabilities at amortized cost:								
Senior secured notes	$	125,493	$	—	$	—	$	126,044
Lease liabilities	$	42,329	$	—	$	42,329	$	—

(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 92% of the revenue for the three months ended June 30, 2021, with the three largest making up 75% (three months ended June 30, 2020, five customers accounted for 93%, three customers accounted for 75%). The Company's five largest customers account for 79% of the revenue for the six months ended June 30, 2021, with the three largest making up 62% of revenue (six months ended June 30, 2020, five customers accounted for 82%, three customers accounted for 61%). Three of those customers (four for the six months ended June 30, 2020) account for 10% or more of total revenue individually in the six months ended June 30, 2021.

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 June 30, 2021, the Company's trade and accrued receivables, net of loss allowances, were comprised of the following:

As at		June 30, 2021		December 31, 2020
Not yet due	$	22,957	$	19,712
0 – 30 days		10,066		13,891
31 – 60 days		3		40
61 – 90 days		76		1
91+ days		35		—
Total trade and other receivables	**$**	**33,137**	**$**	**33,644**

The Company's maximum exposure to credit risk is the fair value of accounts receivable on the balance sheet. The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on the lifetime expected credit loss provision. The Company uses an allowance matrix to estimate the credit losses of trade receivables which considers historical default rates as well as the days past due.

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

A loss allowance of $68 was recorded as at June 30, 2021:

As at		June 30, 2021		December 31, 2020
Balance, beginning of period		272	$	80
Increase (decrease) in loss allowance recognized in the statement of operations during the period		5		(17)
Specific provision for receivables deemed uncollectible		(209)		209
Balance, end of period	**$**	**68**	**$**	**272**

(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 statements of financial position consist of accounts payable and accrued liabilities, lease liabilities, credit facilities 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 has an amended and restated credit facility to facilitate the management of liquidity risk.

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

As at June 30, 2021	Total	2021	2022	2023	2024	2025	2026 and beyond
Accounts payable and accruals	$ 33,277	$ 33,277	$ —	$ —	$ —	$ —	$ —
Lease liabilities[1]	$ 40,716	$ 6,667	$ 10,242	$ 7,971	$ 6,713	$ 4,011	$ 5,112
Credit facilities[2]	$ 18,000	$ —	$ 7,500	$ 10,500	$ —	$ —	$ —
Notes payable[3]	$ 216,264	$ —	$ 15,047	$ 17,160	$ 17,169	$ 166,888	$ —

__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.
(3) Includes interest for future periods and assumes the Company will elect to pay interest in kind at a rate of 12.5% through February 15, 2022 and subsequently pay interest in cash at 10.5% (refer to Note 10 for additional information).

(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 June 30, 2021 are $12,354 (December 31, 2020 - $18,490) and $14,889 (December 31, 2020 - $14,924) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) by $406 for the three months ended June 30, 2021 ($69 in 2020) and $697 for the six months ended June 30, 2021 ($347 in 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 and the senior secured term loan. 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 $180 at June 30, 2021 ($236 at December 31, 2020). The Company had no interest rate swaps or financial contracts in place as at or during the periods ended June 30, 2021 and December 31, 2020.

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

(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.

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. Pursuant to the amended and restated credit agreement, the Company is subject to externally imposed capital requirements for the asset backed loan ("ABL") facility as follows:

- a minimum level of excess availability of $5,000;
- a minimum level of the average of the prior three months trailing twelve months of earnings before interest, tax, depreciation and amortization ending at predetermined dates through December 31, 2022 and calculated at each fiscal calendar month, equal to a range of $8,500 to $12,000 for 2021 and $12,000 to $25,000 for 2022;
- maximum capital expenditures totaling $6,000 plus permitted capital expenditures, for each of the fiscal calendar years ended 2021 and 2022 and increased to $8,000 for 2023; and
- commencing June 30, 2022, a springing fixed charge ratio of 1.10:1 which shall increase to 1.25:1 on September 30, 2022 and all time thereafter. 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 each fiscal calendar month end less unfinanced capital expenditures, cash taxes and distributions to shareholders and (ii) the interest expense paid in cash plus accrued and unpaid interest related to the senior secured notes for the twelve calendar months ending at such fiscal calendar month.

The Company's capital management policy has not changed during the periods ended June 30, 2021 or December 31, 2020.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the three and six months ended June 30, 2021 and 2020 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Accounts receivable	$ 12,145	$ 35,669	$ 447	$ 33,828
Prepaid expenses and deposits	461	703	1,398	(309)
Inventory	(9,741)	(5,510)	(3,177)	4,707
Accounts payable and accrued liabilities	1,054	(6,324)	(950)	(17,505)
Changes in non-cash working capital	**$ 3,919**	**$ 24,538**	**$ (2,282)**	**$ 20,721**

Changes in non-cash investing assets and liabilities for the three and six months ended June 30, 2021 and 2020 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Accounts payable and accrued liabilities	$ 326	$ (346)	$ (46)	$ (2,122)
Changes in non-cash working capital	**$ 326**	**$ (346)**	**$ (46)**	**$ (2,122)**

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

		Senior secured notes		ABL facility and senior secured term loan
As at December 31, 2019	$	150,028	$	28,657
Cash changes:				
Proceeds		—		61,031
Repayments		—		(66,644)
Non-cash and other changes:				
Extinguishment of debt		(29,100)		—
Interest paid in kind(1)		97		—
Accretion		3,655		365
Unrealized foreign exchange gain		—		303
Financing costs incurred		(658)		(1,546)
As at December 31, 2020	$	124,022	$	22,166
Cash changes:				
Proceeds		—		33,051
Repayments		—		(38,330)
Non-cash and other changes:				
Interest paid in kind(1)		8,994		—
Accretion		1,549		309
Unrealized foreign exchange gain		—		(457)
Financing costs incurred		(44)		(140)
As at June 30, 2021	**$**	**134,521**	**$**	**16,599**

Note:
(1) Under the terms of the senior secured notes, Source has the option to pay interest in kind, at a rate of 12.5%, for all quarterly interest payments through February 15, 2022. Refer to Note 10 for additional information.

6. INVENTORIES

Inventory consists of three main classifications:

As at		June 30, 2021		December 31, 2020
Unprocessed sand and work in progress	$	27,715	$	28,519
Sand available for shipment		20,757		21,706
Spare parts and supplies		3,220		3,242
Total inventories	**$**	**51,692**	**$**	**53,467**

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is depreciation expense related to sand-producing properties of $7,379 as at June 30, 2021 (December 31, 2020 - $10,021). The total amount of inventory expensed through cost of sales during the three and six months ended June 30, 2021 was $43,659 and $94,916, respectively (three and six months ended June 30, 2020 - $9,867 and $74,409, respectively). Under the normal course of operations, no inventory write-downs or reversals of prior write-downs were recorded during the three and six months ended June 30, 2021 and 2020.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Cost						
Balance as at December 31, 2019	$ 205,901	$ 197,016	$ 6,287	$ 22,586	$ 13,287	$ 445,077
Additions	559	150	—	2,256	1,341	4,306
Disposals	—	(268)	(4)	(248)	—	(520)
Completed construction in progress	4	1,930	137	(2,071)	—	—
Transfers	—	(1,171)	—	—	—	(1,171)
Exchange differences	(3,167)	(2,807)	(74)	(119)	(331)	(6,498)
Balance as at December 31, 2020	$ 203,297	$ 194,850	$ 6,346	$ 22,404	$ 14,297	$ 441,194
Additions[1]	(1,301)	77	—	984	1,562	1,322
Disposals	(25)	(89)	—	—	—	(114)
Completed construction in progress	122	492	19	(633)	—	—
Exchange differences	(3,933)	(3,563)	(91)	(216)	(398)	(8,201)
Balance as at June 30, 2021	**$198,160**	**$191,767**	**$6,274**	**$22,539**	**$15,461**	**$434,201**

Note:
(1) Includes changes in estimates for the decommissioning provision due to an increase in risk-free rates (refer to Note 12 for additional information).

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Accumulated depreciation						
Balance as at December 31, 2019	$ (58,101)	$ (73,363)	$ (5,365)	$ —	$ (11,315)	$ (148,144)
Depreciation	(8,029)	(9,497)	(448)	—	(3,144)	(21,118)
Impairment	(75,371)	(67,565)	(409)	—	—	(143,345)
Disposals	—	263	2	—	—	265
Transfers	—	166	—	—	—	166
Exchange differences	5,844	5,598	83	—	384	11,909
Balance as at December 31, 2020	$ (135,657)	$ (144,398)	$ (6,137)	$ —	$ (14,075)	$ (300,267)
Depreciation	(2,713)	(3,562)	(62)	—	(1,150)	(7,487)
Disposals	25	89	—	—	—	114
Exchange differences	2,596	2,674	89	—	379	5,738
Balance as at June 30, 2021	**$ (135,749)**	**$ (145,197)**	**$ (6,110)**	**$ —**	**$ (14,846)**	**$ (301,902)**
Carrying amounts						
December 31, 2020	$ 67,640	$ 50,452	$ 209	$ 22,404	$ 222	$ 140,927
June 30, 2021	**$ 62,411**	**$ 46,570**	**$ 164**	**$ 22,539**	**$ 615**	**$ 132,299**

Assets under construction represent facilities that are being built at period end and 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. No indicators of impairment were noted as at June 30, 2021.

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

8. RIGHT-OF-USE ASSETS

	Land & Building	Equipment & Vehicles	Rail cars	Total
Cost				
Balance as at December 31, 2019	$ 8,168	$ 14,520	$ 54,650	$ 77,338
Additions	1,126	7,748	(11,117)	(2,243)
Expired leases	(772)	(5,781)	(1,358)	(7,911)
Transfers	—	1,171	—	1,171
Exchange differences	(12)	(393)	(521)	(926)
Balance as at December 31, 2020	$ 8,510	$ 17,265	$ 41,654	$ 67,429
Additions	464	2,250	494	3,208
Expired leases	(699)	(473)	(189)	(1,361)
Exchange differences	(18)	(419)	(1,088)	(1,525)
Balance as at June 30, 2021	**$ 8,257**	**$ 18,623**	**$ 40,871**	**$ 67,751**

	Land & Building	Equipment & Vehicles	Rail cars	Total
Accumulated depreciation				
Balance as at December 31, 2019	$ (1,583)	$ (7,279)	$ (12,340)	$ (21,202)
Depreciation	(2,638)	(7,285)	(11,186)	(21,109)
Expired leases	772	5,781	1,358	7,911
Transfers	—	(166)	—	(166)
Exchange differences	9	188	727	924
Balance as at December 31, 2020	(3,440)	(8,761)	(21,441)	(33,642)
Depreciation	(1,188)	(2,885)	(3,246)	(7,319)
Expired leases	699	473	189	1,361
Exchange differences	7	234	578	819
Balance as at June 30, 2021	**$ (3,922)**	**$ (10,939)**	**$ (23,920)**	**$ (38,781)**
Carrying amounts				
December 31, 2020	$ 5,070	$ 8,504	$ 20,213	$ 33,787
June 30, 2021	**$ 4,335**	**$ 7,684**	**$ 16,951**	**$ 28,970**

9. INCOME TAXES

During 2020, the Government of Alberta enacted new legislation to accelerate the reduction of the provincial corporate income tax rate from 12% to 8%, resulting in a combined federal and provincial corporate tax rate of 23% in 2021. Deferred income tax benefits have not been recognized in respect of temporary differences.

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

The following table reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 23% (2020 - 25%) for the periods indicated:

	Three months ended June 30,				Six months ended June 30,			
		2021		2020		2021		2020
Loss before income taxes	$	(872)	$	(16,191)	$	(6,258)	$	(170,188)
Statutory income tax rate		23.00 %		25.00 %		23.00 %		25.00 %
Expected income taxes		(201)		(4,048)		(1,439)		(42,547)
Increase (decrease) in taxes from:								
Non-deductible expenses		110		121		214		239
Share based compensation		—		—		—		3
Prior period adjustments		—		309		—		—
Unrecognized deferred tax assets		(302)		6,900		930		77,592
Provincial tax rate change		—		192		—		857
Rate differential on foreign activities		542		(4,386)		591		(5,746)
Other		(149)		912		(296)		952
Total income tax expense	**$**	**—**	**$**	**—**	**$**	**—**	**$**	**31,350**

The Company has Canadian and foreign non-capital losses as at June 30, 2021 of $99,021 (June 30, 2020 - $82,387) and $14,820 (June 30, 2020 - $32,695), respectively. Canadian and foreign losses begin to expire in 2037.

10. LONG-TERM DEBT

As at		**June 30, 2021**		**December 31, 2020**
Senior secured notes, due March 15, 2025, bearing interest at 10.5% per annum (a)	$	135,992	$	125,493
Derivative asset for senior secured notes prepayment options (a)		(1,471)		(1,471)
ABL facility maturing September 2023. Interest is based on floating rates dependent upon the form of advance drawn (b)		—		3,736
Senior secured term loan due September 2023, bearing interest at prime plus 6.0% per annum (c)		18,000		20,000
Unamortized debt issuance costs for the credit facilities (b)		(1,401)		(1,570)
Other long-term debt (d)		137		1,093
Total long-term debt	**$**	**151,257**	**$**	**147,281**
Less: current portion		(7,500)		—
Long-term portion	**$**	**143,757**	**$**	**147,281**

(a) Senior secured notes

i. Senior secured notes due 2025

On December 30, 2020, as part of the Recapitalization Transaction, Source issued $142,238 in aggregate principal of new senior secured notes (the "Notes"), which bear interest at 10.5% and mature March 15, 2025. The Company has the option to defer payment of interest owed in cash and pay interest in kind, at a rate of 12.5%, for all quarterly interest payments due on or before February 15, 2022, through the issuance of additional notes. For the three and six months ended June 30, 2021, the Company elected to pay interest in kind resulting in $4,405 and $6,694, respectively, of additional Notes issued. The Notes are secured by a fixed and floating charge over all assets of the business, except for an amount up to a maximum of amounts committed under the senior secured term loan, as outlined below, plus accrued interest and fees. The Notes also have a second charge on accounts receivable and inventory.

The Notes contain prepayment options, whereby the Company may redeem all or a part of the Notes at any time at the applicable percentage (2021 - 102%, 2022 - 101%, 2023 and thereafter - 100%), plus accrued and unpaid interest. The prepayment options have been classified as a derivative asset which is measured at fair value through profit and loss. At June 30, 2021, the fair value of the derivative asset was $1,471. The derivative asset has been presented with the Notes on a net basis in the condensed consolidated interim statements of financial position.

The Notes also contain a mandatory redemption feature for each fiscal year commencing December 31, 2021, whereby Source shall redeem the portion of outstanding principal and accrued interest for the Notes that equals 50% of excess cash flows greater than $10,000 in the applicable fiscal year. Excess cash flows are defined as cash flows provided by operating activities, less maintenance capital expenditures, amounts paid for lease obligations, taxes and amounts of interest or principal prepayments on the credit facilities or Notes incurred in the applicable fiscal year.

Interest on the Notes was $4,575 and $8,994, respectively, for the three and six months ended June 30, 2021.

ii. Senior secured notes due 2021

In December 2016, the Company issued $130,000 senior secured notes and an additional $50,000 senior secured notes in May 2018 (collectively, the "Old Notes"), which bore interest at 10.5% per annum and would have matured December 15, 2021. The Old Notes were secured by a fixed and floating charge over all assets of the business except accounts receivable and inventory, over which the Old Notes had a second charge. Pursuant to the terms of the Recapitalization Transaction, the Old Notes were extinguished and exchanged for the Notes and new common shares of Source.

Interest on the Old Notes was $4,117 and $8,235, respectively, for the three and six months ended June 30, 2020.

(b) ABL facility

On December 30, 2020, as part of the Recapitalization Transaction, the Company's ABL facility was amended to extend the term to mature on September 30, 2023. The facilities bear interest based on the bank's prime lending rate and CDOR or LIBOR rates, plus an applicable margin. 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 amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories. At June 30, 2021, $nil was drawn under the ABL facility (less unamortized finance costs of $1,401 for a net balance of $(1,401)) (December 31, 2020 - $2,166). Any excess cash on hand is applied against amounts drawn on the ABL.

The ABL facility includes a US$5,000 standby letter of credit that does not affect the facility's borrowing base. In March 2021, the standby letter of credit facility was increased to US$8,500, thereby reducing amounts committed to supporting letters of credit under the ABL facility by US$3,500. As per the terms of the senior secured term loan and concurrent with the increase to the standby letter of credit facility, a $2,000 repayment was completed on the senior secured term loan, as noted below. The amount committed to supporting letters of credit under the facility was $9,642 at June 30, 2021 (December 31, 2020 - $14,560). The borrowing base is updated monthly, with $28,753 of availability at June 30, 2021 (December 31, 2020 - $17,302).

The revised ABL facility includes the following key financial covenants:

- a minimum level of excess availability of $5,000;
- a minimum level of the average of the prior three months trailing twelve months of earnings before interest, tax, depreciation and amortization ending at predetermined dates through December 31, 2022 and calculated at each fiscal calendar month, equal to a range of $8,500 to $12,000 for 2021 and $12,000 to $25,000 for 2022;
- maximum capital expenditures totaling $6,000 plus permitted capital expenditures, for each of the fiscal calendar years ended 2021 and 2022 and increased to $8,000 for 2023; and
- commencing June 30, 2022, a springing fixed charge ratio of 1.10:1 which shall increase to 1.25:1 on September 30, 2022 and all time thereafter. 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 each fiscal calendar month end less unfinanced capital expenditures, cash taxes and distributions to shareholders and (ii) the interest expense paid in cash plus accrued and unpaid interest related to the senior secured notes for the twelve calendar months ending at such fiscal calendar month.

As of June 30, 2021, Source was in compliance with all of its covenants. Interest on the above facility amounted to $593 and $1,360, respectively, for the three and six months ended June 30, 2021 (June 30, 2020 - $858 and $1,948, respectively).

(c) Senior secured term loan

As part of the Recapitalization Transaction, Source obtained access to an additional credit facility in the form of a senior secured term loan (the "Term Loan") with an initial principal amount of up to $20,000. The Term Loan bears interest at Canadian prime plus 6% and matures on September 30, 2023, provided that the Term Loan shall be reduced to $10,500 on March 31, 2022 and further reduced to $5,000 on March 31, 2023. The Term Loan is secured by a fixed and floating first charge over all assets of the business. In March 2021, a $2,000 repayment was completed, as noted above, reducing the amount drawn on this facility to $18,000. As at June 30, 2021, $7,500 is presented as a current liability.

Interest on the Term Loan was $379 and $791, respectively, for the three and six months ended June 30, 2021.

(d) Other long-term debt

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 bore interest at a rate of 1.00% per annum and matured on April 18, 2022. In June

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

2021, the Company was approved for forgiveness for the full amount of the outstanding obligation. During the period, a recovery of US$2,097 was recognized in other income.

The effective interest rate realized on long-term debt for the six months ended June 30, 2021 was 13.5% (December 31, 2020 - 12.1%).

11. LEASE LIABILITIES

As at	June 30, 2021	December 31, 2020
Balance, beginning of period	$ 42,329	$ 60,025
Additions during the period	1,650	10,960
Lease modifications	1,599	(12,774)
Lease payments	(6,488)	(15,526)
Changes in F/X rate	(916)	(356)
Balance, end of period	**$ 38,174**	**$ 42,329**
Less: current portion	(10,626)	(11,036)
Long-term portion	**$ 27,548**	**$ 31,293**

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 $8 and $62, respectively, were expensed to cost of sales or operating expense in the three and six months ended June 30, 2021 (June 30, 2020 - $45 and $209, respectively). The Company recognized $687 and $1,428, respectively, of interest on lease payments for the three and six months ended June 30, 2021 (June 30, 2020 - $889 and $2,008, respectively).

12. DECOMMISSIONING PROVISION

As at	June 30, 2021	December 31, 2020
Balance, beginning of period	$ 9,969	$ 11,249
Liabilities incurred	625	548
Liabilities settled	(821)	(1,575)
Accretion	71	108
Changes in estimate	(1,943)	(143)
Changes in F/X rate	(227)	(218)
Balance, end of period	**$ 7,674**	**$ 9,969**
Less: current portion	(235)	(1,006)
Long-term portion	**$ 7,439**	**$ 8,963**

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 risk-free rates of 1.39% and 1.77% at June 30, 2021 (December 31, 2020 - 0.70% and 1.13%), for obligations to be settled based on the economic lives of the underlying assets, currently estimated to be between 8 and 38 years.

13. SHAREHOLDERS' EQUITY

(a) Share capital

The Company is authorized to issue an unlimited number of common shares.

During 2020, 1,300,154 Class B shares outstanding were held by SES Sand Holdings US, a subsidiary of TriWest Capital Partners (“TriWest”) which is a related party, who owned 3.74% of the shares of Source Energy Services Canada LP, a subsidiary of Source. In October 2020, the Class B shares were converted into common shares of Source on a one-for-one basis and SES Sand Holdings US became a wholly-owned subsidiary of Source.

The following table outlines the issued and outstanding common shares as at June 30, 2021:

(stated in thousands, except share amounts)	Number of shares		Amount
Balance as at December 31, 2019	5,079,388	$	397,911
Class B shares converted to common shares	—		91
Shares issued(1)	8,465,667		12,630
Balance as at December 31, 2020 and June 30, 2021	**13,545,055**	**$**	**410,632**

Note:
(1) Pursuant to the Recapitalization Transaction, 8,465,667 common shares were issued at $1.50 per share, net of $69 of issue costs.

(b) Recapitalization Transaction

In December 2020 Source completed a comprehensive process, undertaken in response to the ongoing downturn in the Western Canadian oil and gas industry, to improve the Company's capital structure and better position the Company for future growth (the "Recapitalization Transaction"). The Recapitalization Transaction was completed through a plan of arrangement under the Canada Business Corporations Act, and achieved the following:

- immediately prior to the closing of the Recapitalization Transaction, the consolidation of outstanding common shares of Source on a twelve-for-one basis;
- a reduction of Source's principal obligations through the extinguishment of outstanding Old Notes in exchange for the Notes in the aggregate principal amount of $142,238, which mature March 15, 2025, and the issuance of new common shares of Source;
- an amendment of the ABL facility which extended the maturity of the facility to September 30, 2023;
- access to incremental liquidity under the Term Loan in an amount of $20,000 (refer to Note 10 for additional information related to the new and revised debt commitments); and
- the reconstitution of Source's Board through the appointment of two new directors.

The Recapitalization Transaction resulted in a net gain on extinguishment of debt comprised of the difference between the carrying value of the Old Notes and the Notes, offset in part by the fair value of the equity issuance and net of transaction costs recognized as expense.

14. SHARE-BASED COMPENSATION

The Company's share-based compensation plan (the "Plan"), renewed as of March 18, 2021, is available to directors, officers and certain employees as determined by the Company's Board. 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 based on the market value of the Company's shares on the date of the grant. Options vest over three years and expire after five years. As at June 30, 2021, no options are outstanding under the Plan.

The liability-settled compensation plans include RSUs, PSUs and DSUs. The following table provides a summary of the status of the Company's liability-settled compensation plans and changes during the six months ended June 30, 2021:

(number of units)	RSU	PSU	DSU
Balance as at December 31, 2019	80,515	36,178	38,187
Granted	93,757	51,894	46,302
Exercised	(30,317)	(1,799)	—
Forfeited	(7,099)	(12,659)	—
Balance as at December 31, 2020	136,856	73,614	84,489
Granted	174,666	392,500	60,000
Exercised	(57,561)	(3,418)	(14,493)
Forfeited	(3,389)	(22,016)	—
Balance as at June 30, 2021	**250,572**	**440,680**	**129,996**
Vested as at June 30, 2021	**—**	**3,145**	**14,493**

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, 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.

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

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 six months ended June 30, 2021 was $(16) and $170, respectively (June 30, 2020 - $27 and $(69), respectively).

15. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the three and six months ended June 30, 2021 was based on the losses available to holders of common shares of $(872) and $(6,258), respectively (June 30, 2020 - $(15,725) and $(199,189), respectively), and a weighted average number of common shares outstanding for the three and six months ended June 30, 2021 of 13,545,055 (June 30, 2020 - 4,971,042).

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Common shares outstanding, beginning of period	13,545,055	4,971,042	13,545,055	4,971,042
Weighted average common shares outstanding, end of period	**13,545,055**	**4,971,042**	**13,545,055**	**4,971,042**

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. As at June 30, 2021, no options remain outstanding and all issued and outstanding Class B shares were converted to common shares in October 2020. At June 30, 2020, the exchangeable shares were not considered dilutive as the Company was in a loss position.

16. REVENUE

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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue from contracts with customers:				
Sand revenue	$ 58,098	$ 12,826	$ 124,213	$ 95,845
Wellsite solutions	13,658	1,938	27,404	13,676
Terminal services	367	519	1,722	1,548
Total revenue from contracts with customers	$ 72,123	$ 15,283	$ 153,339	$ 111,069
Storage facilities(1)	613	618	1,286	1,295
Total revenue	**$ 72,736**	**$ 15,901**	**$ 154,625**	**$ 112,364**

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. As at June 30, 2021, all promised goods have been transferred to the customer and no performance obligations remain.

In December 2020, the Company entered into a sale with a customer where the completion of promised services had not been fulfilled. Source recognized deferred revenue for the value of the services which were performed during the six months ended June 30, 2021.

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

The following table provides a summary of the contract liabilities as of June 30, 2021:

As at	June 30, 2021	December 31, 2020
Balance, beginning of period	$ 776	$ 3,160
Cash proceeds	25	536
Satisfaction of performance obligations	(867)	(2,617)
Non-cash interest income	(35)	(303)
Changes in F/X rate	101	
Balance, end of period	**$ —**	**$ 776**
Less: current portion	$ —	(776)
Long-term portion	**$ —**	**$ —**

17. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the condensed consolidated interim statements 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 June 30,	2021				2020			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$ 43,659	$ —	$ —	$ 43,659	$ 9,872	$ —	$ —	$ 9,872
Salary costs(1)	2,698	2,265	1,762	6,725	857	990	1,135	2,982
Equipment costs	656	111	—	767	342	170	—	512
Transportation costs	9,472	—	—	9,472	1,310	—	—	1,310
Facility costs	41	335	(18)	358	104	317	9	430
Selling costs	—	1,337	(163)	1,174	—	760	1,553	2,313
Administration costs	—	—	809	809	—	—	702	702
Total	**$ 56,526**	**$ 4,048**	**$ 2,390**	**$ 62,964**	**$ 12,485**	**$ 2,237**	**$ 3,399**	**$ 18,121**

Note:
(1) Included in 2021 cost of sales, operating and general & administrative salary costs are wage subsidies of $337 received as part of the Canada Emergency Wage Subsidy ("CEWS") program (June 30, 2020 - $1,108).

Six months ended June 30,	2021				2020			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$ 94,911	$ —	$ —	$ 94,911	$ 74,416	$ —	$ —	$ 74,416
Salary costs(1)	5,028	4,324	3,648	13,000	3,671	2,730	2,764	9,165
Equipment costs	1,187	684	—	1,871	1,055	653	1	1,709
Transportation costs	18,889	—	—	18,889	9,371	—	—	9,371
Facility costs	130	657	(2)	785	628	688	25	1,341
Selling costs	—	2,101	(155)	1,946	—	2,463	1,531	3,994
Administration costs	—	—	1,503	1,503	—	—	1,634	1,634
Total	**$120,145**	**$ 7,766**	**$ 4,994**	**$132,905**	**$ 89,141**	**$ 6,534**	**$ 5,955**	**$101,630**

Note:
(1) Included in 2021 cost of sales, operating and general & administrative salary costs are wage subsidies of $787 received as part of the CEWS program (June 30, 2020 - $1,108).

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

18. COMMITMENTS AND CONTINGENCIES

The Company has commitments regarding physical natural gas contracts which expire in March 2023 as well as annual software subscriptions through 2023. Estimated annual commitments are as follows:

2021	$	578
2022		1,204
2023		351
Total	**$**	**2,133**

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, except as noted below:

The Company is currently pursuing claims against certain organizations in respect of damages related to the structural failure of assets at its Fox Creek Terminal Facility. The Company intends to pursue this matter for which the damages, if awarded to the Company in their entirety, could be a material amount. However, litigation is inherently uncertain and a favourable outcome cannot be assured.

19. FINANCE EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Interest expense	$ 6,265	$ 5,890	$ 12,628	$ 12,065
Accretion	988	992	1,929	1,968
Finance expense	157	163	316	259
Total	**$ 7,410**	**$ 7,045**	**$ 14,873**	**$ 14,292**

20. 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 June 30,	**Canadian Operations**	**US Operations**	**Corporate[(1)]**	**Total**
2021	**$ 72,722**	**$ 14**	**$ —**	**$ 72,736**
2020	$ 15,901	$ —	$ —	$ 15,901

Sales for the six months ended June 30,	**Canadian Operations**	**US Operations**	**Corporate[(1)]**	**Total**
2021	**$ 154,581**	**$ 44**	**$ —**	**$ 154,625**
2020	$ 112,364	$ —	$ —	$ 112,364

Total Assets	**Canadian Operations**	**US Operations**	**Corporate[(1)]**	**Total**
June 30, 2021	**$ 102,091**	**$ 142,943**	**$ 7,488**	**$ 252,522**
December 31, 2020	$ 102,068	$ 158,803	$ 5,390	$ 266,261

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