MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated November 4, 2021, reflects the operating and financial results of Source Energy Services Ltd. and its subsidiaries, collectively ("Source" or the "Company"), as at and for the three and nine months ended September 30, 2021 compared with the corresponding periods in the prior year. The MD&A is provided to assist readers in understanding the Company's financial performance and position during the periods presented and significant trends that may impact the future performance of Source.

This discussion should be read in conjunction with Source's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and 2020 and the audited consolidated financial statements for the years ended December 31, 2020 and 2019, together with the accompanying notes (the "Financial Statements"). The Financial Statements and other information relating to Source, including the Annual Information Form ("AIF"), are available under the Company's SEDAR profile at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated, all amounts are expressed in Canadian dollars.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. "Adjusted EBITDA" is, among other things, used by management as a representation of earnings generated to fund capital investments and meet financial obligations, and "Adjusted Gross Margin" is used by management in measuring pricing and operating cost performance relative to other publicly listed competitors. "Free Cash Flow" is generally used to assess the ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. Refer to 'Non-IFRS Measures' for further information regarding the following non-IFRS measures used in this MD&A: "Adjusted EBITDA", "Adjusted Gross Margin" and "Free Cash Flow", as well as a reconciliation to IFRS measures of the Company.

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

About Source

Source is a company that focuses on the integrated 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, its "last mile" logistics capabilities and Sahara, a proprietary wellsite mobile sand storage and handling system.

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

Third Quarter Results Overview

($000's, except MT and per unit amounts)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Sand volumes (MT)[1]	**751,611**	609,469	**1,954,385**	1,494,166
Sand revenue	**79,343**	65,240	**203,556**	161,085
Wellsite solutions	**17,554**	12,636	**45,708**	27,062
Terminal services	**789**	669	**3,047**	2,762
Sales	**97,686**	78,545	**252,311**	190,909
Cost of sales	**79,994**	61,242	**200,139**	150,383
Cost of sales – depreciation	**4,921**	10,264	**17,031**	26,935
Cost of sales	**84,915**	71,506	**217,170**	177,318
Gross margin	**12,771**	7,039	**35,141**	13,591
Operating expense	**4,606**	2,753	**12,372**	9,287
General & administrative expense	**2,299**	2,220	**7,293**	8,176
Depreciation	**2,336**	3,158	**7,447**	11,213
Income (loss) from operations	**3,530**	(1,092)	**8,029**	(15,085)
Other expense (income):				
Finance expense	**7,638**	7,651	**22,511**	21,942
Share-based compensation expense (recovery)	**(3)**	(22)	**167**	(91)
Gain on asset disposal	**(54)**	(155)	**(63)**	(150)
Gain on derivative asset	**—**	—	**(420)**	—
Other income	**(169)**	(127)	**(3,091)**	(1,853)
Other expense[2]	**51**	66	**95**	186
Impairment expense	**—**	—	**—**	143,656
Foreign exchange gain[3]	**(354)**	(562)	**(1,333)**	(644)
Total other expense	**7,109**	6,851	**17,866**	163,046
Loss before income taxes	**(3,579)**	(7,943)	**(9,837)**	(178,131)
Deferred tax expense	**—**	—	**—**	31,350
Net loss	**(3,579)**	(7,943)	**(9,837)**	(209,481)
Net loss per share ($/share)[4]	**(0.26)**	(1.53)	**(0.73)**	(41.60)
Diluted net loss per share ($/share)[4]	**(0.26)**	(1.53)	**(0.73)**	(41.60)
Adjusted EBITDA[5]	**11,310**	13,019	**36,931**	25,560
Sand revenue sales/MT	**105.56**	107.04	**104.15**	107.81

	September 30, 2021	December 31, 2020
Total assets	**260,085**	266,261
Total non-current financial liabilities	**184,478**	187,537

Notes:
(1) One metric tonne ("MT") is approximately equal to 1.102 short tons.
(2) Expenses related to the incident at the Fox Creek terminal facility, refer to 'Contractual Obligations' below.
(3) The average Canadian to United States ("US") dollar exchange rate for the three and nine months ended September 30, 2021 was $0.7937 and $0.7992, respectively (2020 - $0.7507 and $0.7385, respectively).
(4) Prior year amounts have been restated to reflect the 12:1 share consolidation pursuant to the Recapitalization Transaction (as defined below).
(5) Adjusted EBITDA is not defined under IFRS, refer to 'Non-IFRS Measures' below. Includes recovery of US$2.1 million related to forgiveness for the PPP Loan (as defined below) during the nine months ended September 30, 2021 and the receipt of proceeds from the Canada Emergency Wage Subsidy ("CEWS") program of $0.5 million and $1.3 million, respectively, during the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020 - $1.1 million and $2.2 million, respectively).

Third Quarter 2021 Highlights

Source achieved the following results for the three months ended September 30, 2021:

- realized sand sales volumes of 751,611 MT and sand revenue of $79.3 million;
- achieved new records that saw the largest daily and the largest monthly sand sales volume in Source's history;
- added a new direct exploration and production ("E&P") customer during the quarter and another shortly after the end of the quarter;
- deployed a Sahara unit in Utah which commenced work with a large E&P company in September;
- achieved utilization of 73% for the quarter for the seven Sahara units operating in Canada;
- achieved a strong liquidity position, with $1.4 million of cash on hand and no draws on the asset backed loan ("ABL") facility at the end of the quarter;

- realized gross margin of $12.8 million and Adjusted Gross Margin(1) of $17.7 million;
- reported net loss of $3.6 million, an improvement of $4.4 million from the same period last year; and
- realized Adjusted EBITDA(1) of $11.3 million.

Note:
(1) Adjusted Gross Margin (including on a per MT basis) and Adjusted EBITDA are not defined under IFRS, refer to 'Non-IFRS Measures' below.

Third Quarter 2021 Performance

Commodity prices for oil and natural gas remained very strong in the third quarter, as global energy demand continued to increase and anticipated natural gas requirements continued to rise heading into the winter months. As seen during the first two quarters of this year, the third quarter began with very high activity levels where Source set new daily sales records and a new monthly sales record for the month of July. Source realized strong sand sales for the third quarter, generating $79.3 million of sand revenue, with improved activity levels in the Western Canadian Sedimentary Basin ("WCSB") and the recent addition of a new customer contributing to increased sales volumes.

Wellsite solutions revenue was $17.6 million for the third quarter. Strong activity levels across the industry continue to drive customers to demand greater volumes of frac sand over shorter periods of time. Source's ability to consistently meet this challenge with its logistics capabilities was highlighted in the three months ended September 30, 2021, particularly in July, as Source moved record levels of sand. The Sahara units remain a key component in the frac programs of many of Source's customers resulting in the seven Sahara units located in Canada achieving 73% utilization for the quarter, including 99% utilization for the month of July.

Cost of sales, excluding depreciation, was $80.0 million for the three months ended September 30, 2021. Cost of sales, excluding depreciation, was favorably impacted by the continuation of certain operational cost reduction initiatives implemented by Source in 2020. Offsetting these decreases, however, was the impact of higher transportation costs incurred during the period, including increased costs for rail and trucking sand to the wellsite.

Gross Margin	Three months ended September 30,		Nine months ended September 30,	
($000's, except MT and per unit amounts)	**2021**	2020	**2021**	2020
Gross margin	**12,771**	7,039	**35,141**	13,591
Cost of sales – depreciation	**4,921**	10,264	**17,031**	26,935
Adjusted Gross Margin(1)	**17,692**	17,303	**52,172**	40,526
Gross margin/MT	**16.99**	11.55	**17.98**	9.10
Adjusted Gross Margin/MT(1)	**23.54**	28.39	**26.69**	27.12
Percentage of mine gate sand volumes	**—%**	2%	**—%**	1%
Percentage of sand volumes sold in the WCSB	**100%**	98%	**100%**	99%

Note:
(1) Adjusted Gross Margin (including on a per MT basis) is not defined under IFRS, refer to 'Non-IFRS Measures' below.

Gross margin was favorably impacted by lower cost of sales - depreciation realized, attributed to a lower asset base resulting from the impairment recognized in the first quarter of 2020. Adjusted Gross Margin benefited from strong volumes realized in the quarter; however, on a per MT basis, Adjusted Gross Margin was lower compared to the second quarter of the year due to the increase in freight cost driven by higher diesel prices, as noted above. Source continues to focus on maintaining lower costs and improving production efficiencies. While the majority of Source's sales continue to be under long-term contracts, strong activity levels in the quarter also drove strong spot sale activities. This contributed to the average sand price realized in the quarter relative to the first and second quarters this year.

Operating expense was $4.6 million for the quarter, driven by increased royalty costs incurred with sand shipments from mines that require royalty payments, higher repairs and maintenance expenses and higher employee compensation expense associated with increased activity levels, relative to last year. Source realized $0.1 million from the CEWS program in the quarter, compared to $0.2 million in the third quarter of 2020.

General and administrative expense of $2.3 million for the third quarter reflects higher variable incentive compensation expense in 2021 from that seen in 2020 as a result of increased activity levels. General and administrative expense was also favorably impacted by proceeds of $0.1 million received from the CEWS program in the quarter, compared to $0.2 million in 2020.

For the three months ended September 30, 2021, Adjusted EBITDA was $11.3 million, reflecting strong sand sales volumes and a continued focus on maintaining lower operating costs. Adjusted EBITDA also benefited from total proceeds of $0.5 million received from the CEWS program during the period, compared to $1.1 million received in the same period last year.

Liquidity and Capital Resources

Free Cash Flow	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's)	**2021**	2020	**2021**	2020
Cash flows provided by (used in) operating activities	**5,217**	(6,250)	**26,823**	24,975
Financing expense paid	**(1,857)**	(2,253)	**(6,009)**	(6,814)
Maintenance and sustaining capital spend	**(1,389)**	(137)	**(3,411)**	(1,961)
Repayment of lease obligations	**(3,149)**	(3,640)	**(9,637)**	(12,229)
Satisfaction of performance obligations, net of proceeds on contract liabilities	**—**	83	**842**	1,452
Free Cash Flow (1)	**(1,178)**	(12,197)	**8,608**	5,423

Note:

(1) Free Cash Flow is not defined under IFRS, refer to 'Non-IFRS Measures' below. The reconciliation to the comparable IFRS measure can be found in the table above.

For the three months ended September 30, 2021, Free Cash Flow was negative $1.2 million, an increase of $11.0 million from the third quarter last year. Free Cash Flow was favorably impacted by the renegotiation of long-term lease obligations completed last year, lowering lease obligation repayments and financing expense paid in the quarter. For the third quarter of 2021, cash flows provided by operating activities were higher than those realized last year, as the rebound of activity levels led to a large build up of working capital in the third quarter of 2020.

Capital expenditures	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's)	**2021**	2020	**2021**	2020
Terminal	**31**	—	**233**	43
Wellsite solutions	**495**	249	**875**	670
Production	**391**	17	**870**	525
Overburden removal	**978**	119	**2,540**	1,203
Other	**—**	1	**—**	104
Capital expenditures	**1,895**	386	**4,518**	2,545
Growth capital	**506**	249	**1,107**	584
Maintenance and sustaining capital	**1,389**	137	**3,411**	1,961
Capital expenditures	**1,895**	386	**4,518**	2,545

Capital expenditures were $1.9 million for the period, comprised primarily of overburden removal for mining operations. Additional expenditures were incurred for Sahara enhancements, providing increased unloading capacity, and an investment in production equipment that will generate increased yields in Source's sand processing activities. Previous investment in Source's processing and logistics infrastructure allowed modest capital expenditures to continue through the third quarter of 2021. Source invests in capital expenditures to make improvements and maintain operations, including overburden removal. Source also invests in growth capital expenditures to expand production and distribution capabilities across its infrastructure.

Long-term debt		
($000's)	**September 30, 2021**	**December 31, 2020**
Senior secured notes, net of derivative asset	**140,111**	124,022
ABL facility	**—**	3,736
Senior secured term loan, long-term portion	**10,500**	20,000
Other long-term debt, including unamortized debt issue costs	**(1,112)**	(477)
Total long-term debt	**149,499**	147,281
Standby letter of credit facility	***9,912***	*14,560*

As at September 30, 2021, Source had cash on hand of $1.4 million and long-term debt outstanding of $149.5 million, excluding the current portion of the Term Loan (as defined below), compared to $147.3 million as at December 31, 2020. The change in long-term debt outstanding was due to $11.4 million of additional Notes (as defined below) issued as a result of the Company electing to pay its quarterly interest payments in kind, and accrued interest for the Notes to the end of the quarter. This was offset by lower amounts outstanding for the Term Loan, including a reclass to current liabilities for a portion of the Term Loan, and no draws on the ABL facility at September 30, 2021.

Finance expense	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's)	**2021**	2020	**2021**	2020
Interest on senior notes	**4,768**	4,163	**13,762**	12,397
Interest on credit facilities	**955**	930	**3,106**	2,877
Interest on leases	**691**	1,260	**2,119**	3,268
Other interest expense (income)	**42**	20	**96**	(106)
Accretion	**1,016**	1,067	**2,945**	3,035
Finance expense	**166**	211	**483**	471
Total	**7,638**	7,651	**22,511**	21,942

Finance expense was $7.6 million for the third quarter of 2021, relatively unchanged compared to the third quarter last year. Higher interest incurred for the Notes during the period, as Source elected to pay interest in kind at a rate of 12.5%, and interest on the Term Loan were offset by lower interest incurred on the ABL facility resulting from lower draws outstanding, and reduced lease finance charges as a result of lower lease obligations outstanding due to lease contract amendments executed late last year.

ESG Overview

Earlier this year, Source published its 2021 ESG report. Source is committed to operating in a sustainable manner, continually looking to implement efficiencies which will lessen the impact of Source's activities on the environment and specifically to reduce greenhouse gas emissions. Source's objective to go above and beyond current regulatory requirements is demonstrated by Source's voluntary enrollment with the Department of Natural Resources Sustainable Growth Program and Managed Forest Program, Source's recycling of production water and Source's participation in the Wetlands Hydrology Program. Source has formally adopted a framework from the Sustainability Accounting Standards Board that provides sector-specific guidelines against which Source will benchmark itself in the relevant areas.

To view Source's complete 2021 ESG report, please visit www.sourceenergyservices.com.

Business Outlook

The sustained higher crude oil and natural gas prices realized through the third quarter is allowing Source's customers to generate strong 2021 cash flows and the Company believes customers will continue to deploy capital through the end of the year, as well as expand drilling and completion programs in 2022.

Source continues to see increased demand from customers that are primarily focused on the development of natural gas properties in the Montney, Duvernay and Deep Basin. This trend is consistent with our view that natural gas will be an important transitional fuel that's critical for the successful the movement to a less carbon intensive world. This view is also supported by the development of Canadian liquefied natural gas ("LNG") export projects, the conversion of coal-fired power generation facilities to natural gas and increased natural gas pipeline capacity.

Strong sales volumes achieved in the third quarter continue to validate the importance of Source's terminal network and logistics capabilities as operators continue practice of accelerating the pace at which frac programs are being completed in the WCSB. Source is ideally positioned to serve operators as more sand continues to be requested over shorter periods of time.

Source also continues to focus on increasing its involvement of the provision of logistics services for other items needed at the wellsite in response to customer requests to expand its service offerings and to further utilize its existing Western Canadian terminals to provide additional services. Over the longer-term, it is anticipated that these new terminal activities will be a meaningful part of Source's business.

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. In the third quarter, Source was required to reinstate and, in certain locations, increase its COVID-19 protocols due to the rapid spread of the Delta variant in parts of Western Canada. Source cannot predict the extent of the impact of a resurgence of COVID-19 or its variants may have on energy demand, or how OPEC will react to those changes in demand and how those events could impact the Company's operations. Source cannot reasonably estimate the period of time that adverse business conditions will persist, the impact they will have on the Company's business, liquidity, consolidated results of operations and consolidated financial condition, or the pace of any subsequent recovery.

Overview of Operations

Sand revenue is predominately comprised of sand sales into the WCSB at a Source terminal or to a customer at the wellsite utilizing Source's integrated logistics business model. This is referred to as "In Basin" sales and it represents Source's core business.

Sand revenue may also include mine gate sand sales, which include the sale of products that are in lower demand in the WCSB and sold at the mine sites in the US. Mine gate sand sales are undertaken to maximize production efficiencies and sand volumes but are not considered Source's core business and are typically at a lower sales price than In Basin sales and provide a comparatively lower margin per MT sold.

Wellsite solutions revenue is comprised of revenue from "last mile" logistics (i.e., from a Source terminal to the wellsite), and wellsite service offerings including Sahara units. Source believes its "last mile" services benefit customers by managing overall trucking activity, increasing reliability of supply at the wellsite and increasing operational efficiencies. Source also provides terminal services for certain well-completion products that are not produced by Source. These products primarily consist of hydrochloric acid, chemicals and resin-coated proppants. The magnitude of terminal services revenue realized by Source generally follows completion activity trends in the WCSB.

Source's business is seasonal in nature, with the majority of activity normally being in the first and third quarters of the year. As a result, Source's operating results may vary on a quarterly basis. Lower activity levels are usually realized in the fourth quarter, as 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. In addition, some exploration and production areas in Northern Canada are accessible only in the winter months when the ground is frozen. There are other factors that will impact the Company's activities from quarter-to-quarter including commodity prices and completion activity levels of E&P companies.

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

Summary of Quarterly Results

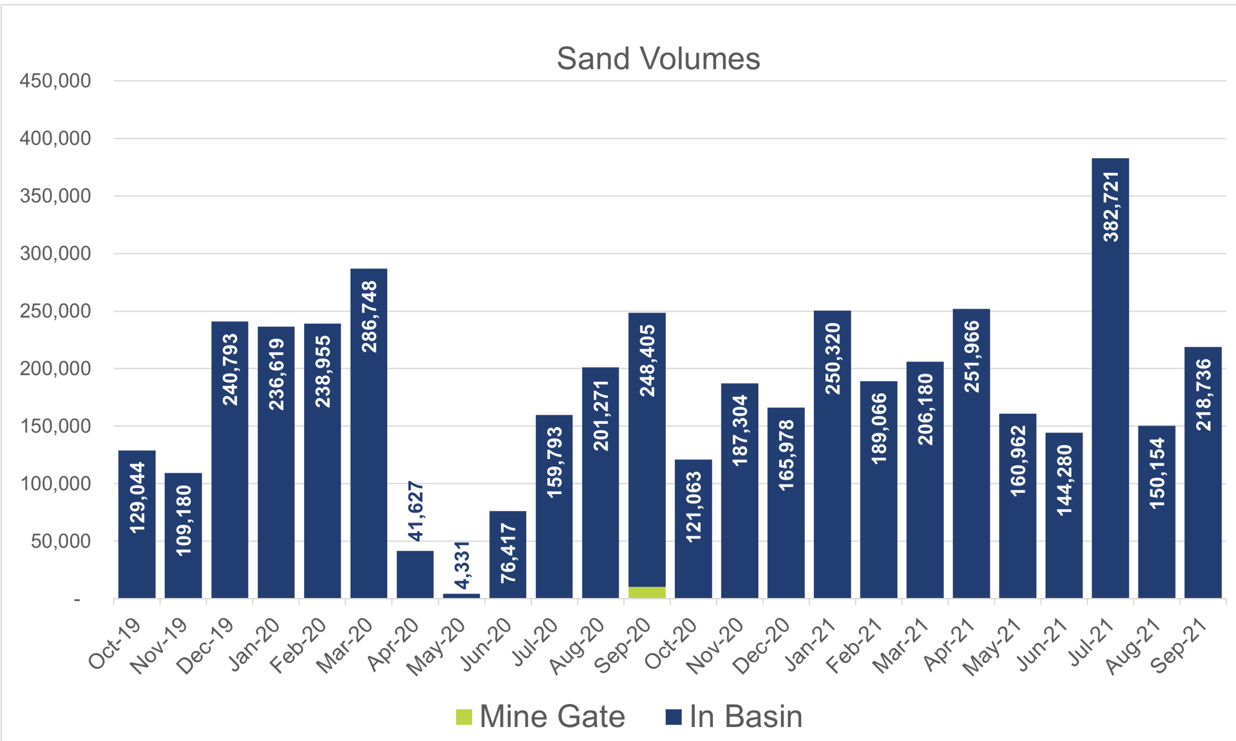
($000's, except MT and per unit amounts)	2019	2020				2021		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sand volumes (MT)	*479,017*	*762,322*	*122,375*	*609,469*	*474,345*	*645,566*	*557,208*	*751,611*
Sand revenue	58,401	83,019	12,826	65,240	48,936	66,115	58,098	79,343
Wellsite solutions	9,235	12,113	2,313	12,636	9,582	14,121	14,033	17,554
Terminal services	1,006	1,331	762	669	451	1,653	605	789
Sales	68,642	96,463	15,901	78,545	58,969	81,889	72,736	97,686
Cost of sales	51,669	76,656	12,485	61,242	42,650	63,619	56,526	79,994
Cost of sales - depreciation	6,351	13,430	3,241	10,264	5,253	7,582	4,528	4,921
Cost of sales	58,020	90,086	15,726	71,506	47,903	71,201	61,054	84,915
Gross margin	10,622	6,377	175	7,039	11,066	10,688	11,682	12,771
Operating expense	5,423	4,297	2,237	2,753	3,198	3,718	4,048	4,606
General & administrative expense	2,712	2,557	3,399	2,220	1,203	2,604	2,390	2,299
Depreciation	4,020	4,257	3,798	3,158	2,647	2,785	2,326	2,336
Income (loss) from operations	(1,533)	(4,734)	(9,259)	(1,092)	4,018	1,581	2,918	3,530
Other expense (income):								
Finance expense	7,108	7,246	7,045	7,651	7,747	7,463	7,410	7,638
Share-based compensation expense (recovery)	(201)	(96)	27	(22)	77	186	(16)	(3)
Loss (gain) on asset disposal	8	5	—	(155)	—	—	(9)	(54)
Gain on derivative instruments	(144)	—	—	—	—	—	(420)	—
Other income (loss)	(328)	(1,344)	(382)	(127)	228	(162)	(2,760)	(169)
Other expense(1)	(5,755)	108	12	66	112	44	—	51
Impairment expense	—	143,656	—	—	—	—	—	—
Gain on debt extinguishment	—	—	—	—	(27,690)	—	—	—
Foreign exchange loss (gain)	(18)	(312)	230	(562)	(471)	(564)	(415)	(354)
Total other expense (income)	670	149,263	6,932	6,851	(19,997)	6,967	3,790	7,109
Income (loss) before income taxes	(2,203)	(153,997)	(16,191)	(7,943)	24,015	(5,386)	(872)	(3,579)
Deferred tax expense	416	31,350	—	—	—	—	—	—
Net income (loss)	(2,619)	(185,347)	(16,191)	(7,943)	24,015	(5,386)	(872)	(3,579)
Net income (loss) per share ($/share)(2)	(0.58)	(36.91)	(3.16)	(1.53)	4.58	(0.40)	(0.06)	(0.26)
Diluted net income (loss) per share ($/share)(2)	(0.58)	(36.91)	(3.16)	(1.53)	4.58	(0.40)	(0.06)	(0.26)
Net income (loss)	(2,619)	(185,347)	(16,191)	(7,943)	24,015	(5,386)	(872)	(3,579)
Interest	6,097	6,175	5,890	6,373	6,615	6,362	6,265	6,456
Income taxes	416	31,350	—	—	—	—	—	—
Depreciation	4,020	4,257	3,798	3,158	2,647	2,785	2,326	2,336
Cost of sales - depreciation	6,351	13,430	3,241	10,264	5,253	7,582	4,528	4,921
Impairment expense	—	143,656	—	—	—	—	—	—
Loss (gain) on asset disposal	8	5	—	(155)	—	—	(9)	(54)
Finance expense	1,011	1,071	1,155	1,278	1,132	1,101	1,145	1,182
Gain on derivative instruments	(144)	—	—	—	—	—	(420)	—
Share-based compensation expense (recovery)	(201)	(96)	27	(22)	77	186	(16)	(3)
Other expense(1)	(5,755)	108	12	66	112	44	—	51
Gain on debt extinguishment	—	—	—	—	(27,690)	—	—	—
Adjusted EBITDA(3)	9,184	14,609	(2,068)	13,019	12,161	12,674	12,947	11,310
Sand revenue sales/MT	121.92	108.90	104.81	107.04	103.17	102.41	104.27	105.56
Gross margin	10,622	6,377	175	7,039	11,066	10,688	11,682	12,771
Cost of sales - depreciation	6,351	13,430	3,241	10,264	5,253	7,582	4,528	4,921
Adjusted Gross Margin(3)	16,973	19,807	3,416	17,303	16,319	18,270	16,210	17,692
Gross margin/MT	22.17	8.37	1.43	11.55	23.33	16.56	20.97	16.99
Adjusted Gross Margin/MT(3)	35.43	25.98	27.91	28.39	34.40	28.30	29.09	23.54

Notes:
(1) Expenses related to the incident at the Fox Creek terminal facility, refer to 'Contractual Obligations' below.
(2) Prior year amounts have been restated to reflect the 12:1 share consolidation pursuant to the Recapitalization Transaction.
(3) Adjusted EBITDA and Adjusted Gross Margin are not defined under IFRS, refer to 'Non-IFRS Measures' below.

Operating and Financial Results

Sand Revenue

Source's sand volumes for the three months ended September 30, 2021 were 751,611 MT, generating sand revenue of $79.3 million, an increase in revenue of $14.1 million from the same period in 2020. For the nine months ended September 30, 2021, sand revenue increased $42.5 million resulting in $203.6 million of revenue compared to $161.1 million recognized in the first nine months of 2020. Sand revenue for the third quarter was favorably impacted by higher sand volumes realized with other non-contracted E&P and pressure pumping customers, in addition to increased sand volumes from contracted customers, compared to the third quarter last year. Customer mix favorably impacted average realized sand price for the quarter, relative to the first and second quarters, but terminal sales and product mix negatively impacted average realized sand price compared to the same period last year. On a year-to-date basis, results for 2020 were materially impacted by COVID-19 and the collapse of commodity prices, causing customers to either cut or defer the bulk of their completion activities in the second quarter.



Wellsite Solutions and Terminal Services Revenue

Wellsite solutions revenue was $17.6 million and $45.7 million, respectively, for the three and nine months ended September 30, 2021, an increase of $4.9 million and $18.6 million, respectively, compared to the same periods in 2020. Wellsite solutions revenue improved for the three and nine months ended September 30, 2021 as a result of a 24% and 68% increase, respectively, in sand volumes that were trucked to wellsite compared to the same periods last year. Sahara-related revenue also increased as a result of improvements in days utilized across the eight-unit fleet of 37% and 58%, respectively, compared to the three and nine months ended September 30, 2020, attributed to the higher activity levels.

Terminal services revenue was $0.8 million for the third quarter, an increase of $0.1 million compared with the same period last year. The increase is the result of higher chemical elevation volumes, partially offset by lower sand elevation volumes compared to the third quarter of 2020. For the nine months ended September 30, 2021, terminal services revenue was $3.0 million, an increase of $0.3 million, or 10%, from the first nine months of 2020. Higher proppant storage revenue and hydrochloric acid transloading revenue, partially offset by lower diversification revenue, resulted in the increase relative to the same period last year.

Cost of Sales

($000's)	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Direct materials	**64,401**	50,448	**159,311**	124,863
People costs	**2,870**	1,672	**7,899**	5,343
Equipment costs	**518**	427	**1,704**	1,482
Transportation costs	**11,969**	8,649	**30,859**	18,020
Facility costs	**236**	46	**366**	675
Cost of sales	**79,994**	61,242	**200,139**	150,383
Cost of sales - depreciation	**4,921**	10,264	**17,031**	26,935

Cost of sales, excluding depreciation, increased by $18.8 million and $49.8 million, respectively, for the three and nine months ended September 30, 2021 compared to the same periods last year, primarily driven by higher sand volumes realized. Cost of sales, excluding depreciation, increased for the third quarter, mainly due to the 23% increase in sand sales volumes compared to the same period last year. The third quarter was also impacted by an increase in transportation and freight costs, and lower proceeds received from the CEWS program of $0.3 million.

For the nine months ended September 30, 2021, the increase in cost of sales, excluding depreciation, is attributed to the higher sand volumes realized. Last year, due to the sharp contraction in industry levels resulting from the impact of COVID-19, Source implemented operational cost reductions, including reductions to operating staff levels and hours of operations, which favorably impacted cost of sales. Lower proceeds received from the CEWS program of $0.4 million during the first nine months of 2021, compared to the same period last year, also contributed to the increase.

Significant components of cost of sales are denominated in US dollars including sand processing and rail freight and are therefore subject to exchange rate fluctuations. For the three and nine months ended September 30, 2021, a strengthening of the Canadian dollar on US dollar denominated components of cost of sales of 5.4% and 7.6%, respectively, partially offset the increased cost of sales described above.

Gross Margin

Gross margin increased by $5.7 million on a quarter-over-quarter basis, primarily due to lower cost of sales - depreciation realized, attributed to a lower asset base resulting from impairment recognized in the first quarter of 2020 and the benefits of the rail car lease negotiations completed in late 2020. Adjusted Gross Margin increased by $0.4 million for the quarter, impacted by lower average realized sand prices and increased costs for transportation and freight, as noted above.

For the nine months ended September 30, 2021, gross margin increased by $21.6 million compared to the prior year, primarily due to lower cost of sales - depreciation, attributed to a lower asset base, as discussed above. Adjusted Gross Margin increased by $11.6 million, compared to the same period last year, as higher volumes and operational efficiencies achieved were partially offset by lower average realized sand prices for the period.

Operating and General & Administrative Expense

	Three months ended September 30,				Nine months ended September 30,			
	2021		2020		**2021**		2020	
($000's)	**OPEX**	**G&A**	OPEX	G&A	**OPEX**	**G&A**	OPEX	G&A
People	**2,296**	**1,346**	1,102	1,159	**6,620**	**4,996**	3,832	3,924
Equipment	**353**	**1**	125	—	**1,037**	**1**	778	1
Facility	**354**	**20**	289	25	**1,011**	**19**	978	50
Selling and administrative	**1,603**	**932**	1,237	1,036	**3,704**	**2,277**	3,699	4,201
Operating and General & Administrative Expense	**4,606**	**2,299**	2,753	2,220	**12,372**	**7,293**	9,287	8,176

For the third quarter of 2021, total operating and general and administrative expense was $6.9 million, an increase of $1.9 million, or 39%, from the third quarter of 2020. On a year-over-year basis, total operating and general and administrative expense increased $2.2 million to $19.7 million.

Operating expense increased by $1.9 million for the third quarter of 2021 due to higher compensation resulting from increased activity levels and lower proceeds from the CEWS program of $0.1 million, resulting in higher people costs. Selling costs increased due to higher royalty costs incurred driven by higher sand volumes sold compared to the third quarter of last year. The third quarter of 2020 realized lower operating costs overall as a result of the cost reduction activities undertaken in response to the drop in completions activities in the WCSB due to COVID-19. Compared to the nine months ended September 30, 2020, operating expense increased $3.1 million in 2021 primarily due to the increased compensation, as discussed above, lower proceeds from the CEWS program of $0.3 million and higher royalty costs incurred driven by increased sand shipments from mines with higher royalty obligations relative to the previous year.

General and administrative expense for the third quarter was $2.3 million, relatively flat compared to the same period last year. For the nine months ended September 30, 2021, general and administrative expense was $7.3 million, a decrease of $0.9 million from the prior year. The reduction is mainly attributable to lower selling costs due to the write-off of $1.6 million of uncollectible receivables in the prior year, in addition to a reversal of a $0.2 million provision for bad debt previously recorded. Higher variable incentive compensation related to increased activity levels and lower proceeds of $0.3 million received from the CEWS program for the first nine months in 2021 led to increased people costs compared to the same period in 2020.

Depreciation

Depreciation expense decreased by $0.8 million and $3.8 million, respectively, for the three and nine months ended September 30, 2021, compared to the same periods in 2020. The decrease is the result of depreciation calculated on a lower asset base due to the impairment recognized in the first quarter of 2020.

Finance Expense

Finance expense increased by $nil and $0.6 million, respectively, for the three and nine months ended September 30, 2021 compared to the same periods last year. The increase in finance expense was primarily due to higher interest on the Notes resulting from interest paid in kind at a higher rate, as well as interest expense for the senior secured term loan. These increases were partially offset by lower interest expense resulting from lower draws on the ABL facility and decreased interest expense incurred for lease liabilities due to the renegotiation of certain rail car and equipment lease contracts executed in the third quarter of 2020.

Share-based Compensation

For the third quarter of 2021 and 2020, share-based compensation expense was $nil and for the nine months ended September 30, 2021, share-based compensation was $0.2 million, an increase of $0.3 million from the first nine months of 2020. The change is attributed to the movement in Source's share price relative to the prior period as well as expense associated with units granted in the current year. Share-based compensation expense is attributed to deferred share units ("DSUs"), restricted share units ("RSUs") and performance share units ("PSUs").

Other (Income) Expense

Other income was $0.2 million and $3.1 million, an increase of $nil and $1.2 million, respectively, for the three and nine months ended September 30, 2021 compared to the same periods in 2020. The increase is primarily due to the approval for full forgiveness of Source's outstanding PPP Loan, a total of US$2.1 million, issued by the US Small Business Association during the second quarter of 2021. Other income also includes $0.1 million and $0.3 million, respectively, of proceeds from the Canada Emergency Rent Subsidy program for the three and nine months ended September 30, 2021. Last year, the Company recognized recoveries for certain sales and use taxes incurred at the US operating facilities.

For the three months ended September 30, 2021, other expense was flat compared to the third quarter of 2020. For the nine months ended September 30, 2021, other expense decreased by $0.1 million compared to the same period last year, reflecting lower professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019, as discussed below.

Impairment Expense

Impairment expense for the three and nine months ended September 30, 2021 was $nil compared to $nil and $143.7 million, respectively, for the same periods last year. Early in 2020, as a result of the weakening economic climate and demand for crude oil, Source carried out an assessment of the recoverable value of its operations which resulted in an impairment loss recognized in the first quarter of 2020.

Income Tax

Source recorded an income tax expense of $nil for the three and nine months ended September 30, 2021, compared to $nil and $31.4 million, respectively, for the three and nine months ended September 30, 2020. The decrease in income tax expense was due to the reversal of the cumulative deferred tax asset recognized in the first quarter of 2020.

Capital Resources and Management

Source funded its capital spend in the first nine months of 2021 and 2020 through amounts available under the Credit Facility (as defined below) and cash flows from operations. Free Cash Flow generated will be used to lower amounts outstanding on the ABL, which fluctuates with the movement in working capital balances, as well as funding requirements of the operations of the business. Source continues to focus on expenditure levels to ensure that it can generate free cash flows which can be used to continue to deleverage the business.

Source operates in a working capital and capital expenditure intensive industry where capital is required to fund working capital growth and maintenance capital expenditures for the Company. Late last year Source completed a restructuring transaction as a result of the prolonged slowdown in the Western Canadian oil and gas industry (the "Recapitalization Transaction"). The Recapitalization Transaction provided the Company with a stronger long-term capital structure, including the issuance of new senior secured notes (the "Notes"). The Company has a banking operating facility comprised of the ABL, a standby letter of credit facility and, as a result of the Recapitalization Transaction, a senior secured term loan (collectively, the "Credit Facility"). Source intends to fund future working capital and capital expenditures using cash flows from operating activities, amounts available under the existing Credit Facility and additional debt or equity issuances as may be required. The availability of any additional future funding beyond that provided by the Recapitalization Transaction will depend on, among other things, operating performance and the current state of the equity and debt capital markets.

Source's capital expenditures fall into three main categories: capital expenditures at existing terminals and mine facilities to make improvements and maintain operations, growth capital expenditures for new capacity to grow production or distribution, and overburden removal.

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

As noted above, Source completed the Recapitalization Transaction in late 2020 which resulted in a stronger long-term capital structure. Source's ability to fund future operating expenses and capital expenditures, to make scheduled payments of interest on the Notes and the Credit Facility and to satisfy any of Source's other present or future debt obligations will depend on Source's future operating performance which will be affected by general economic, financial and other factors.

The Company's share capital is not subject to external restrictions; however, the amount of the ABL 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 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 for each of the fiscal calendar years ended 2021 and 2022 and increased to $8,000 for 2023, plus permitted capital expenditures of $2,000 for any one of the years;
- payment of interest in kind for the Notes until after February 15, 2022; 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 September 30, 2021, Source was in compliance with all of its covenants. Source's capital management policy has not changed during the nine months ended September 30, 2021.

Long-term Debt

Senior Secured Notes

On December 30, 2020, Source issued $142.2 million in aggregate principal amount of new senior secured notes (as defined above), thereby replacing the previously issued senior secured notes. The Notes bear interest at 10.5% and mature on 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 nine months ended September 30, 2021, Source elected to pay interest in kind resulting in $4.7 million and $11.4 million of additional Notes issued, respectively. At September 30, 2021, the aggregate principal amount of Notes outstanding was $153.6 million. 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, for amounts committed under the senior secured term loan, as outlined below. 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 are measured at fair value through profit and loss.

Credit Facility

The Company has an ABL facility which matures on September 30, 2023 and bears 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. As of September 30, 2021, $nil (excluding unamortized transaction costs) was drawn under this facility (December 31, 2020 - $3.7 million).

The ABL facility includes a standby letter of credit facility that does not affect the facility's borrowing base. In March 2021, this facility was increased by US$3.5 million, thereby reducing amounts committed to supporting letters of credit under the ABL facility by the same amount. Concurrent with the facility reduction and as per the terms of the senior secured term loan, a $2.0 million repayment was completed (see below). The Credit Facility was also being used to support $9.9 million of letters of credit (December 31, 2020 - $14.6 million) leaving $34.6 million of available liquidity (December 31, 2020 - $17.3 million). Source is subject to externally imposed capital requirements for the Credit Facility, requiring the Company to maintain the financial covenants as outlined above.

Source has 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 million. 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 $10.5 million on March 31, 2022 and further reduced to $5.0 million 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 $2.0 million repayment was completed reducing the amount drawn on this facility to $18.0 million as at September 30, 2021, as outlined above.

Cash and Net Working Capital

($000's)	**September 30, 2021**	**December 31, 2020**
Cash	1,400	—
Current assets (excluding cash)	96,289	91,547
Current liabilities	(54,682)	(46,037)
Net working capital	43,007	45,510

Total current assets less total current liabilities (net working capital) as at September 30, 2021 was $43.0 million, compared to $45.5 million as at December 31, 2020. The decrease in net working capital was due primarily to an increase in current liabilities related to the current portion of the Term Loan, partially offset by an increase in accounts receivable as a result of higher sales volumes and the cash on hand at the end of the quarter. Lower levels of inventories also contributed to the reduction in net working capital, as increased inventory balances are required at the start of the year to accommodate first quarter sales volumes.

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing and transporting inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at September 30, 2021 are $16.9 million (December 31, 2020 - $18.5 million) and $16.2 million (December 31, 2020 - $14.9 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $0.3 million for the three months ended September 30, 2021 (three months ended September 30, 2020 - $0.2 million).

Contract Liabilities

Source entered into an agreement with one of its customers, effective January 1, 2018, where Source received $14.8 million (US$11.5 million) as a prepayment for future purchases of proppant. In consideration for the prepayment, the price per MT to the customer was reduced for each MT of sand sold to the customer. During the nine months ended September 30, 2021, all remaining obligations with respect to this agreement were satisfied.

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 nine months ended September 30, 2021.

Contractual Obligations

Source has various commitments regarding lease agreements, annual software subscriptions and physical natural gas contracts. The leases expire between October 2021 and March 2032. The natural gas contracts expire in March 2023. The financial liabilities on Source's condensed consolidated interim statements of financial position consist of the Notes, Credit Facility and leases. Source's planned cash outflows relating to lease commitments and financial liabilities are outlined in the table below:

($000's)	**Total**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 and beyond**
Lease liabilities	41,618	3,534	11,743	8,890	7,347	4,531	5,573
Other commitments	1,917	321	1,237	359	—	—	—
Credit Facility(1)	18,000	—	7,500	10,500	—	—	—
Notes(2)	216,264	—	15,047	17,160	17,169	166,888	—

Notes:

(1) Interest payments on such balances have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Based on September 30, 2021 balances and interest rates, and assuming amounts remain outstanding until maturity, estimated total interest expense would be $5.2 million.

(2) 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 'Long-term Debt' above for additional information.

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

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

Source is currently pursuing claims against certain organizations in respect of damages related to the structural failure of assets at its Fox Creek terminal facility. Source 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 favorable outcome cannot be assured.

Off-Balance Sheet Arrangements

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

Outstanding Shares

As at September 30, 2021 and November 4, 2021, Source had issued and outstanding 13,545,055 common shares (September 30, 2020 - 4,971,042).

Transactions between Related Parties

During the three and nine months ended September 30, 2021 there were no related party transactions.

Proposed Transactions

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

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certificate for annual filings requires the Chief Executive Officer and the Chief Financial Officer to certify the design of Source's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at September 30, 2021. There were no material weaknesses in the design of the DC&P and the ICFR at September 30, 2021, and no changes in ICFR during the period beginning on January 1, 2021 and ended on September 30, 2021 that have materially affected or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. While the Company's certifying officers believe that the Company's DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Financial Instruments and Other Instruments

Risk Management Overview

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

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

Fair Value of Financial Instruments

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the Credit Facility approximates the carrying value as it bears interest at floating market rates consistent with market rates for similar debt. Based on the closing market price as of September 30, 2021, the fair value of the Notes was $58.4 million. The fair value for the prepayment options were determined using various inputs including comparable securities trading in the secondary market. Based on this analysis, as of September 30, 2021, the fair value of prepayment options was $1.5 million. In June 2021, Source entered into a contract which contains an embedded derivative. At September 30, 2021, the fair value of this derivative asset was $0.4 million.

Critical Accounting Estimates

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

Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored. A provision for doubtful accounts is established based on the expected credit loss model under IFRS 9.

Inventories

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

Depreciation

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

Decommissioning Liabilities

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

Income Taxes

The amounts recorded for deferred income taxes are based on estimates regarding the timing of the reversal of temporary differences and tax rates currently substantively enacted. Legislation and regulations in the various jurisdictions that the Company operates in are subject to change and differing interpretations require management's judgment. Income tax filings are subject to audits, re-assessments and changes in facts, circumstances and interpretations of the standards could result in a material change in the Company's provision for income taxes. As such, income taxes are subject to measurement uncertainty.

Share-based Compensation

Liability-settled compensation plans include RSUs, PSUs and DSUs. RSUs and PSUs may be settled in common shares or cash. DSUs, RSUs and PSUs may be settled for cash payments and accordingly are considered a liability-settled award for accounting purposes. The fair value of stock options to purchase common shares is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected unit life, estimated forfeitures and estimated volatility of Source.

Cash-generating Units

The determination of a cash-generating unit ("CGU") is based on management's judgment regarding geographical proximity, shared equipment and mobility of equipment. Management has determined that the Company's operations represent one CGU.

Impairment of Non-financial Assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). The recoverable amount of a CGU is determined using an approach which considers a discounted cash flow model and an earnings multiple approach. The discounted cash flow model incorporates significant assumptions including a revenue growth rate and discount rate. The earnings multiple approach uses earnings before interest, taxes, depreciation and amortization less corporate expenses and comparable market multiples to determine the recoverable amount of the CGU. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Embedded Derivatives

An embedded derivative is a component of a contract that modifies the cash flows of the contract. Embedded derivatives are separated from the contract and accounted for as derivative liabilities or assets. Embedded derivatives are measured at fair value through profit or loss. The fair value of the derivatives may be based on prices or valuation techniques that require inputs that are not based on observable market data.

Revenue Recognition

Contractual arrangements for revenue are intricate and may have multiple contractual elements within them, resulting in complex recognition in the financial statements. The contractual elements which require significant consideration may include embedded derivatives, contract liabilities, take-or-pay commitments and leasing arrangements. Significant judgement is required in identifying and assessing the appropriate accounting recognition for each contractual element identified within these contractual arrangements.

NON-IFRS MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. These financial measures do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), cash flows from operating activities, gross margin and other measures of financial performance as determined in accordance with IFRS.

Source believes that the non-IFRS measure of Adjusted EBITDA is a useful measure to management and investors to provide relative performance and measure changes in respect of Source's financial performance in the context of earnings generated to fund capital investments and meet financial obligations. Adjusted Gross Margin is useful to management and investors in measuring pricing and operating cost performance relative to other publicly listed competitors throughout North America. Free Cash Flow is a useful measure to management and investors as it reflects the Company's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. Adjusted EBITDA per MT and Adjusted Gross Margin per MT are calculated by taking the non-IFRS measures and dividing by sand volumes for the periods stated.

Adjusted EBITDA represents earnings generated to fund capital investments and meet financial obligations. It represents, for the period presented, net income (loss) plus income taxes, interest expense, cost of sales - depreciation, depreciation, amortization, impairment and gain on debt extinguishment; and is adjusted to add back or deduct, as applicable, the following expense charges or benefits incurred in such period which, in management's view, are not indicative of the underlying business performance: finance expense excluding interest expense, loss (gain) on asset disposal, transaction and related professional fees, loss (gain) on derivative liability, gain on settlement of deferred revenue, share-based compensation and other expense as it relates to the incident at the Fox Creek terminal facility.

Adjusted Gross Margin represents a margin more comparable to other publicly listed competitors throughout North America. It represents, for the period presented, gross margin plus costs of sales - depreciation.

Free Cash Flow represents, for the period presented, cash flows provided by (used in) operating activities adjusted for financing expense paid, maintenance and sustaining capital spend needed to maintain operations, mandatory debt repayments and various non-cash operating activities. Free Cash Flow is considered a key non-IFRS measure as it reflects Source's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. The reconciliation to the comparable IFRS measure, Cash flows provided by (used in) operating activities, can be found on page 4.

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

Reconciliation of Adjusted EBITDA to Net Income

	Three months ended September 30,		**Nine months ended September 30,**	
($000's)	**2021**	2020	**2021**	2020
Net loss	**(3,579)**	(7,943)	**(9,837)**	(209,481)
Add:				
Income taxes	**—**	—	**—**	31,350
Interest expense	**6,456**	6,373	**19,083**	18,436
Cost of sales – depreciation	**4,921**	10,264	**17,031**	26,935
Depreciation	**2,336**	3,158	**7,447**	11,213
Impairment expense	**—**	—	**—**	143,656
Finance expense excluding interest expense	**1,182**	1,278	**3,428**	3,506
Share-based compensation expense (recovery)	**(3)**	(22)	**167**	(91)
Gain on asset disposal	**(54)**	(155)	**(63)**	(150)
Gain on derivative asset	**—**	—	**(420)**	—
Other expense(1)	**51**	66	**95**	186
Adjusted EBITDA	**11,310**	13,019	**36,931**	25,560

Note:
(1) Expenses related to the incident at the Fox Creek terminal facility, refer to 'Contractual Obligations' above.

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2021**	2020	**2021**	2020
Gross margin	**12,771**	7,039	**35,141**	13,591
Cost of sales – depreciation	**4,921**	10,264	**17,031**	26,935
Adjusted Gross Margin	**17,692**	17,303	**52,172**	40,526

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and Source's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "estimates", "intends", "anticipates", "believes", "continues", "plans", "predicts", "projects" or variations of such words and phrases, or state that certain actions, events or results "may" or "will" be taken, occur or be achieved. Such forward-looking statements reflect Source's beliefs, estimates and opinions regarding its future growth, results of operations, future performance (both operational and financial), and business prospects and opportunities at the time such statements are made, and Source undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change unless required by applicable law. Forward-looking statements are necessarily based upon a number of estimates and assumptions made by Source that are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Forward-looking statements are not guarantees of future performance. In particular, this MD&A contains forward-looking statements pertaining, but not limited, to: our belief that customers will continue to deploy capital throughout the remainder of the year and expand drilling and completion programs in 2022; the continued increase in demand from customers primarily focused on the development of natural gas properties in Montney, Duvernay and Deep Basin; the development of Canadian LNG export projects, the increase in natural gas pipeline capacity and the conversion of coal-fired power generation facilities to natural gas; the Company's view that natural gas is an important transitional fuel for the movement to a less carbon intensive world; outlook for commodity prices and sales volumes; expectations respecting future conditions; revenue and profitability; industry activity levels, including Source's anticipated position to serve operators as more sand continues to be requested over shorter periods of time; the impact of COVID-19 or its variants, including the Delta variant, on energy demand and the effect it may continue to have on the Company's business, liquidity, operations and financial condition and the pace of any subsequent recovery; the benefits that Source's "last mile" services provide to customers; the anticipated effect of terminal services on Source's business; expectations regarding funding for future working capital and capital expenditures; Source's planned cash outflows relating to lease commitments and financial liabilities; the availability of any additional future funding; expectations on Source's ability to meet their capital needs; expectations regarding fluctuations in foreign currency; and expectations regarding the outcome of legal claims and proceedings, including but not limited to the outcome of Source's anticipated claim for damages related to the structural failure of its Fox Creek terminal facility.

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

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

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; uninsured and underinsured losses; risks related to the transportation of Source's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the impact of climate change risk; the ability of Source to retain and attract qualified management and staff in the markets in which Source operates; labor disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavorable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; implementation of recently issued accounting standards; the use and suitability of Source's accounting estimates and judgments; the impact of information systems and cyber security breaches; and risks and uncertainties related to COVID-19 or its variants, including changes in energy demand.

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

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