

SOURCE ENERGY SERVICES



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2022 AND 2021**

UNAUDITED

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Financial Position - Unaudited

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

	Note	March 31, 2022	December 31, 2021
Assets			
Current assets			
Accounts receivable	4(d) \$	62,980	\$ 43,499
Prepaid expenses		4,171	5,728
Derivative assets	4(c)	41	1,181
Inventories	6	52,463	56,337
Total current assets		119,655	106,745
Derivative assets	4(c)	109	537
Property, plant and equipment	7	128,872	131,935
Right-of-use assets	8	24,275	26,814
Total assets	\$	272,911	\$ 266,031
Liabilities and equity			
Current liabilities			
Accounts payable and accruals	4(e) \$	45,344	\$ 29,336
Contract liabilities	16	—	94
Derivative liabilities	4(c)	51	—
Lease liabilities	11	11,967	12,358
Current portion of long-term debt	10	5,500	7,500
Decommissioning provision	12	996	1,020
Total current liabilities		63,858	50,308
Lease liabilities	11	24,191	26,078
Long-term debt	10	179,177	175,531
Decommissioning provision	12	7,127	7,588
Total liabilities	\$	274,353	\$ 259,505
Shareholders' equity (deficit)			
Shareholders' equity	13 \$	410,632	\$ 410,632
Contributed surplus		2,459	2,459
Accumulated deficit		(419,665)	(413,025)
Cumulative translation adjustment		5,132	6,460
Total shareholders' equity (deficit)	\$	(1,442)	\$ 6,526
Total liabilities and shareholders' equity (deficit)	\$	272,911	\$ 266,031

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 March 31,	
	Note		2022	2021
Sales				
Sand revenue	16	\$	80,661	\$ 66,115
Wellsite solutions	16		15,416	14,121
Terminal services	16		892	1,653
Total sales			96,969	81,889
Cost of sales	17	\$	76,603	\$ 63,619
Cost of sales - depreciation			5,793	7,582
Gross margin		\$	14,573	\$ 10,688
Operating expense	17	\$	4,336	\$ 3,718
General & administrative expense	17		2,489	2,604
Depreciation			2,654	2,785
Income from operations		\$	5,094	\$ 1,581
Other expense (income):				
Finance expense	19	\$	7,903	\$ 7,463
Share-based compensation expense	14		759	186
Unrealized loss on derivative instruments	4(c)		1,619	—
Other income			(163)	(162)
Other expense	20		2,129	44
Foreign exchange gain			(513)	(564)
Total other expense			11,734	6,967
Net loss		\$	(6,640)	\$ (5,386)
Other comprehensive loss				
Foreign currency translation adjustment (subject to recycling)			(1,328)	(2,144)
Comprehensive loss		\$	(7,968)	\$ (7,530)
Loss per share (in dollars)				
Basic and diluted	15	\$	(0.49)	\$ (0.40)

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Changes in Equity (Deficit) - Unaudited

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

	Common share capital		Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Total Equity (Deficit)	
	Note	Number of Shares					\$
Balance at December 31, 2021		13,545,055	\$ 410,632	\$ 2,459	\$ 6,460	\$ (413,025)	\$ 6,526
Net loss					\$ (6,640)		(1,328)
Unrealized foreign exchange loss				\$ (1,328)			(6,640)
Balance at March 31, 2022		13,545,055	\$ 410,632	\$ 2,459	\$ 5,132	\$ (419,665)	\$ (1,442)

	Common share capital		Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Total Equity	
	Note	Number of Shares					\$
Balance at December 31, 2020		13,545,055	\$ 410,632	\$ 2,459	\$ 8,218	\$ (388,622)	\$ 32,687
Net loss					(5,386)		(5,386)
Unrealized foreign exchange loss				(2,144)			(2,144)
Balance at March 31, 2021		13,545,055	\$ 410,632	\$ 2,459	\$ 6,074	\$ (394,008)	\$ 25,157

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Cash Flows - Unaudited

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

		For the three months ended March 31,	
	Note	2022	2021
Operating Activities			
Net loss		\$ (6,640)	\$ (5,386)
Adjusted for the following:			
Depreciation		8,447	10,367
Share-based compensation expense	14	759	186
Finance expense	19	7,903	7,463
Unrealized loss on derivative instruments	4(c)	1,619	—
Satisfaction of performance obligations, net of proceeds on contract liabilities	16	(94)	(827)
Payments for share-based compensation		(219)	(20)
Payments made for decommissioning provision	12	(232)	(223)
Net changes in non-cash working capital	5	(1,628)	(6,196)
Cash flows provided by operating activities		\$ 9,915	\$ 5,364
Investing Activities			
Capital expenditures		(2,025)	(1,316)
Net changes in non-cash working capital	5	(81)	(372)
Cash flows used in investing activities		\$ (2,106)	\$ (1,688)
Financing Activities			
Proceeds (repayments) on long-term debt	5	(1,944)	1,923
Repayment of lease obligations	11	(3,518)	(3,458)
Financing expense paid		(2,347)	(2,141)
Cash flows used in financing activities		\$ (7,809)	\$ (3,676)
Increase (decrease) in cash		\$ —	\$ —
Cash and cash equivalents, beginning of period		—	—
Cash and cash equivalents, end of period		\$ —	\$ —
Supplementary information for cash flows from operating activities			
Interest paid		(2,183)	(1,987)

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

As at and for the three months ended March 31, 2022 and 2021

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

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. and its subsidiaries (“Source” or the “Company”) is a company that focuses on the integrated production and distribution of high quality 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 and Peace River 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 is incorporated under the Alberta Business Corporations Act and the head and principal office is located at 500, 1060 - 7th Street SW, Calgary, Alberta, T2R 0C4.

2. BASIS OF PRESENTATION

Statement of compliance

The 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 months ended March 31, 2022, 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, 2021 annual consolidated audited financial statements. These financial statements are available on SEDAR.

The policies applied in the condensed consolidated interim financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as at March 31, 2022. The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors (the “Board”) on May 5, 2022.

Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with 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, 2021 annual consolidated audited financial statements which can be found on SEDAR.

Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company’s consolidated audited financial statements as at and for the year ended December 31, 2021, except as noted below:

Newly adopted accounting policies

The following amendments have been issued by the IASB and were adopted by the Company effective for the fiscal year beginning January 1, 2022:

Standard	Description of change
Property, Plant and Equipment - Proceeds before intended use (Amendment to IAS 16)	This amendment states that deducting proceeds from selling items produced while bringing an asset to its intended use from the cost of the asset is prohibited and shall be recognized in profit or loss.
Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts (Amendment to IAS 37)	This amendment clarifies the costs that shall be included in determining the cost of fulfilling a contract when assessing whether a contract is onerous.

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.

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.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

As at and for the three months ended March 31, 2022 and 2021

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

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 the condensed consolidated interim financial statements. The Company employs risk management strategies and policies 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) Classification of financial instruments

The Company categorizes the following financial instruments at amortized cost:

	March 31, 2022	December 31, 2021
Financial instruments at amortized cost		
Trade and other receivables	62,980	43,499
Trade and other payables	45,344	29,430
Lease liabilities (includes current portion)	36,158	38,436
Long-term debt (includes current portion)	184,677	183,031

Refer to Note 4(c) for financial instruments carried at fair value through profit and loss.

(c) Fair value of financial instruments

The fair values of accounts receivable and accounts payable approximate their carrying values due to the short-term maturity of those instruments. The fair value of the credit facilities approximates their carrying value 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.

March 31, 2022	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss:				
Derivative instruments, net	\$ 99	\$ —	\$ 99	\$ —
Financial liabilities at amortized cost:				
Senior secured notes	\$ 150,651	\$ —	\$ 99,709	\$ —

December 31, 2021	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss:				
Derivative asset	\$ 1,718	\$ —	\$ 1,718	\$ —
Financial liabilities at amortized cost:				
Senior secured notes	\$ 147,350	\$ —	\$ 90,325	\$ —

(d) 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 trade and other accounts receivable are due from purchasers of proppants and logistics services and are subject to normal industry credit risk. Significant changes in industry conditions will

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Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

As at and for the three months ended March 31, 2022 and 2021

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

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.

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 guidelines established by the Company's credit and collection programs. The Company's five largest customers account for 68% of the revenue for the three months ended March 31, 2022, with the three largest making up 47% of revenue (three months ended March 31, 2021, five customers accounted for 68%, three customers accounted for 51%). Four of those customers (three for the three months ended March 31, 2021) account for 10% or more of total revenue individually in the three months ended March 31, 2022.

As at March 31, 2022, the Company's trade and other receivables, net of loss allowances, were comprised of the following:

As at	March 31, 2022	December 31, 2021
Not yet due	\$ 47,969	\$ 41,853
0 – 30 days	14,720	1,616
31 – 60 days	160	30
61 – 90 days	122	—
91+ days	9	—
Total trade and other receivables	\$ 62,980	\$ 43,499

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.

A loss allowance of \$149 was recorded as at March 31, 2022:

As at	March 31, 2022	December 31, 2021
Balance, beginning of period	73	\$ 272
Increase (decrease) in loss allowance	76	10
Specific provision for receivables deemed uncollectible	—	(209)
Balance, end of period	\$ 149	\$ 73

The Company's maximum exposure to credit risk is the carrying amount of trade and other receivables, cash and cash equivalents and derivative assets, if applicable. The Company is also exposed to counterparty credit risk with respect to cash and cash equivalents as well as foreign exchange forward contracts. These financial instruments are held with major financial institutions and management believes the investment grade credit ratings of these institutions minimizes this risk.

(e) 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, derivative 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.

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

As at March 31, 2022	Total	2022	2023	2024	2025	2026	2027 and beyond
Accounts payable and accruals	\$ 45,344	\$ 45,344	\$ —	\$ —	\$ —	\$ —	\$ —
Lease liabilities ⁽¹⁾	\$ 36,480	\$ 10,112	\$ 9,843	\$ 7,155	\$ 4,088	\$ 1,632	\$ 3,650
Credit facilities ⁽²⁾	\$ 34,518	\$ —	\$ 34,518	\$ —	\$ —	\$ —	\$ —
Notes payable ⁽¹⁾	\$ 216,264	\$ 12,837	\$ 17,163	\$ 17,169	\$ 169,095	\$ —	\$ —

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.

(f) 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 March 31, 2022 are \$24,439 (December 31, 2021 - \$14,696) and \$19,385 (December 31, 2021 - \$11,065) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) by \$360 for the three months ended March 31, 2022 (\$242 in three months ended March 31, 2021).

In order to manage exposure to fluctuations in the Canadian to US dollar exchange rate, the Company's policy is to hedge up to certain prescribed maximum amounts of its net US dollar exposure on a monthly basis, as determined by the Company's foreign currency risk management policy, through the purchase of various instruments. As at March 31, 2022, the Company had US dollar foreign exchange forward contracts outstanding that mature during 2022, with notional amounts ranging from US\$4,000 per month to US\$14,000 per month at 1.2473 to 1.2532 per Canadian dollar. The Company also has contracts in place from January through December 2023, with notional amounts ranging from US\$1,000 to US\$4,000 per month at rates of 1.2440 to 1.2500 per Canadian dollar.

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 \$345 at March 31, 2022 (\$364 at December 31, 2021). The Company had no derivative contracts in place as at or during the periods ended March 31, 2022 and 2021 with respect to managing interest rate risk.

(g) 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.

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Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

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

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. Refer to Note 10(b) for additional information.

The Company's capital management policy has not changed during the periods ended March 31, 2022 and December 31, 2021.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the three months ended March 31, 2022 and 2021 were as follows:

	Three months ended March 31,	
	2022	2021
Accounts receivable	\$ (19,515)	\$ (11,698)
Prepaid expenses	1,509	937
Inventories	2,496	6,564
Accounts payable and accruals	13,882	(1,999)
Changes in non-cash working capital	\$ (1,628)	\$ (6,196)

Changes in non-cash investing assets and liabilities for the three months ended March 31, 2022 and 2021 were as follows:

	Three months ended March 31,	
	2022	2021
Accounts payable and accruals	\$ (81)	\$ (372)
Changes in non-cash working capital	\$ (81)	\$ (372)

	Senior secured notes	ABL facility and senior secured term loan
As at December 31, 2020	\$ 125,493	\$ 22,166
<i>Cash changes:</i>		
Proceeds	—	103,279
Repayments	—	(90,169)
<i>Non-cash and other changes:</i>		
Interest ⁽¹⁾	18,680	—
Accretion	3,221	631
Unrealized foreign exchange (gain) loss	—	(440)
Financing costs incurred	(44)	(188)
As at December 31, 2021	\$ 147,350	\$ 35,279
<i>Cash changes:</i>		
Proceeds	—	32,970
Repayments	—	(34,914)
<i>Non-cash and other changes:</i>		
Interest ⁽¹⁾	2,442	—
Accretion	859	161
Unrealized foreign exchange (gain) loss	—	57
Financing costs incurred	—	(68)
As at March 31, 2022	\$ 150,651	\$ 33,485

Note:

(1) The Company paid interest in kind, at a rate of 12.5%, for all quarterly interest payments in 2021 and the February 15, 2022 payment. Refer to Note 10 for additional information.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

As at and for the three months ended March 31, 2022 and 2021

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

6. INVENTORIES

Inventory consists of three main classifications:

As at	March 31, 2022	December 31, 2021
Unprocessed sand and work in progress	\$ 33,886	\$ 32,613
Sand available for shipment	15,144	20,386
Spare parts and supplies	3,433	3,338
Total inventories	\$ 52,463	\$ 56,337

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is depreciation expense related to sand-producing properties of \$7,781 as at March 31, 2022 (December 31, 2021 - \$8,722). The total amount of inventory expensed through cost of sales during the three months ended March 31, 2022 was \$62,428 (three months ended March 31, 2021 - \$51,258). No inventory write-downs or reversals of prior write-downs were recorded during the three months ended March 31, 2022.

7. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Cost						
Balance as at December 31, 2020	\$ 203,297	\$ 194,850	\$ 6,346	\$ 22,404	\$ 14,297	\$ 441,194
Additions	385	77	—	3,110	3,330	6,902
Disposals	(34)	(158)	—	—	—	(192)
Completed construction in progress	257	2,141	19	(2,417)	—	—
Exchange differences	(633)	(575)	(15)	(21)	(17)	(1,261)
Balance as at December 31, 2021	\$ 203,272	\$ 196,335	\$ 6,350	\$ 23,076	\$ 17,610	\$ 446,643
Additions	(169)	—	—	816	1,197	1,844
Completed construction in progress	—	50	—	(50)	—	—
Exchange differences	(2,138)	(1,931)	(49)	(132)	(268)	(4,518)
Balance as at March 31, 2022	\$200,965	\$194,454	\$6,301	\$23,710	\$18,539	\$443,969
Accumulated depreciation						
Balance as at December 31, 2020	\$ (135,657)	\$ (144,398)	\$ (6,137)	\$ —	\$ (14,075)	\$ (300,267)
Depreciation	(5,416)	(7,063)	(101)	—	(2,819)	(15,399)
Disposals	30	150	—	—	—	180
Exchange differences	366	369	14	—	29	778
Balance as at December 31, 2021	\$ (140,677)	\$ (150,942)	\$ (6,224)	\$ —	\$ (16,865)	\$ (314,708)
Depreciation	(1,412)	(1,753)	(17)	—	(489)	(3,671)
Exchange differences	1,466	1,519	49	—	248	3,282
Balance as at March 31, 2022	\$ (140,623)	\$ (151,176)	\$ (6,192)	\$ —	\$ (17,106)	\$ (315,097)
Carrying amounts						
December 31, 2021	\$ 62,595	\$ 45,393	\$ 126	\$ 23,076	\$ 745	\$ 131,935
March 31, 2022	\$ 60,342	\$ 43,278	\$ 109	\$ 23,710	\$ 1,433	\$ 128,872

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 or impairment reversal were noted as at March 31, 2022.

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Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

As at and for the three months ended March 31, 2022 and 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, 2020	\$ 8,510	\$ 17,265	\$ 41,654	\$ 67,429
Additions ⁽¹⁾	(164)	7,223	528	7,587
Expired leases	(1,721)	(717)	(263)	(2,701)
Exchange differences	(3)	(58)	(177)	(238)
Balance as at December 31, 2021	\$ 6,622	\$ 23,713	\$ 41,742	\$ 72,077
Additions	117	1,453	144	1,714
Expired leases	—	(1,719)	(338)	(2,057)
Exchange differences	(10)	(314)	(585)	(909)
Balance as at March 31, 2022	\$ 6,729	\$ 23,133	\$ 40,963	\$ 70,825

Note:

(1) On November 15, 2021, the Company entered into a sublease agreement with a third party to lease the Company's previous head office location. The Company has classified the sublease as a finance lease due to the sublease term being equal to the remaining term of the head lease. As a result, the \$1,963 net book value of the original right-of-use asset was derecognized and a lease receivable of \$803 was recorded.

Accumulated depreciation				
Balance as at December 31, 2020	\$ (3,440)	\$ (8,761)	\$ (21,441)	\$ (33,642)
Depreciation	(2,159)	(5,593)	(6,596)	(14,348)
Expired leases	1,721	717	263	2,701
Exchange differences	—	(3)	29	26
Balance as at December 31, 2021	(3,878)	(13,640)	(27,745)	(45,263)
Depreciation	(534)	(1,740)	(1,676)	(3,950)
Expired leases	—	1,719	338	2,057
Exchange differences	5	196	405	606
Balance as at March 31, 2022	\$ (4,407)	\$ (13,465)	\$ (28,678)	\$ (46,550)
Carrying amounts				
December 31, 2021	\$ 2,744	\$ 10,073	\$ 13,997	\$ 26,814
March 31, 2022	\$ 2,322	\$ 9,668	\$ 12,285	\$ 24,275

9. INCOME TAXES

Consistent with the prior year, deferred income tax benefits have not been recognized in respect of temporary differences.

The following table reconciles the Company's expected income tax expense relative to the current effective Canadian statutory rate of 23% (2021 - 23%) for the periods indicated:

	Three months ended March 31,	
	2022	2021
Loss before income taxes	\$ (6,640)	\$ (5,386)
Statutory income tax rate	23.00 %	23.00 %
Expected income taxes	(1,527)	(1,239)
<i>Increase (decrease) in taxes from:</i>		
Non-deductible expenses	117	104
Share-based compensation	12	—
Unrealized foreign exchange and derivatives	186	—
Unrecognized deferred tax assets	1,461	120
Rate differential on foreign activities	(214)	1,161
Other	(35)	(146)
Total income tax expense (recovery)	\$ —	\$ —

The Company has Canadian and foreign non-capital losses as at March 31, 2022 of \$119,943 (December 31, 2021 - \$117,903) and \$29,909 (December 31, 2021 - \$30,136), respectively. Canadian and foreign losses begin to expire in 2037.

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10. LONG-TERM DEBT

As at	March 31, 2022	December 31, 2021
Senior secured notes, due March 15, 2025, bearing interest at 10.5% per annum (a)	\$ 150,651	\$ 147,350
ABL facility maturing September 2023. Interest is based on floating rates dependent upon the form of advance drawn (b)	24,018	18,406
Senior secured term loan due September 2023, bearing interest at prime plus 6.0% per annum (c)	10,500	18,000
Unamortized debt issuance costs for the credit facilities (b)	(1,033)	(1,127)
Other long-term debt ⁽¹⁾	541	402
Total long-term debt	\$ 184,677	\$ 183,031
Less: current portion	(5,500)	(7,500)
Long-term portion	\$ 179,177	\$ 175,531

Note:

(1) Includes amounts related to the Company's share-based compensation plan. Refer to Note 14 for additional information.

(a) Senior secured notes

On December 30, 2020, Source issued \$142,238 in aggregate principal of senior secured notes (the "Notes"), which bear interest at 10.5% and mature March 15, 2025. The Company deferred payment of interest owed in cash and paid 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 months ended March 31, 2022, the Company paid interest in kind resulting in \$4,993 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 (2022 - 101%, 2023 and thereafter - 100%), plus accrued and unpaid interest. The Notes also contain a mandatory redemption feature for each fiscal year 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 \$4,558 for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$4,419).

(b) ABL facility

The Company has an ABL facility that 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. At March 31, 2022, \$24,018 was drawn under the ABL facility (less unamortized finance costs of \$1,033 for a net balance of \$22,985) (December 31, 2021 - \$18,406). Any excess cash on hand is applied against amounts drawn on the ABL.

The ABL facility includes a US\$8,500 standby letter of credit facility that does not affect the facility's borrowing base. The amount committed to supporting letters of credit under the facility was \$9,820 at March 31, 2022 (December 31, 2021 - \$9,963). The borrowing base is updated monthly, with \$16,162 of availability at March 31, 2022 (December 31, 2021 - \$12,496).

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 calculated at each fiscal calendar month, equal to \$18,000 for March 31, 2022, \$20,000 for April 30, 2022 and May 31, 2022, \$22,000 for June 30, 2022 through September 30, 2022, and \$25,000 for October 31, 2022 through December 31, 2022;
- maximum capital expenditures totaling \$12,000 for each of the fiscal calendar years ended 2022 and 2023;
- payment of interest in kind for the Notes until 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

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and unpaid interest related to the senior secured notes for the twelve calendar months ending at such fiscal calendar month.

As of March 31, 2022, Source was in compliance with all of its covenants. Interest on the above facility amounted to \$1,052 for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$767).

(c) Senior secured term loan

Source has an additional credit facility in the form of a senior secured term loan (the "Term Loan") which had an initial principal amount of up to \$20,000 and matures on September 30, 2023. The Term Loan bears interest at Canadian prime plus 6% and is secured by a fixed and floating first charge over all assets of the business. Pursuant to the terms of the facility, a \$7,500 repayment was completed in March 2022, reducing the amount drawn on this facility to \$10,500. The Term Loan is required to be further reduced to \$5,000 on March 31, 2023 and as a result, \$5,500 is presented as a current liability as at March 31, 2022.

Interest on the Term Loan was \$378 for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$411).

The effective interest rate realized on long-term debt for the three months ended March 31, 2022 was 12.3% (December 31, 2021 - 12.7%).

11. LEASE LIABILITIES

As at	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 38,436	\$ 42,329
Additions during the period	1,034	6,038
Lease modifications	648	3,514
Lease payments	(3,518)	(13,224)
Exchange differences	(442)	(221)
Balance, end of period	\$ 36,158	\$ 38,436
Less: current portion	(11,967)	(12,358)
Long-term portion	\$ 24,191	\$ 26,078

The Company enters into lease arrangements 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 \$66, respectively, were expensed to cost of sales or operating expense in the three months ended March 31, 2022 (three months ended March 31, 2021 - \$54). The Company recognized \$679 of interest on lease liabilities for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$740).

12. DECOMMISSIONING PROVISION

As at	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 8,608	\$ 9,969
Liabilities incurred	252	678
Liabilities settled	(232)	(1,818)
Accretion	50	141
Changes in estimate	(439)	(318)
Exchange differences	(116)	(44)
Balance, end of period	\$ 8,123	\$ 8,608
Less: current portion	(996)	(1,020)
Long-term portion	\$ 7,127	\$ 7,588

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 2.43% for expenditures planned within the next ten years and 2.45% for longer-term expenditures at March 31, 2022 (December 31, 2021 - 1.47% and 1.75%, respectively). The economic lives of the underlying assets are currently estimated to be between 8 and 38 years.

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13. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares. The following table outlines the issued and outstanding common shares as at March 31, 2022:

(stated in thousands, except share amounts)	Number of shares	Amount
Balance as at December 31, 2021 and March 31, 2022	13,545,055	\$ 410,632

14. SHARE-BASED COMPENSATION

(a) Option plan

The Company's option 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. Options vest over three years and expire after five years. As at March 31, 2022, no options were outstanding.

(b) Other share-based compensation plans

The Company has share-based compensation plans that allow for DSUs, RSUs and PSUs to be granted to directors and certain employees. The RSUs vest 1/3 on the anniversary date of the grant over a three-year period. Subject to achievement of performance criteria set out by the Board, the PSUs awarded vest 1/3 on the anniversary date of the grant over a three-year period. The RSUs and PSUs may be settled in cash or shares and accordingly are considered a liability-settled award for accounting purposes as they are expected to be settled for cash payment. At March 31, 2022, a liability of \$801 has been recorded for these units, of which \$596 has been classified as current (December 31, 2021 - \$457 and \$297, respectively).

The DSUs vest and are expensed over the earlier of five 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. At March 31, 2022, a liability of \$283 has been recorded for these units, of which \$160 has been classified as current (December 31, 2021 - \$143 and \$60, respectively).

The fair value of the RSUs, PSUs and DSUs was determined using the Company's share price at period end. The following table provides a summary of the status of the Company's liability-settled compensation plans and changes during the three months ended March 31, 2022 and the year ended December 31, 2021:

(number of units)	RSU	PSU	DSU
Balance as at December 31, 2020	136,856	73,614	84,489
Granted	174,666	392,500	110,231
Exercised	(57,700)	(3,449)	(28,986)
Forfeited	(5,795)	(87,088)	—
Balance as at December 31, 2021	248,027	375,577	165,734
Granted	—	—	79,000
Exercised	(121,163)	(5,891)	—
Forfeited	(682)	(61)	—
Balance as at March 31, 2022	126,182	369,625	244,734
Vested as at March 31, 2022	—	90,945	23,779

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(c) Share appreciation rights

In 2021, the Company authorized a SAR plan for certain employees. These units vest 1/3 on the anniversary date of the grant over a three-year period and are settled for cash payment. The SARs are considered a liability-settled award for accounting purposes and were valued using the Black-Scholes option pricing model, using the following inputs:

	March 31, 2022	December 31, 2021
Forfeiture rate (%)	11 %	7 %
Volatility (%)	130 %	127 %
Risk free interest rate (%)	0.75 %	0.25 %
Dividend yield (%)	— %	— %
Option life (years)	1.96	2.21
Exercise price	\$ 1.54	\$ 1.54
Share price ⁽¹⁾	\$ 2.39	\$ 1.66

Note:

(1) Share price is based on the volume weighted average share price for the twenty days preceding the measurement date.

As at March 31, 2022, a liability of \$168 has been recorded for the number of SARs outstanding:

	SARs Outstanding	Weighted Average Exercise Price
Balance as at December 31, 2020	—	\$ —
Granted	252,500	\$ 1.54
Forfeited	(28,500)	\$ 1.54
Balance as at December 31, 2021	224,000	\$ 1.54
Forfeited	(5,500)	\$ 1.54
Balance as at March 31, 2022	218,500	\$ 1.54
Vested as at March 31, 2022	72,833	\$ 1.54
Weighted average remaining contractual life (years)	1.96	

Total share-based compensation expense for all share-based payment plans for the three months ended March 31, 2022 was \$759 (three months ended March 31, 2021 - \$186).

15. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share for the three months ended March 31, 2022 was based on the losses available to holders of common shares of \$(6,640) (three months ended March 31, 2021 - \$(5,386)), and a weighted average number of common shares outstanding for the three months ended March 31, 2022 and 2021 of 13,545,055.

	Three months ended March 31,	
	2022	2021
Common shares outstanding, beginning of period	13,545,055	13,545,055
Weighted average common shares outstanding, end of period	13,545,055	13,545,055

Diluted loss per share

Diluted loss per share is calculated by adjusting the loss 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 loss per share. As at March 31, 2022 and 2021, no options remain outstanding.

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16. REVENUE

The following table presents the Company's sales, disaggregated by revenue source for the three months ended March 31:

	Three months ended March 31,	
	2022	2021
Revenue from contracts with customers:		
Sand revenue	\$ 80,661	\$ 66,115
Wellsite solutions	15,416	13,746
Terminal services	725	1,355
Total revenue from contracts with customers	\$ 96,802	\$ 81,216
Storage facilities ⁽¹⁾	167	673
Total revenue	\$ 96,969	\$ 81,889

Note:

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

Contract Liabilities

The following table provides a summary of the contract liabilities for the periods below:

As at	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 94	\$ 776
Cash proceeds	—	119
Satisfaction of performance obligations	(94)	(867)
Non-cash interest income	—	(35)
Exchange differences	—	101
Balance, end of period	\$ —	\$ 94
Less: current portion	—	(94)
Long-term portion	\$ —	\$ —

17. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the condensed consolidated interim statements of operations and comprehensive 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 March 31,	2022				2021 ⁽¹⁾			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	\$ 62,428	\$ —	\$ —	\$ 62,428	\$ 51,252	\$ —	\$ —	\$ 51,252
Salary costs	3,166	1,894	1,699	6,759	2,330	2,059	1,886	6,275
Equipment costs	707	619	—	1,326	530	573	—	1,103
Transportation costs	10,180	—	—	10,180	9,417	—	—	9,417
Facility costs	122	405	14	541	90	322	17	429
Selling costs	—	1,418	76	1,494	—	764	7	771
Administration costs	—	—	700	700	—	—	694	694
Total	\$ 76,603	\$ 4,336	\$ 2,489	\$ 83,428	\$ 63,619	\$ 3,718	\$ 2,604	\$ 69,941

Note:

(1) Included in 2021 cost of sales, operating and general & administrative salary costs are wage subsidies received as part of the Canada Emergency Wage Subsidy program of \$449.

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18. COMMITMENTS AND CONTINGENCIES

The Company has commitments regarding physical natural gas contracts which expire in March and October 2023, as well as various IT software subscriptions through 2026. Estimated annual commitments are as follows:

2022	\$	2,053
2023		1,430
2024		20
2025		16
2026 and beyond		12
Total	\$	3,531

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 (refer to Note 20 for additional information). 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 March 31,	
	2022	2021
Interest	\$ 6,669	\$ 6,362
Accretion	1,070	941
Other	164	160
Total	\$ 7,903	\$ 7,463

20. OTHER EXPENSE

In May 2019, an incident occurred during the construction of assets to provide additional storage capacity at the Company's Fox Creek terminal facility which resulted in the dismantlement of all related assets. In relation to the legal proceedings discussed in Note 18, the Company incurred costs of \$2 recorded as other expense for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$44).

Additionally, a one-time retirement payment of \$2,127 is included in other expense for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$nil).

21. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company has determined that it operates in a single operating and reportable segment. Total external revenues and assets by geographical location are summarized in the table below:

Sales for the three months ended March 31,	Canadian Operations	US Operations	Corporate ⁽¹⁾	Total
2022	\$ 94,084	\$ 2,885	\$ —	\$ 96,969
2021	\$ 81,860	\$ 29	\$ —	\$ 81,889

Total Assets	Canadian Operations	US Operations	Corporate ⁽¹⁾	Total
March 31, 2022	\$ 122,767	\$ 146,446	\$ 3,698	\$ 272,911
December 31, 2021	\$ 106,519	\$ 151,959	\$ 7,553	\$ 266,031

Note:

(1) Corporate operations are included for informational purposes only.

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22. SUBSEQUENT EVENT

On April 12, 2022, the Company announced the closing of a transaction with Canadian Silica Industries to assume operation of its Peace River frac sand processing facility. As a result of the transaction, the Company will recognize a right-of-use asset and corresponding lease obligation of approximately \$26,160 related to operation of the sand processing facility. Pursuant to the terms of the agreement, the Company purchased processed and unprocessed sand inventory on hand at closing for approximately \$4,544, as well as provided \$1,250 to be held and applied against the first month and future lease payment commitments.