SOURCE ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2022

www.sourceenergyservices.com

500, 1060 – 7th Street SW, Calgary, AB Canada T2R 0C4 |Telephone 403-262-1312

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated May 5, 2022, 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 months ended March 31, 2022 compared with the corresponding period 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 months ended March 31, 2022 and 2021 and the audited consolidated financial statements for the years ended December 31, 2021 and 2020, 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 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, 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.

First Quarter 2022 Performance Highlights

Key achievements for the three months ended March 31, 2022 included the following:

- realized sand sales volumes of 726,101 MT, a 12% increase from the first quarter of 2021, and sand revenue of $80.7 million, a 22% increase from the first quarter of 2021;
- distributed 692,338 MT of proppants and chemicals through Source's Western Canadian Sedimentary Basin ("WCSB") terminal network;
- realized a 13% increase in average realized sand price, excluding revenue from mine gate sales volumes;
- deployed Source's first ever high-capacity drive over Sahara unit, and deployed Source's ninth Sahara unit in the US for a contract with a large exploration and production ("E&P") customer commencing in the second quarter;
- achieved utilization for the Sahara fleet of 72%, and added one new Sahara customer during the quarter;
- repaid $7.5 million on the senior secured term loan;
- realized gross margin of $14.6 million and Adjusted Gross Margin(1) of $20.4 million;
- reported net loss of $6.6 million;
- realized Adjusted EBITDA(1) of $14.2 million, a 12% increase from the first quarter of 2021; and
- subsequent to quarter end, closed a transaction with Canadian Silica Industries ("CSI") to assume operations of CSI's Peace River frac sand facility which will complement Source's Northern White proppant resources.

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.

Results Overview

	Three months ended March 31,	
($000's, except MT and per unit amounts)	**2022**	2021
Sand volumes (MT)[1]	**726,101**	645,566
Sand revenue	**80,661**	66,115
Wellsite solutions	**15,416**	14,121
Terminal services	**892**	1,653
Sales	**96,969**	81,889
Cost of sales	**76,603**	63,619
Cost of sales – depreciation	**5,793**	7,582
Cost of sales	**82,396**	71,201
Gross margin	**14,573**	10,688
Operating expense	**4,336**	3,718
General & administrative expense	**2,489**	2,604
Depreciation	**2,654**	2,785
Income from operations	**5,094**	1,581
Other expense (income):		
Finance expense	**7,903**	7,463
Share-based compensation expense	**759**	186
Unrealized loss on derivative instruments	**1,619**	—
Other income	**(163)**	(162)
Other expense[2]	**2,129**	44
Foreign exchange gain[3]	**(513)**	(564)
Total other expense	**11,734**	6,967
Net loss	**(6,640)**	(5,386)
Net loss per share ($/share)	**(0.49)**	(0.40)
Diluted net loss per share ($/share)	**(0.49)**	(0.40)
Adjusted EBITDA[4]	**14,217**	12,674
Sand revenue sales/MT	**111.09**	102.41

	March 31, 2022	December 31, 2021
Total assets	**272,911**	266,031
Total non-current financial liabilities	**210,495**	209,197

Notes:
(1) One metric tonne ("MT") is approximately equal to 1.102 short tons.
(2) Includes expenses related to the incident at the Fox Creek terminal facility, and other one-time expenses, refer to 'Results Review' below.
(3) The average Canadian to United States ("US") dollar exchange rate for the three months ended March 31, 2022 was $0.7898 (2021 - $0.7899).
(4) Adjusted EBITDA is not defined under IFRS, refer to 'Non-IFRS Measures' below. Includes the receipt of proceeds from the CEWS (as defined below) program of $0.4 million during the three months ended March 31, 2021.

Sustained strength in oil and gas commodity prices continued to buoy strong activity levels in the WCSB, generating $80.7 million of sand revenue, an increase of 22%, over the first quarter of 2021. Higher sand revenue generated was attributable to a 12% increase in sand sales volumes and a 13% increase in average realized sand price, or $13.66 per MT, excluding the impact of mine gate sand sales volumes, compared to the first quarter last year. Strong industry activity levels for the quarter drove a 141% increase in spot sales volumes on a quarter-over quarter basis, which benefited the average sand price realized, as spot sales prices improved significantly.

During the first quarter, cost of sales, excluding depreciation, was impacted by higher costs for transportation and freight, due to increased prices for fuel and a tighter trucking market, as well as terminal mix changes, compared to the same period last year. These costs were partially offset by Source's continued focus on streamlining production, as improved production efficiencies mitigated cost pricing pressure realized during the quarter.

Gross Margin	**Three months ended March 31,**	
($000's, except MT and per unit amounts)	**2022**	2021
Gross margin	**14,573**	10,688
Cost of sales – depreciation	**5,793**	7,582
Adjusted Gross Margin(1)	**20,366**	18,270
Gross margin/MT	**20.07**	16.56
Adjusted Gross Margin/MT(1)	**28.05**	28.30
Percentage of mine gate sand volumes	**7%**	—%
Percentage of sand volumes sold in the WCSB	**93%**	100%

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

Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $28.54 per MT, favorably impacted by improved spot market pricing and continued production efficiencies. Compared to the first quarter last year, Adjusted Gross Margin for the first quarter of 2022 did not benefit from proceeds from the Canada Emergency Wage Subsidy ("CEWS") program, a favorable property tax adjustment or higher deferred terminal revenue. Excluding these items in the first quarter of 2021, the first quarter 2022 Adjusted Gross Margin per MT increased by 6.5% when compared to 2021. For the three months ended March 31, 2022, Adjusted Gross Margin per MT increased by 80% compared to the fourth quarter of 2021. Gross margin was favorably impacted by lower cost of sales - depreciation realized, attributed to lower rates of inventory depreciation per MT relative to the first quarter last year.

Higher selling costs, attributed to increased royalty expense, combined with no proceeds from the CEWS program (compared to $0.1 million for 2021), drove higher operating expense for the first three months of 2022, compared to the same period last year, while general and administrative expense was slightly lower on a quarter-over-quarter basis. Adjusted EBITDA was $14.2 million for the first quarter of the year, a reflection of the strong sand sales volumes and sand sales pricing realized, partially offset by the unfavorable impact of higher costs incurred for diesel and freight during the quarter.

Peace River Transaction

In April, 2022, Source entered into a transaction with CSI to assume operation of its Peace River frac sand facility. The frac sand facility adds approximately 400,000 MT of annual production capability to Source's existing production capabilities, and consolidates Source's adjacent mineral resource exploration rights with the production facility. The transaction complements Source's existing product and service offerings.

Business Outlook

With increased industry activity levels across North America, frac sand supply and demand fundamentals have improved and are expected to remain tight for 2022. These fundamentals, coupled with Source's leading service offerings and logistics capabilities, have translated into meaningful pricing gains in the spot market in 2022, a trend that is expected to continue for the balance of the year. Despite increased activity levels as industry demand outpaces supply growth, Source's sand sales volumes through the first quarter were somewhat slower than anticipated as customer programs were pushed out due to delays in having pads ready to complete and the impacts of cold weather. Source expects the expansion of capital programs will increase through the balance of the year, as Source customers signal increasing activity levels and growing confidence related to ongoing permitting issues in the northeastern British Columbia region, as well as continued strength in commodity pricing.

In the longer-term, Source believes the increased demand for natural gas, driven by the conversion of coal-fired power generation facilities, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB. 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 Source's view that natural gas will be an important transitional fuel that's critical for the successful movement to a less carbon intensive world.

In support of the move to a less carbon intensive world, Source has begun focusing on developing economic growth opportunities which transition from traditional fossil fuels to less carbon intense energy solutions. As a pathway to diversifying Source's business, and to participate in the decarbonization of the economy, Source is advancing opportunities in its own operations as well as at the well site and at its terminals. Source also continues to focus on increasing its involvement in 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 opportunities will be a meaningful part of Source's business.

ESG Update

Source is committed to operating in a sustainable manner and works closely with its stakeholders to go above and beyond current regulatory requirements through initiatives such as voluntary enrollment with the Department of Natural Resources Sustainable Growth Program and Managed Forest Program, as well as Source's production water recycling process. Source is continually looking to implement efficiencies to lessen the impact of Source's activities on the environment and specifically to reduce greenhouse gas emissions, and has several additional initiatives currently underway at its processing and terminal facilities to further reduce Source's operational emissions.

Source is currently finalizing the results of its annual environment, social and governance ("ESG") performance, which will benchmark Source's 2022 ESG performance relative to the Sustainability Accounting Standards Board framework. Source's 2022 ESG report is expected to be released in the second quarter of 2022.

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

Operations Overview

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.

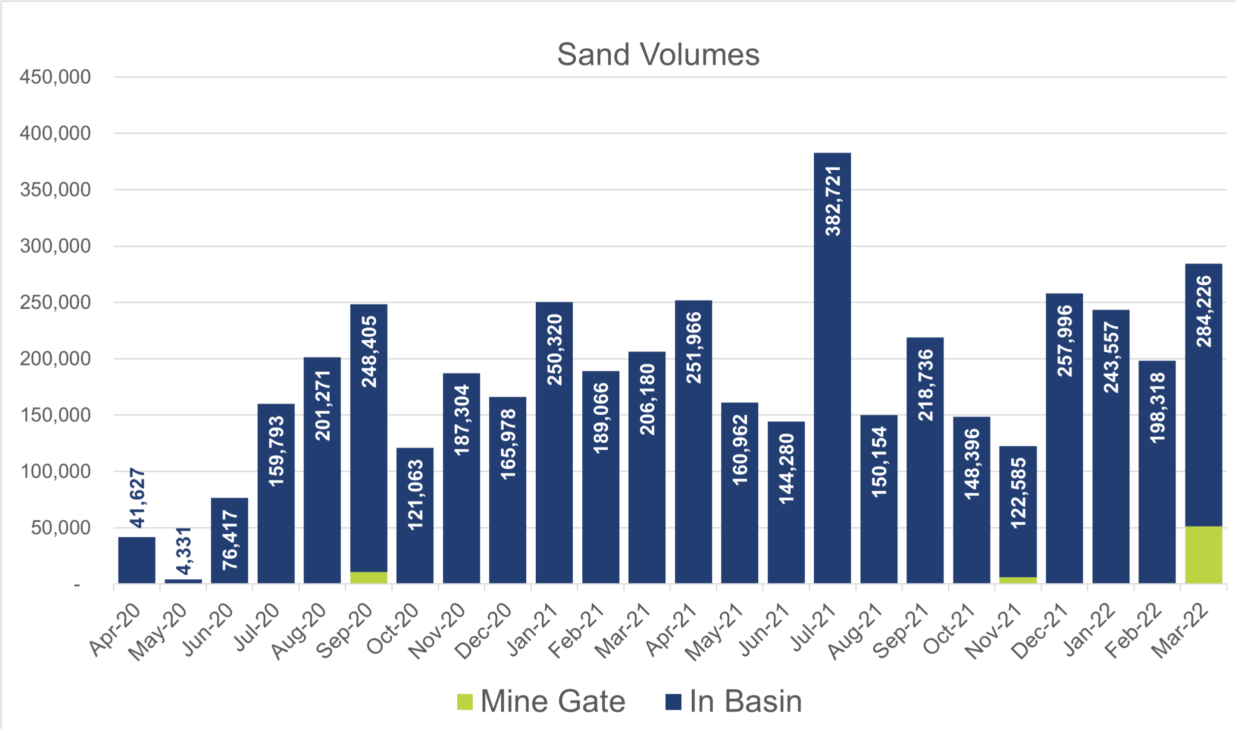
Sand revenue may also include mine gate sand sales, which include the sale of products that are in lower demand in the WCSB and sold at the mine sites in the US. Mine gate sand sales are undertaken to maximize production efficiencies and sand volumes but are not considered Source's core business and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

First Quarter Results Review

Sand Revenue

For the three months ended March 31, 2022, sand revenue was $80.7 million, an increase of $14.5 million or 22%, compared to the three months ended March 31, 2021. The increase was due primarily to a 12% increase in sand volumes and a 13% increase ($13.66 per MT, excluding mine gate sales) in average realized sand price. Increased sand sales volumes reflect strong industry activity levels, with sand volumes from other non-contracted E&P and pressure pumping customers increasing 141% compared to the first quarter last year. During the quarter, revenue realized from mine gate sales lowered the average realized sand price realized by $4.98 per MT. For the first quarter of 2022, both the volume of sand sales denominated in USD and the average exchange rate for the first quarter were largely unchanged, compared to the first quarter last year.



Wellsite Solutions and Terminal Services Revenue

Wellsite solutions revenue was $15.4 million for the three months ended March 31, 2022, an increase of 9% or $1.3 million compared to the first quarter of 2021. During the quarter, wellsite solutions revenue was impacted by slightly lower volumes trucked to wellsite, due to higher volumes from spot sales at the terminal versus full-service sales, compared to the same period last year. Despite lower volumes, revenue increased on a quarter-over-quarter basis, favorably impacted by increased ancillary logistics flow-through revenues. Sahara-related revenue increased 30% on a quarter-over-quarter basis, due to a 15% increase in days utilized across the eight-unit fleet, with four additional customers operating Sahara units compared to the first quarter last year.

For the three months ended March 31, 2022, terminal services revenue was $0.9 million, a decrease of $0.8 million from the first quarter of 2021. The decrease is due to lower sand elevation volumes and proppant storage revenue, as well as no revenue generated from the transloading of pipe and magnetite, compared to the same period last year.

Cost of Sales

	Three months ended March 31,	
($000's)	**2022**	2021
Direct materials	**62,428**	51,252
People costs	**3,166**	2,330
Equipment costs	**707**	530
Transportation costs	**10,180**	9,417
Facility costs	**122**	90
Cost of sales	**76,603**	63,619
Cost of sales - depreciation	**5,793**	7,582

Cost of sales, excluding depreciation, increased by $13.0 million for the three months ended March 31, 2022, compared to the same quarter in 2021, driven by higher sand sales volumes realized. An increase in transportation and freight costs, driven by higher prices for fuel and trucking, continued to impact cost of sales through the first quarter of the year. Cost of sales was also impacted by increased compensation expense and no proceeds received from the CEWS program during the quarter, compared to proceeds of $0.3 million received during the first quarter of 2021.

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. During the first quarter of 2022, a slight weakening of the

Canadian dollar on US dollar denominated components of cost of sales contributed to the increase in cost of sales, compared to the first quarter last year.

Gross Margin

	Three months ended March 31,	
($000's, except MT and per unit amounts)	**2022**	2021
Gross margin	**14,573**	10,688
Cost of sales – depreciation	**5,793**	7,582
Adjusted Gross Margin(1)	**20,366**	18,270
Gross margin/MT	**20.07**	16.56
Adjusted Gross Margin/MT(1)	**28.05**	28.30
Percentage of mine gate sand volumes	**7%**	—%
Percentage of sand volumes sold in the WCSB	**93%**	100%

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 lower rates of inventory depreciation per MT relative to the first quarter last year. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $28.54 per MT, favorably impacted by improved spot market pricing and continued production efficiencies, despite higher costs for freight, which was impacted by rate increases and higher fuel costs, and higher costs for labour, compared to the same period in 2021. Compared to the first quarter last year, Adjusted Gross Margin for the first quarter of 2022 did not benefit from proceeds from the CEWS program or a favorable property tax adjustment. Source also recognized a lower amount of deferred revenue in respect of terminal services performed in the period for December sand sales volumes, compared to the first quarter of last year. Excluding these items in the first quarter of 2021, the first quarter 2022 Adjusted Gross Margin per MT increased by 6.5%. For the three months ended March 31, 2022, Adjusted Gross Margin per MT increased by 80% compared to the fourth quarter of 2021.

Operating and General & Administrative Expense

	Three months ended March 31,			
	2022		2021	
($000's)	**OPEX**	**G&A**	OPEX	G&A
People	**1,894**	**1,699**	2,059	1,886
Equipment	**619**	**—**	573	—
Facility	**405**	**14**	322	17
Selling and administrative	**1,418**	**776**	764	701
Operating and General & Administrative Expense	**4,336**	**2,489**	3,718	2,604

For the three months ended March 31, 2022 total operating and general and administrative expense increased $0.5 million compared to the same period in 2021. Compared to the three months ended March 31, 2021, operating expense increased $0.6 million in 2022, primarily due to increased royalty costs incurred as a result of higher sand shipments from mines that require royalty payments, as well as higher insurance expense, attributed to a premium credit adjustment realized in the first quarter of 2021. An improvement in activity levels realized and no proceeds received from the CEWS program in the current quarter resulted in higher compensation expense; however, this increase was more than offset by lower variable incentive compensation expense compared to the same period last year.

For the three months ended March 31, 2022, general and administrative expense was $2.5 million, a decrease of $0.1 million from the prior year. Lower variable incentive compensation expense led to decreased people costs compared to the three months ended March 31, 2021.

Depreciation

Depreciation expense remained relatively flat for the three months ended March 31, 2022, compared to three months ended March 31, 2021, the result of a comparable quarter-over-quarter asset base.

Finance Expense

Finance expense increased by $0.4 million for the three months ended March 31, 2022 compared to the first quarter last year. The increase was primarily due to higher interest expense, resulting from increased draws on the ABL (as defined below) facility, and higher accretion expense incurred in the quarter. The increase in interest expense was partially offset by slightly decreased financing costs for lease liabilities, attributed to the discount rate associated with the remaining lease payments, and lower interest expense incurred for the senior secured term loan.

Share-based Compensation

Share-based compensation expense increased $0.6 million for three months ended March 31, 2022, compared to the same period in the prior year, attributed to the movement in Source's share price relative to the same period in 2021. Share-based compensation expense is attributed to deferred share units ("DSUs"), restricted share units ("RSUs"), performance share units ("PSUs") and share appreciation rights ("SARs").

Unrealized Loss on Derivative Assets

Source recorded an unrealized loss of $1.6 million for the three months ended March 31, 2022 compared to $nil for the first quarter in 2021. During the fourth quarter of 2021, Source began entering into foreign exchange forward contracts to further mitigate risk associated with the fluctuation in US dollar to Canadian dollar exchange rates.

Other Income

For the three months ended March 31, 2022, other income remained relatively unchanged compared to three months ended March 31, 2021. During the first quarter of 2021, other income included $0.1 million of proceeds from the Canada Emergency Rent Subsidy program.

Other Expense

For the first quarter of 2022, other expense increased by $2.1 million compared to three months ended March 31, 2021. The increase is due to a one-time retirement payment incurred during the quarter, partially offset by lower professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019, as discussed below.

Foreign Exchange Gain

For the three months ended March 31, 2022, foreign exchange gain decreased by $0.1 million compared to the three months ended March 31, 2021. During the current quarter, a $0.5 million foreign exchange gain on the settlement of foreign exchange forward contracts was realized, compared to last year where the $0.6 million gain was attributed to the net impact of foreign exchange rate movement on the settlement of working capital items denominated in US dollars.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2020			2021				2022
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sand volumes (MT)	*122,375*	*609,469*	*474,345*	*645,566*	*557,208*	*751,611*	*528,977*	*726,101*
Sand revenue	12,826	65,240	48,936	66,115	58,098	79,343	54,989	80,661
Wellsite solutions	2,313	12,636	9,582	14,121	14,033	17,554	11,913	15,416
Terminal services	762	669	451	1,653	605	789	648	892
Sales	15,901	78,545	58,969	81,889	72,736	97,686	67,550	96,969
Cost of sales	12,485	61,242	42,650	63,619	56,526	79,994	59,290	76,603
Cost of sales - depreciation	3,241	10,264	5,253	7,582	4,528	4,921	4,071	5,793
Cost of sales	15,726	71,506	47,903	71,201	61,054	84,915	63,361	82,396
Gross margin	175	7,039	11,066	10,688	11,682	12,771	4,189	14,573
Operating expense	2,237	2,753	3,198	3,718	4,048	4,606	4,142	4,336
General & administrative expense	3,399	2,220	1,203	2,604	2,390	2,299	1,990	2,489
Depreciation	3,798	3,158	2,647	2,785	2,326	2,336	2,426	2,654
Income (loss) from operations	(9,259)	(1,092)	4,018	1,581	2,918	3,530	(4,369)	5,094
Other expense (income):								
Finance expense	7,045	7,651	7,747	7,463	7,410	7,638	7,809	7,903
Share-based compensation expense (recovery)	27	(22)	77	186	(16)	(3)	476	759
Gain on asset disposal	—	(155)	—	—	(9)	(54)	—	—
Unrealized loss (gain) on derivative assets	—	—	—	—	(420)	—	173	1,619
Other income (loss)	(382)	(127)	228	(162)	(2,760)	(169)	(109)	(163)
Other expense(1)	12	66	112	44	—	51	108	2,129
Loss on sublease	—	—	—	—	—	—	1,159	—
Gain on debt extinguishment	—	—	(27,690)	—	—	—	—	—
Foreign exchange loss (gain)	230	(562)	(471)	(564)	(415)	(354)	581	(513)
Total other expense (income)	6,932	6,851	(19,997)	6,967	3,790	7,109	10,197	11,734
Net income (loss)	(16,191)	(7,943)	24,015	(5,386)	(872)	(3,579)	(14,566)	(6,640)
Net earnings (loss) per share ($/share)	(3.16)	(1.53)	4.58	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)
Diluted net earnings (loss) per share ($/share)	(3.16)	(1.53)	4.58	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)
Net income (loss)	(16,191)	(7,943)	24,015	(5,386)	(872)	(3,579)	(14,566)	(6,640)
Interest expense	5,890	6,373	6,615	6,362	6,265	6,456	6,594	6,669
Depreciation	3,798	3,158	2,647	2,785	2,326	2,336	2,426	2,654
Cost of sales - depreciation	3,241	10,264	5,253	7,582	4,528	4,921	4,071	5,793
Gain on debt extinguishment	—	—	(27,690)	—	—	—	—	—
Finance expense (excluding interest expense)	1,155	1,278	1,132	1,101	1,145	1,182	1,215	1,234
Share-based compensation expense (recovery)	27	(22)	77	186	(16)	(3)	476	759
Gain on asset disposal	—	(155)	—	—	(9)	(54)	—	—
Unrealized loss (gain) on derivative assets	—	—	—	—	(420)	—	173	1,619
Loss on sublease	—	—	—	—	—	—	1,159	—
Other expense(1)	12	66	112	44	—	51	108	2,129
Adjusted EBITDA(2)	(2,068)	13,019	12,161	12,674	12,947	11,310	1,656	14,217
Sand revenue sales/MT	104.81	107.04	103.17	102.41	104.27	105.56	103.95	111.09
Gross margin	175	7,039	11,066	10,688	11,682	12,771	4,189	14,573
Cost of sales - depreciation	3,241	10,264	5,253	7,582	4,528	4,921	4,071	5,793
Adjusted Gross Margin(2)	3,416	17,303	16,319	18,270	16,210	17,692	8,260	20,366
Gross margin/MT	1.43	11.55	23.33	16.56	20.97	16.99	7.92	20.07
Adjusted Gross Margin/MT(2)	27.91	28.39	34.40	28.30	29.09	23.54	15.62	28.05

Notes:

(1) Includes expenses related to the incident at the Fox Creek terminal facility (refer to 'Contractual Obligations' below) and a one-time retirement payment in Q1 2022.

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

Source's business is seasonal in nature, with the majority of activity normally occurring 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 and at Peace River 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, Preston and Peace River facilities are not enclosed and therefore are generally not operated during the winter months, but the dry plants at all of Source's facilities are operated on a year-round basis.

Liquidity and Capital Resources

Free Cash Flow

	Three months ended March 31,	
($000's)	**2022**	2021
Adjusted EBITDA(1)	**14,217**	12,674
Financing expense paid	**(2,347)**	(2,141)
Capital expenditures	**(2,025)**	(1,316)
Repayment of lease obligations	**(3,518)**	(3,458)
Free Cash Flow(1)	**6,327**	5,759

Note:

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

Source generated Free Cash Flow of $6.3 million for the three months ended March 31, 2022, compared with $5.8 million generated for the first quarter of 2021. The increase was driven by a $1.5 million improvement in Adjusted EBITDA, resulting from higher income from operations generated in the quarter compared to last year. This increase was partially offset by additional capital expenditures during the period, including higher costs related to overburden removal and costs incurred for the configuration of a Sahara unit in preparation for an upcoming contract in the US. Total interest expense paid increased on a quarter-over-quarter basis, as slightly lower interest paid for the Term Loan (as defined below) was offset by increased interest paid on the ABL facility, due to higher drawings, relative to the first quarter of 2021.

Source funded its capital spend for the first three months of 2022 and 2021 through amounts available under the Credit Facility (as defined below) and cash flows from operations. Free Cash Flow generated will be used to lower debt balances outstanding, 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. The Company has a banking operating facility comprised of the ABL facility, a standby letter of credit facility and 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 will depend on, among other things, operating performance and the current state of the equity and debt capital markets.

Capital Expenditures

	Three months ended March 31,	
($000's)	**2022**	2021
Terminal	**62**	13
Wellsite solutions	**315**	156
Production	**72**	191
Overburden removal	**1,197**	956
Other	**379**	—
Capital expenditures	**2,025**	1,316
Growth capital	**530**	196
Maintenance and sustaining capital	**1,495**	1,120
Capital expenditures	**2,025**	1,316

Source's capital expenditures fall into two main categories: capital expenditures at existing terminals and mine facilities to make improvements and maintain operations, including overburden removal, and growth capital expenditures to expand production and distribution capabilities across its infrastructure.

Source's capital expenditures for the first quarter of 2022 were $2.0 million, an increase of $0.7 million compared to the same period last year. The increase in expenditures for maintenance and sustaining capital was primarily related to higher costs associated with overburden removal for mining operations and the Sahara unit configuration, as noted above. Growth capital expenditures for the quarter included costs related to assessments and the drilling program at the Peace River mine, as well as the completion of Source's ninth Sahara unit, compared to the first quarter last year.

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 (as defined below) 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.

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 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 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. Source's capital management policy has not changed during the three months ended March 31, 2022.

Long-term Debt

($000's)	**March 31, 2022**	**December 31, 2021**
Senior secured notes	**150,651**	147,350
ABL facility	**24,018**	18,406
Senior secured term loan, long-term portion	**5,000**	10,500
Other long-term debt, including unamortized debt issue costs	**(492)**	(725)
Total long-term debt	**179,177**	175,531
Standby letter of credit facility	***9,820***	*9,963*

As at March 31, 2022, Source had long-term debt outstanding of $179.2 million, excluding the current portion of the Term Loan, compared to $175.5 million as at December 31, 2021, an increase of $3.6 million. The change in long-term debt outstanding was primarily due to additional Notes issued as a result of the Company electing to pay its quarterly interest payments in kind for the February 15, 2022 interest payment. A repayment of $7.5 million was completed on the Term Loan at the end of March, 2022, of which $2.0 million reduced the current portion outstanding. Overall, total amounts outstanding for the credit facilities decreased by $1.9 million at the end of the first quarter, compared to December 31, 2021.

Senior Secured Notes

On December 30, 2020, Source issued $142.2 million in aggregate principal amount of senior secured notes (the "Notes"). The Notes bear interest at 10.5% and mature on March 15, 2025. The Company has deferred payment of interest owed in cash and paid interest in kind, at a rate of 12.5%, for all quarterly interest payments made through February 15, 2022 through the issuance of additional Notes. For the three months ended March 31, 2022, Source paid interest in kind resulting in $5.0 million of additional Notes issued. At March 31, 2022, the aggregate principal amount of Notes outstanding was $163.5 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. 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.

Credit Facility

The Company has an asset backed loan ("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 March 31, 2022, $24.0 million (excluding unamortized transaction costs) was drawn under this facility (December 31, 2021 - $18.4 million).

The ABL facility includes a standby letter of credit facility that does not affect the facility's borrowing base. The Credit Facility was also being used to support $9.8 million of letters of credit (December 31, 2021 - $10.0 million) leaving $16.2 million of available liquidity (December 31, 2021 - $12.5 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"), secured by a fixed and floating first charge over all assets of the business, which bears interest at Canadian prime plus 6% and had an initial principal amount outstanding of $20.0 million. The facility requires a $5.5 million repayment to be made on March 31, 2023 and matures on September 30, 2023. At the end of the first quarter, a $7.5 million repayment was completed reducing the amount drawn on this facility to $10.5 million as at March 31, 2022.

Finance Expense

	Three months ended March 31,	
($000's)	**2022**	2021
Interest on Notes	**4,558**	4,419
Interest on Credit Facility	**1,431**	1,178
Interest on leases	**679**	740
Accretion	**1,070**	941
Other	**165**	185
Total	**7,903**	7,463

Cash and Net Working Capital

($000's)	**March 31, 2022**	**December 31, 2021**
Current assets	119,655	106,745
Current liabilities	(63,858)	(50,308)
Net working capital	55,797	56,437

Total current assets less total current liabilities (net working capital) as at March 31, 2022 was $55.8 million, compared to $56.4 million as at December 31, 2021. The change in net working capital was due primarily to increases in balances of accounts receivable and accounts payable, the result of higher sales volumes and activity levels during the first quarter, compared to the fourth quarter of 2021. Lower inventory levels on hand at the end of the period, due to higher sales volumes realized during the quarter, was partially offset by a reduction in current liabilities as a result of the payment made on the Term Loan, with a $2.0 million reduction to the current portion of the Term Loan outstanding at March 31, 2022.

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 March 31, 2022 are $24.4 million (December 31, 2021 - $14.7 million) and $19.4 million (December 31, 2021 - $11.1 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $0.4 million for the three months ended March 31, 2022 (three months ended March 31, 2021 - $0.2 million).

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 of May 5, 2022, the Company has US dollar foreign exchange forward contracts outstanding that mature during 2022, with notional amounts ranging from US$3,000 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 per month to US$4,000 per month at rates of 1.2440 to 1.2500 per Canadian dollar.

Contractual Obligations

Source has various commitments regarding lease agreements, various IT software subscriptions and physical natural gas contracts. The leases expire between April 2022 and March 2032, the IT software subscriptions expire between January 2023 and September 2026 and 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**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027 and beyond**
Lease liabilities	36,480	10,112	9,843	7,155	4,088	1,632	3,650
Other commitments	3,531	2,053	1,430	20	16	12	—
Credit Facility(1)	34,518	—	34,518	—	—	—	—
Notes	216,264	12,837	17,163	17,169	169,095	—	—

Note:

(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 March 31, 2022 balances and interest rates, and assuming amounts remain outstanding until maturity, estimated total interest expense would be $5.9 million.

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 March 31, 2022 and May 5, 2022, Source had issued and outstanding 13,545,055 common shares (March 31, 2021 - 13,545,055).

Transactions between Related Parties

During the three months ended March 31, 2022 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 March 31, 2022. There were no material weaknesses in the design of the DC&P and the ICFR at March 31, 2022, and no changes in ICFR during the period beginning on January 1, 2022 and ended on March 31, 2022 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 March 31, 2022, the fair value of the Notes was $99.7 million. At March 31, 2022, the fair value of the currency hedging derivative instruments were $0.1 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. The 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 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 including judgment regarding the recognition or derecognition of deferred tax assets.

Share-based compensation

The Company's compensation plans include the following award types: stock option, RSUs, PSUs, DSUs and SARs. DSUs and SARs are cash-settled awards and RSUs and PSUs may be settled in common shares but are expected to be settled for cash. As such, these awards are considered liability-settled awards for accounting purposes. The fair value of stock options and SARs are estimated 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 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.

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.

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. 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.

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. Previously, Source included the movement in cash flows from operating activities as part of the calculation of Free Cash Flow, however; changes in working capital can have significant fluctuations due to the seasonality of Source's operations. Management believes use of Adjusted EBITDA in the calculation is more representative of the funds generated to pay down debt and other returns to investors. As such, the presentation of Free Cash Flow has been revised and prior periods have been restated to reflect the current definition.

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, unrealized loss (gain) on derivative instruments, gain on settlement of deferred revenue, share-based compensation, loss (gain) on sublease and other expense as it relates to the incident at the Fox Creek terminal facility and one-time retirement payments.

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 cost of sales - depreciation.

Free Cash Flow represents, for the period presented, Adjusted EBITDA, adjusted for financing expense paid, capital expenditures, 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, net loss, can be found in the table below.

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 and Free Cash Flow to Net Loss

	Three months ended March 31,	
($000's)	**2022**	2021
Net loss	**(6,640)**	(5,386)
Add:		
Interest expense	**6,669**	6,362
Cost of sales – depreciation	**5,793**	7,582
Depreciation	**2,654**	2,785
Finance expense (excluding interest expense)	**1,234**	1,101
Share-based compensation expense	**759**	186
Unrealized loss on derivative assets	**1,619**	—
Other expense[(1)]	**2,129**	44
Adjusted EBITDA	**14,217**	12,674
Financing expense paid	**(2,347)**	(2,141)
Capital expenditures	**(2,025)**	(1,316)
Repayment of lease obligations	**(3,518)**	(3,458)
Free Cash Flow	**6,327**	5,759

Note:
(1) Includes expenses related to the incident at the Fox Creek terminal facility, refer to 'Contractual Obligations' above, and one-time retirement payments.

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended March 31,	
($000's)	**2022**	2021
Gross margin	**14,573**	10,688
Cost of sales – depreciation	**5,793**	7,582
Adjusted Gross Margin	**20,366**	18,270

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", "projects", "focus" 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 the transaction with CSI complements Source's existing product and service offerings; Source's search for efficiencies to implement in order to lessen the impact of Source's activities on the environment; expectations regarding our 2022 annual ESG performance report; our expectation that frac sand supply and demand will remain tight for 2022; our expectation that pricing gains in the spot market will continue for the remainder of 2022; our expectation that the expansion of capital programs will increase through the balance of 2022; increased demand for natural gas, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB; industry activity levels, including the continued increase in demand from customers primarily focused on the development of natural gas properties in Montney, Duvernay and Deep Basin; the Company's view that natural gas is an important transitional fuel for the successful movement to a less carbon intensive world; our focus on exploring and developing, and advancement of economic growth opportunities related to the transition to less carbon intense energy solutions; our focus on and expectations regarding increasing Source's involvement in the provision of logistics services for other wellsite items; outlook for commodity prices and sales volumes; expectations respecting future conditions; revenue and profitability; the benefits that Source's "last mile" services provide to customers; 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 assets at 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 liquefied natural gas 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.