SOURCE ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 July 27, 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 and six months ended June 30, 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 and six months ended June 30, 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.

Results Overview

($000's, except MT and per unit amounts)	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Sand volumes (MT)[1]	**800,136**	557,208	**1,526,237**	1,202,774
Sand revenue	**93,546**	58,098	**174,207**	124,213
Wellsite solutions	**16,456**	14,033	**31,872**	28,154
Terminal services	**1,584**	605	**2,476**	2,258
Sales	**111,586**	72,736	**208,555**	154,625
Cost of sales	**89,869**	56,526	**166,472**	120,145
Cost of sales – depreciation	**5,177**	4,528	**10,970**	12,110
Cost of sales	**95,046**	61,054	**177,442**	132,255
Gross margin	**16,540**	11,682	**31,113**	22,370
Operating expense	**4,801**	4,048	**9,137**	7,766
General & administrative expense	**2,698**	2,390	**5,187**	4,994
Depreciation	**2,707**	2,326	**5,361**	5,111
Income from operations	**6,334**	2,918	**11,428**	4,499
Other expense (income):				
Finance expense	**7,909**	7,410	**15,812**	14,873
Share-based compensation expense (recovery)	**(186)**	(16)	**573**	170
Gain on asset disposal	**(1,183)**	(9)	**(1,183)**	(9)
Unrealized gain on derivative instruments	**(4,058)**	(420)	**(2,439)**	(420)
Other income	**(368)**	(2,760)	**(531)**	(2,922)
Other expense[2]	**262**	—	**2,391**	44
Foreign exchange gain[3]	**(250)**	(415)	**(763)**	(979)
Total other expense	**2,126**	3,790	**13,860**	10,757
Net income (loss)	**4,208**	(872)	**(2,432)**	(6,258)
Net earnings (loss) per share ($/share)	**0.31**	(0.06)	**(0.18)**	(0.46)
Diluted net earnings (loss) per share ($/share)	**0.31**	(0.06)	**(0.18)**	(0.46)
Adjusted EBITDA[4]	**14,836**	12,947	**29,053**	25,621
Sand revenue sales/MT	**116.91**	104.27	**114.14**	103.27

	June 30, 2022	December 31, 2021
Total assets	**310,660**	266,031
Total non-current financial liabilities	**239,475**	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 and six months ended June 30, 2022, was $0.7832 and 0.7865, respectively (2021 - $0.8142 and 0.8019, respectively).
(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 $0.3 million and $0.8 million, respectively, during the three and six months ended June 30, 2021.

Second Quarter 2022 Highlights

Key achievements for the three months ended June 30, 2022, included the following:

- realized sand sales volumes of 800,136 MT, a 44% increase from the second quarter of 2021, and realized sand revenue of $93.5 million, a 61% increase from the second quarter of 2021;
- distributed 772,940 MT of proppants and chemicals through Source's Western Canadian Sedimentary Basin ("WCSB") terminal network;
- achieved an 18% increase in the average realized sand price, excluding revenue from mine gate sales volumes;
- closed a transaction with Canadian Silica Industries ("CSI") to assume operations of CSI's Peace River frac sand facility, complementing Source's Northern White proppant resources;
- achieved utilization for the Sahara fleet of 69% and added a new global exploration and production ("E&P") Sahara customer;
- realized gross margin of $16.5 million, and Adjusted Gross Margin[1] of $21.7 million;
- reported net income of $4.2 million; and
- realized Adjusted EBITDA[1] of $14.8 million, a 43% increase from the second quarter of 2021 when excluding proceeds received from the Paycheck Protection Program of US$2.1 million recognized last year.

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.

Second Quarter 2022 Performance

Source generated $93.5 million of sand revenue during the second quarter, an increase of 61% over the same period in 2021 and an increase of 16% over the first quarter of 2022. This is the first time since 2018 where second quarter activity levels exceeded those realized during the first quarter of the year, despite the impact of spring break-up. These results highlight the strength of activity levels that continue to prevail in the WCSB, driven by high commodity prices for oil and natural gas. The increase in sand sales revenue generated was also attributed to an 18% increase in average realized sand price, or $18.91 per MT, excluding the impact of mine gate sand sales volumes, compared to the second quarter last year, as sand supply tightens in the WCSB and sand sale prices trend higher.

During the second quarter, cost of sales, excluding depreciation, was impacted by higher costs for transportation and freight, due to increased prices for fuel and a continued constrained trucking market, compared to the same period last year. Cost of sales, excluding depreciation, was also impacted by increased costs for third party sand purchases, procured to ensure no customer supply interruptions as demand continues to increase. Through the second quarter, Source successfully maintained efficient production at its Wisconsin facilities, maintaining average costs while producing at anticipated levels despite continued cost pricing pressure through the quarter. Cost of sales was impacted by a weakening Canadian dollar on US denominated costs relative to the second quarter of 2021.

Gross Margin	**Three months ended June 30,**		**Six months ended June 30,**	
($000's, except MT and per unit amounts)	**2022**	2021	**2022**	2021
Gross margin	**16,540**	11,682	**31,113**	22,370
Cost of sales – depreciation	**5,177**	4,528	**10,970**	12,110
Adjusted Gross Margin(1)	**21,717**	16,210	**42,083**	34,480
Gross margin/MT	**20.67**	20.97	**20.39**	18.60
Adjusted Gross Margin/MT(1)	**27.14**	29.09	**27.57**	28.67
Percentage of mine gate sand volumes	**12%**	—%	**10%**	—%
Percentage of sand volumes sold in the WCSB	**88%**	100%	**90%**	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 for the second quarter was $28.84 per MT, favorably impacted by improved spot market pricing and higher sand sales volumes. Compared to the same quarter last year, Adjusted Gross Margin per MT increased by 14% after adjusting for the impact of the weakening Canadian dollar and the benefit of proceeds from the Canada Emergency Wage Subsidy ("CEWS") program, as well as certain production credits recorded last year. Gross margin was unfavorably impacted by higher cost of sales - depreciation realized, attributed to higher rates of inventory depreciation per MT relative to the second quarter last year.

Higher selling costs, the result of increased royalty expense resulting from increased activity levels, and higher repairs and maintenance costs for rail cars drove higher operating expense for the second quarter of 2022, compared to the same period last year. General and administrative expense was higher on a quarter-over-quarter basis, primarily attributed to the reversal of a bad debt provision that occurred in the second quarter of 2021. Adjusted EBITDA was $14.8 million for the second quarter, a reflection of the strong sand sales volumes and sand sales pricing realized, partially offset by the unfavorable impact of higher costs incurred for fuel and freight, and the weakening of the Canadian dollar 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, which adds approximately 400,000 MT of annual production capability to Source's existing production capabilities. The transaction consolidates Source's adjacent mineral resource exploration rights with the production facility and complements Source's existing product and service offerings. The facility was not fully operational during the quarter, as Source focused on operational reviews and maintenance to ensure the facilities will operate at a standard consistent with the Company's Wisconsin processing facilities. The benefits from the Peace River expenditures will be realized in future quarters when the facility is fully operational.

Liquidity and Capital Resources

Free Cash Flow	Three months ended June 30,		Six months ended June 30,	
($000's)	**2022**	2021	**2022**	2021
Adjusted EBITDA[(1)]	**14,836**	12,947	**29,053**	25,621
Financing expense paid	**(6,794)**	(2,011)	**(9,141)**	(4,152)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(2,869)**	(1,298)	**(4,894)**	(2,614)
Payment of lease obligations	**(3,638)**	(3,030)	**(7,156)**	(6,488)
Free Cash Flow[(1)]	**1,535**	6,608	**7,862**	12,367

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 $1.5 million for the three months ended June 30, 2022, compared with $6.6 million generated for the second quarter of 2021. The reduction was driven primarily by the May 2022 $4.2 million cash interest payment for the Notes compared to the same period last year, where interest for the Notes was paid in kind. The $1.9 million improvement in Adjusted EBITDA was offset by additional capital expenditures during the quarter resulting primarily from the maintenance work performed at the Peace River facility, with improvements necessary to align the facility with Source's operating standards, and incremental lease expenditures as a result of monthly operating lease payments related to the Peace River facility.

Capital expenditures	Three months ended June 30,		Six months ended June 30,	
($000's)	**2022**	2021	**2022**	2021
Terminal	**102**	188	**164**	201
Wellsite solutions	**210**	224	**525**	380
Production	**2,543**	289	**2,616**	480
Overburden removal	**1,209**	606	**2,405**	1,562
Other	**51**	—	**430**	—
Capital expenditures	**4,115**	1,307	**6,140**	2,623
Growth capital	**97**	405	**628**	601
Maintenance and sustaining capital	**4,018**	902	**5,512**	2,022
Capital expenditures	**4,115**	1,307	**6,140**	2,623
Proceeds on disposal of property, plant and equipment	***(1,246)***	*(9)*	***(1,246)***	*(9)*

Source's capital expenditures for the second quarter of 2022 were $4.1 million, an increase of $2.8 million compared to the same period last year. The increase in expenditures for maintenance and sustaining capital was primarily related to a $0.6 million increase in costs associated with overburden removal for mining operations, and the Peace River facility maintenance, as noted above. Growth capital expenditures were lower, on a quarter-over-quarter basis, due to the Sahara unloading capacity enhancements completed in the second quarter of last year. Source also disposed of excess assets in the quarter, realizing proceeds of $1.2 million.

Long-term debt		
($000's)	**June 30, 2022**	**December 31, 2021**
Senior secured notes	**151,549**	147,350
ABL facility	**28,944**	18,406
Senior secured term loan, long-term portion	**5,000**	10,500
Other long-term debt, including unamortized debt issue costs	**(433)**	(725)
Total long-term debt	**185,060**	175,531
Standby letter of credit facility	***10,126***	*9,963*

As at June 30, 2022, Source had long-term debt outstanding of $185.1 million, excluding the current portion of the Term Loan of $5.5 million, compared to $175.5 million as at December 31, 2021, an increase of $9.5 million. The change in long-term debt outstanding was partly due to additional Notes issued as a result of the Company electing to pay its quarterly interest payments in kind for the February 2022 interest payment. A repayment of $7.5 million was completed on the Term Loan at the end of March 2022. Overall, total amounts outstanding for the credit facilities increased by $10.5 million at the end of the second quarter, compared to December 31, 2021, attributed in part to expenditures related to the Peace River transaction, and higher working capital requirements.

Over the last several quarters, the Company has experienced a rapid increase in demand and achieved levels of activity that exceed pre-pandemic operating levels. The Company's existing Credit Facility (as defined below) predates this period of high demand and was negotiated during a period of extreme uncertainty in the oil and gas industry. While Source has more than adequate liquidity available on its ABL facility, the current Credit Facility structure contains restrictive covenants which limit Source's flexibility and ability to appropriately operate at the high levels demanded by activity in the WCSB. To address this, Source decided to seek alternative financing and replace the current Credit Facility. To that end, the Company has executed a non-binding term sheet with a new financial institution, and is working with its existing lenders and the new institution, in order to complete the refinancing in an expedited manner. Due to the timing of the expected closing of the refinancing, Source is seeking, and expects to receive, consent from its current lenders which will be required to complete the closing in an orderly manner.

Finance expense	**Three months ended June 30,**		**Six months ended June 30,**	
($000's)	**2022**	2021	**2022**	2021
Interest on Notes	**4,279**	4,575	**8,837**	8,994
Interest on Credit Facility	**1,225**	972	**2,655**	2,150
Interest on leases	**1,088**	687	**1,766**	1,428
Other interest	**26**	31	**28**	56
Accretion	**1,132**	988	**2,203**	1,929
Other finance expense	**159**	157	**323**	316
Total	**7,909**	7,410	**15,812**	14,873

Finance expense was $7.9 million for the second quarter of 2022. Compared to the same period last year, the increase was mainly due to higher interest for outstanding lease obligations, due to the addition of the Peace River facility, and higher accretion expense. These increases were slightly offset by lower interest expense on the Notes, with the May 2022 interest payment paid in cash at a rate of 10.5%, compared to the second quarter last year where Source elected to pay interest in kind at a rate of 12.5%.

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 2022, a trend that is expected to continue for the balance of the year and into 2023. These pricing increases have led to improved gross margins in the spot market over 2021 levels which are expected to continue into 2023. While contracted customer margins have dragged down overall gross margin, it is expected there will be significant growth in these margins as current contracts expire over the next few quarters. After a somewhat slower than expected first quarter, the second quarter was very strong, especially considering this is the traditional spring break-up quarter. Looking ahead, it is anticipated that the third quarter will have higher than usual activity levels during what is historically a very busy quarter in the industry. 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 has completed its annual environment, social and governance ("ESG") performance assessment, which benchmarks Source's 2021 ESG performance relative to the Sustainability Accounting Standards Board framework and the recommendations of the Task Force on Climate-related Financial Disclosures. Source's 2021 ESG report has been released and is available at www.sourceenergyservices.com.

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. Thus far in 2022, Source has reclaimed eight acres of land adjacent to its Wisconsin processing facilities, part of Source's continued effort to return the land to a thriving vegetative state. 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.

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.

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.

Summary of Quarterly Results

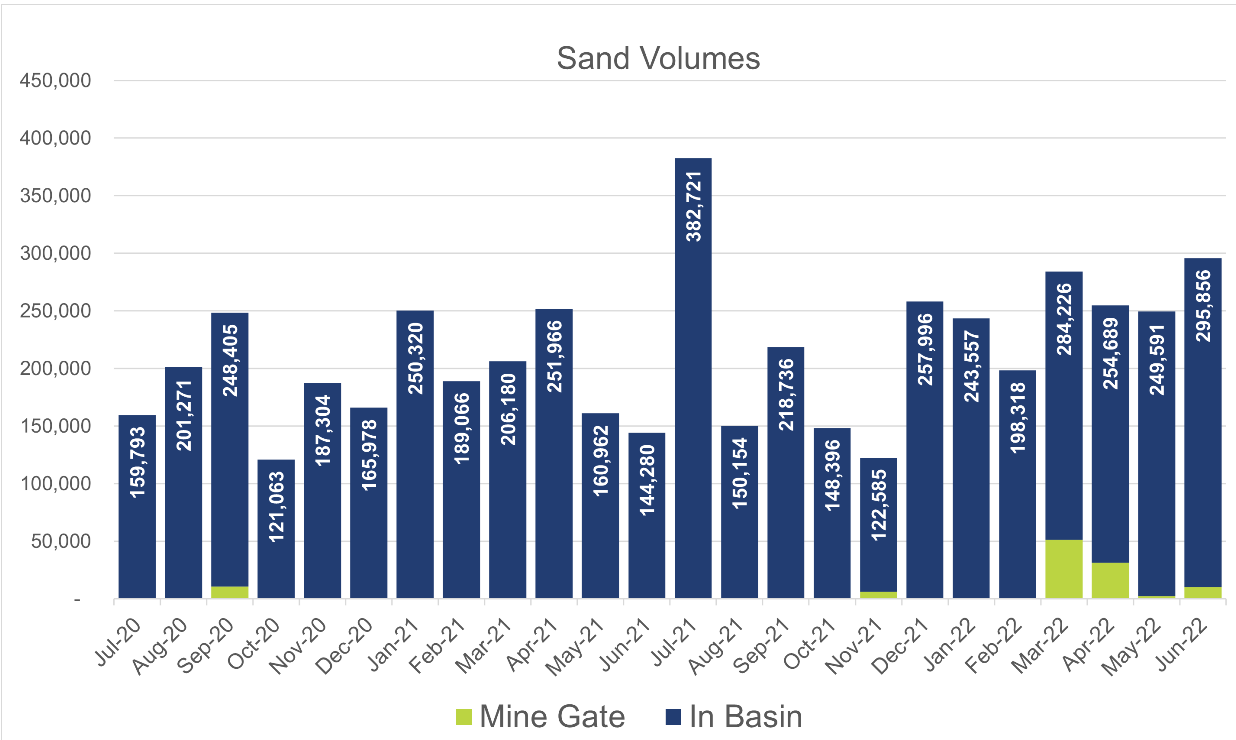
($000's, except MT and per unit amounts)	2020		2021				2022	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sand volumes (MT)	*609,469*	*474,345*	*645,566*	*557,208*	*751,611*	*528,977*	*726,101*	*800,136*
Sand revenue	65,240	48,936	66,115	58,098	79,343	54,989	80,661	93,546
Wellsite solutions	12,636	9,582	14,121	14,033	17,554	11,913	15,416	16,456
Terminal services	669	451	1,653	605	789	648	892	1,584
Sales	78,545	58,969	81,889	72,736	97,686	67,550	96,969	111,586
Cost of sales	61,242	42,650	63,619	56,526	79,994	59,290	76,603	89,869
Cost of sales - depreciation	10,264	5,253	7,582	4,528	4,921	4,071	5,793	5,177
Cost of sales	71,506	47,903	71,201	61,054	84,915	63,361	82,396	95,046
Gross margin	7,039	11,066	10,688	11,682	12,771	4,189	14,573	16,540
Operating expense	2,753	3,198	3,718	4,048	4,606	4,142	4,336	4,801
General & administrative expense	2,220	1,203	2,604	2,390	2,299	1,990	2,489	2,698
Depreciation	3,158	2,647	2,785	2,326	2,336	2,426	2,654	2,707
Income (loss) from operations	(1,092)	4,018	1,581	2,918	3,530	(4,369)	5,094	6,334
Other expense (income):								
Finance expense	7,651	7,747	7,463	7,410	7,638	7,809	7,903	7,909
Share-based compensation expense (recovery)	(22)	77	186	(16)	(3)	476	759	(186)
Gain on asset disposal	(155)	—	—	(9)	(54)	—	—	(1,183)
Unrealized loss (gain) on derivative assets	—	—	—	(420)	—	173	1,619	(4,058)
Other income (loss)	(127)	228	(162)	(2,760)	(169)	(109)	(163)	(368)
Other expense(1)	66	112	44	—	51	108	2,129	262
Loss on sublease	—	—	—	—	—	1,159	—	—
Gain on debt extinguishment	—	(27,690)	—	—	—	—	—	—
Foreign exchange loss (gain)	(562)	(471)	(564)	(415)	(354)	581	(513)	(250)
Total other expense (income)	6,851	(19,997)	6,967	3,790	7,109	10,197	11,734	2,126
Net income (loss)	(7,943)	24,015	(5,386)	(872)	(3,579)	(14,566)	(6,640)	4,208
Net earnings (loss) per share ($/share)	(1.53)	4.58	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)	0.31
Diluted net earnings (loss) per share ($/share)	(1.53)	4.58	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)	0.31
Net income (loss)	(7,943)	24,015	(5,386)	(872)	(3,579)	(14,566)	(6,640)	4,208
Interest expense	6,373	6,615	6,362	6,265	6,456	6,594	6,669	6,618
Depreciation	3,158	2,647	2,785	2,326	2,336	2,426	2,654	2,707
Cost of sales - depreciation	10,264	5,253	7,582	4,528	4,921	4,071	5,793	5,177
Gain on debt extinguishment	—	(27,690)	—	—	—	—	—	—
Finance expense (excluding interest expense)	1,278	1,132	1,101	1,145	1,182	1,215	1,234	1,291
Share-based compensation expense (recovery)	(22)	77	186	(16)	(3)	476	759	(186)
Gain on asset disposal	(155)	—	—	(9)	(54)	—	—	(1,183)
Unrealized loss (gain) on derivative assets	—	—	—	(420)	—	173	1,619	(4,058)
Loss on sublease	—	—	—	—	—	1,159	—	—
Other expense(1)	66	112	44	—	51	108	2,129	262
Adjusted EBITDA(2)	13,019	12,161	12,674	12,947	11,310	1,656	14,217	14,836
Sand revenue sales/MT	107.04	103.17	102.41	104.27	105.56	103.95	111.09	116.91
Gross margin	7,039	11,066	10,688	11,682	12,771	4,189	14,573	16,540
Cost of sales - depreciation	10,264	5,253	7,582	4,528	4,921	4,071	5,793	5,177
Adjusted Gross Margin(2)	17,303	16,319	18,270	16,210	17,692	8,260	20,366	21,717
Gross margin/MT	11.55	23.33	16.56	20.97	16.99	7.92	20.07	20.67
Adjusted Gross Margin/MT(2)	28.39	34.40	28.30	29.09	23.54	15.62	28.05	27.14

Notes:
(1) Includes expenses related to the incident at the Fox Creek terminal facility (refer to 'Contractual Obligations' below) and one-time retirement payments in the first and second quarters of 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.

Operating and Financial Results

Sand Revenue

Source's sand sales volumes for the three months ended June 30, 2022, were 800,136 MT, generating sand revenue of $93.5 million, an increase of $35.4 million or 61% from the same period in 2021. For the six months ended June 30, 2022, sand revenue was $174.2 million, an increase of $50.0 million or 40%, compared to the six months ended June 30, 2021. The increases were due primarily to 44% and 27% higher sand volumes, respectively, and an 18% and 16% increase ($18.91 and $16.43 per MT, excluding mine gate sales) in average realized sand price. During the three and six months ended June 30, 2022, revenue realized from mine gate sales lowered the average realized sand price realized by $6.27 and $5.55 per MT, respectively; however, the impact of mine gate sales on average realized sand pricing was more than offset by the pricing increases for in-basin volumes, as noted above. The increased sand sales volumes reflect strong industry activity levels across the WCSB, driven by increasing demand and tightened sand supply, and reflect a significant increase in sand sales volumes to spot sale customers compared to the second quarter and first half of last year.



Wellsite Solutions Revenue

For the second quarter of 2022, wellsite solutions revenue was $16.5 million, an increase of $2.4 million or 17% compared to the same period in 2021. During the three months ended June 30, 2022, wellsite solutions generated higher revenue than the same quarter last year despite a slight decrease in trucking volumes, primarily attributed to longer trips from terminal to wellsite. Sahara-related revenue increased 26% on a quarter-over-quarter basis, due to an 8% increase in days utilized across the eight-unit fleet, including the addition of the ninth unit in June 2022 and a new Sahara customer, a large global E&P company, compared to the same period last year. Sahara units operating in Canada realized one of the busiest quarters to date, with units achieving 87% utilization during the month of June 2022.

Wellsite solutions revenue was $31.9 million for the six months ended June 30, 2022, an increase of 13% or $3.7 million compared to the same period last year. On a year-to-date basis, the impact of lower trucking volumes was more than offset by increased ancillary logistics flow-through revenues and higher volumes from spot sales at the terminal versus full-service sales, compared to the same period in 2021. Sahara-related revenue increased 28% on a year-over-year basis due to a 12% increase in days utilized across the eight-unit fleet, including the addition of the ninth unit in June 2022 as mentioned above, primarily due to the addition of four new customers during the first quarter of 2022.

Terminal Services Revenue

For the three and six months ended June 30, 2022, terminal services revenue was $1.6 million and $2.5 million, respectively, an increase of $1.0 million and $0.2 million, respectively, compared to the same periods in 2021. The increases during the second quarter and first half were primarily due to the delivery of a one-time, special order of ceramic proppant. Higher chemical elevation volumes also favorably impacted results for the quarter and first six months of the year, offsetting the reduction in sand elevation volumes and proppant storage revenue on a quarter and year-to-date basis, compared to last year.

Cost of Sales

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2022**	2021	**2022**	2021
Direct materials	**74,649**	43,659	**137,077**	94,911
People costs	**3,553**	2,698	**6,719**	5,028
Equipment costs	**573**	656	**1,281**	1,187
Transportation costs	**10,802**	9,472	**20,982**	18,889
Facility costs	**292**	41	**413**	130
Cost of sales	**89,869**	56,526	**166,472**	120,145
Cost of sales - depreciation	**5,177**	4,528	**10,970**	12,110

Cost of sales, excluding depreciation, increased by $33.3 million for the second quarter and $46.3 million for the six months ended June 30, 2022, compared to the same periods in 2021, driven primarily by higher sand sales volumes realized. An increase in transportation and freight costs, resulting from higher prices for fuel and trucking, continued to impact cost of sales through the second quarter of the year. Cost of sales for the second quarter was impacted by increased costs for third party sand purchases, completed to complement sand production at the processing facilities in Wisconsin. Last year, cost of sales was favorably impacted by proceeds received from the CEWS program, totaling $0.2 million and $0.5 million, respectively, for the second quarter and six months ended June 30, 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 second quarter of 2022, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed an increase of $3.43/MT to cost of sales, compared to the second quarter last year.

Gross Margin

For the three and six months ended June 30, 2022, gross margin was unfavorably impacted by higher cost of sales - depreciation realized, attributed to higher rates of inventory depreciation per MT relative to the same periods last year. Excluding gross margin from mine gate volumes, Adjusted Gross Margin for the second quarter was $28.84 per MT, favorably impacted by improved sand pricing and continued production efficiencies, more than offsetting higher costs for transportation and freight due to higher fuel costs, compared to the second quarter of 2021. Excluding the impact of the weakening Canadian dollar during the three months ended June 30, 2022, and the benefit of proceeds from the CEWS program as well as production credits realized during the second quarter of 2021, Adjusted Gross Margin (excluding margin from mine gate volumes) increased 14% compared to the same period last year.

On a year-to-date basis, excluding gross margin from mine gate volumes, Adjusted Gross Margin was $27.73 per MT. Compared to the six months ended June 30, 2021, Adjusted Gross Margin for the first half of 2022 did not benefit from proceeds from the CEWS program, a favorable property tax adjustment, higher deferred terminal revenue and certain production credits released in 2021. Excluding these items in 2022, Adjusted Gross Margin per MT increased by 17% for the six months ended June 30, 2022.

Operating and General & Administrative Expense

	Three months ended June 30,				Six months ended June 30,			
	2022		2021		**2022**		2021	
($000's)	**OPEX**	**G&A**	OPEX	G&A	**OPEX**	**G&A**	OPEX	G&A
People	**2,057**	**1,858**	2,265	1,762	**3,951**	**3,557**	4,324	3,648
Equipment	**542**	**—**	111	—	**1,161**	**—**	684	—
Facility	**388**	**16**	335	(18)	**793**	**29**	657	(2)
Selling and administrative	**1,814**	**824**	1,337	646	**3,232**	**1,601**	2,101	1,348
Operating and General & Administrative Expense	**4,801**	**2,698**	4,048	2,390	**9,137**	**5,187**	7,766	4,994

For the second quarter of 2022, total operating and general and administrative expense was $7.5 million, an increase of $1.1 million, or 16%, compared to the same period in 2021. On a year-to-date basis, total operating and general and administrative expense increased $1.6 million to $14.3 million. During the three and six months ended June 30, 2022, operating expense increased by $0.8 million and $1.4 million, respectively, from the same periods last year. The increases are 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 and higher travel costs due to the rotation of US Sahara crews. Increased repairs and maintenance incurred at the terminals and for Source's railcar fleet resulted in increased equipment costs. 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 periods last year.

General and administrative expense increased $0.3 million in the second quarter of 2022 compared to the same quarter in 2021, primarily due to higher selling and administrative costs as a result of increased professional fees in the current quarter and a bad debt provision reversal recorded last year. For the six months ended June 30, 2022, general and administrative expense was $5.2 million, an increase of $0.2 million from the prior year. Higher professional fees and bad debt expense, as noted above, resulted in increased selling and administrative costs. This increase was offset by lower people costs, as higher compensation expense, including no proceeds received from the CEWS program, was more than offset by lower variable incentive compensation compared to the six months ended June 30, 2021.

Depreciation

Depreciation expense increased $0.4 million and $0.3 million, respectively, for the three and six months ended June 30, 2022, compared to the same periods in 2021, primarily the result of a weakened Canadian dollar on US dollar denominated assets.

Finance Expense

Finance expense increased by $0.5 million and $0.9 million, respectively, for the three and six months ended June 30, 2022, compared to the three and six months ended June 30, 2021. The increases were primarily due to higher interest expense, resulting from increased draws on the ABL (as defined below) facility and increased interest from lease liabilities due to the addition of the Peace River facility. These increases were partially offset by lower interest expense incurred for the senior secured term loan as well as the senior secured notes, resulting from the cash interest payment made at a lower rate during the quarter.

Share-based Compensation

Share-based compensation recovery increased by $0.2 million for the three months ended June 30, 2022, compared to the second quarter of 2021 while on a year-to-date basis, share-based compensation expense increased $0.4 million compared to the same period in the prior year. The changes are 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 Gain on Derivative Assets

Source recorded unrealized gains of $4.1 million and $2.4 million, respectively, for the three and six months ended June 30, 2022, compared to a gain of $0.4 million for the three and six months ended June 30, 2021. During 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 and six months ended June 30, 2022, other income decreased $2.4 million compared to the same periods in the prior year, primarily due to the approval that was granted in the second quarter of 2021 for full forgiveness of Source's Paycheck Protection Program, issued by the US Small Business Association.

Other Expense

For the second quarter and first half of 2022, other expense increased by $0.3 million and $2.3 million, respectively, compared to three and six months ended June 30, 2021. The increase is due to a one-time retirement payment, with the final installment recognized during the quarter.

Foreign Exchange Gain

The foreign exchange gains Source recognized during the three and six months ended June 30, 2022, decreased by $0.2 million for both periods compared to the same periods in the prior year. During 2022, $0.3 million and $0.8

million of foreign exchange gains on the settlement of foreign exchange forward contracts was realized, respectively, slightly offset by a nominal impact related to foreign exchange rate movement on the settlement of working capital items denominated in US dollars.

Capital Resources and Management

Source funded its capital spend for the first half of 2022 and 2021 through amounts available under the Credit Facility and cash flows from operations. Free Cash Flow generated will be used to lower debt balances outstanding, as well as to fund 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.

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 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 $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 coverage ratio of 1.10:1 which shall increase to 1.25:1 on September 30, 2022 and all time thereafter. In May 2022, an amendment to the ABL was completed which waived the application of the springing fixed charge coverage ratio for June 30, 2022. The fixed charge coverage ratio is defined as the ratio of (i) earnings before interest, tax, depreciation and amortization for the twelve calendar months ending at each fiscal calendar month end less unfinanced capital expenditures, cash taxes and distributions to shareholders and (ii) the interest expense paid in cash plus accrued and unpaid interest related to the senior secured notes for the twelve calendar months ending at such fiscal calendar month.

As of June 30, 2022, Source was in compliance with all of its covenants. Source’s capital management policy has not changed during the six months ended June 30, 2022.

Long-term Debt

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 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 six months ended June 30, 2022, Source paid interest in kind resulting in $5.0 million of additional Notes issued. The May 2022 interest payment was made in cash. At June 30, 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 June 30, 2022, $28.9 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 $10.1 million of letters of credit (December 31, 2021 - $10.0 million) leaving $11.8 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 June 30, 2022.

Cash and Net Working Capital

($000's)	**June 30, 2022**	**December 31, 2021**
Current assets	128,396	106,745
Current liabilities	(65,457)	(50,308)
Net working capital	62,939	56,437

Total current assets less total current liabilities (net working capital) as at June 30, 2022 was $62.9 million, compared to $56.4 million as at December 31, 2021. The change in net working capital was due primarily to a large increase in the balance of accounts receivable as a result of higher sales volumes and activity levels during the second quarter, compared to the fourth quarter of 2021. The increase in accounts receivable was partially offset by higher balances for accounts payable, attributed to the increased activity levels, as well as the contract liability for the remaining amount of prepaid proppant received from a customer during the second quarter. These increases were 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 June 30, 2022.

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing and transporting inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at June 30, 2022 are $16.1 million (December 31, 2021 - $14.7 million) and $17.4 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 $0.7 million for the three and six months ended June 30, 2022 (six months ended June 30, 2021 - $0.4 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 July 27, 2022, the Company has US dollar foreign exchange forward contracts outstanding that mature during 2022, with notional amounts ranging from US$9,000 per month to US$19,000 per month at 1.2473 to 1.2692 per Canadian dollar. The Company also has contracts in place from January through December 2023, with notional amounts ranging from US$3,000 per month to US$7,000 per month at rates of 1.2444 to 1.3112 per Canadian dollar.

Contract Liabilities

During the second quarter of 2022, Source entered into an agreement with a customer where the Company received $11,148 as a prepayment for future purchases of proppant, expected to be delivered to the customer by December 31, 2022. Source recognized revenue for the value of the goods delivered during the six months ended June 30, 2022.

Contractual Obligations

Source has various commitments regarding lease agreements, various IT software subscriptions and physical natural gas contracts. The leases expire between July 2022 and March 2032, the IT software subscriptions expire between January 2023 and September 2026 and the natural gas contracts expire in March and October 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	59,754	7,405	14,070	10,776	7,308	4,454	15,741
Other commitments	2,912	1,394	1,470	20	16	12	—
Credit Facility[(1)]	39,444	—	39,444	—	—	—	—
Notes	212,079	8,652	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 June 30, 2022 balances and interest rates, and assuming amounts remain outstanding until maturity, estimated total interest expense would be $5.5 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, which help mitigate the impact of any non-payment or non-performance. 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 June 30, 2022 and July 27, 2022, Source had issued and outstanding 13,545,055 common shares (June 30, 2021 - 13,545,055).

Transactions between Related Parties

During the three and six months ended June 30, 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 June 30, 2022. There were no material weaknesses in the design of the DC&P and the ICFR at June 30, 2022, and no changes in ICFR during the period beginning on January 1, 2022 and ended on June 30, 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 June 30, 2022, the fair value of the Notes was $93.2 million. At June 30, 2022, the fair value of the currency hedging derivative instruments were $4.2 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 (net of proceeds on disposal of property, plant and equipment), 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 Income (Loss)

	Three months ended June 30,		Six months ended June 30,	
($000's)	**2022**	2021	**2022**	2021
Net income (loss)	**4,208**	(872)	**(2,432)**	(6,258)
Add:				
Interest expense	**6,618**	6,265	**13,286**	12,628
Cost of sales – depreciation	**5,177**	4,528	**10,970**	12,110
Depreciation	**2,707**	2,326	**5,361**	5,111
Finance expense (excluding interest expense)	**1,291**	1,145	**2,526**	2,245
Share-based compensation expense (recovery)	**(186)**	(16)	**573**	170
Gain on asset disposal	**(1,183)**	(9)	**(1,183)**	(9)
Unrealized gain on derivative assets	**(4,058)**	(420)	**(2,439)**	(420)
Other expense(1)	**262**	—	**2,391**	44
Adjusted EBITDA	**14,836**	12,947	**29,053**	25,621
Financing expense paid	**(6,794)**	(2,011)	**(9,141)**	(4,152)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(2,869)**	(1,298)	**(4,894)**	(2,614)
Payment of lease obligations	**(3,638)**	(3,030)	**(7,156)**	(6,488)
Free Cash Flow	**1,535**	6,608	**7,862**	12,367

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 June 30,		Six months ended June 30,	
($000's)	**2022**	2021	**2022**	2021
Gross margin	**16,540**	11,682	**31,113**	22,370
Cost of sales – depreciation	**5,177**	4,528	**10,970**	12,110
Adjusted Gross Margin	**21,717**	16,210	**42,083**	34,480

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", "trends" 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: the strength of activity levels continuing to prevail in the WCSB; tightening of sand supply in the WCSB and trends of sand sales prices; our expectation that benefits from the Peace River expenditures will be realized in future quarters; Source's efforts to return the land to a thriving vegetative state; our search for efficiencies to implement in order to lessen the impact of Source's activities on the environment; Source's expectation that it will receive the consent required from its current lenders to close the refinancing of its existing Credit Facility; our expectation that frac sand supply and demand fundamentals will remain tight for 2022; our expectation that pricing gains will continue for the remainder of 2022 and into 2023; our belief that gross margins in the spot market, currently over 2021 levels, will continue into 2023; our expectation that there will be significant growth in customer margins over the next few quarters; our expectation that the third quarter will have higher than usual activity levels and the expansion of capital programs will increase through the balance of 2022; consumers' increasing activity levels and confidence in connection with permitting issues in northeastern British Columbia; 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; 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 and activity levels quarter-to-quarter; revenue and profitability; the benefits that Source's "last mile" services provide to customers; Source's focus on expenditure levels to generate free cash flows and use of free cash flows to deleverage the business; expectations regarding funding for future working capital and capital expenditures; Source's planned cash outflows relating to lease commitments and financial liabilities; the availability of any additional future funding; expectations on Source's ability to meet their capital needs; fluctuations in foreign currency; timing of the delivery of proppants in connection with customer agreements; amount and timing of interest payments with respect to Source's Credit Facility; 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.