SOURCE ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

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MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis (“MD&A”), dated November 8, 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 nine months ended September 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 nine months ended September 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

	Three months ended September 30,		Nine months ended September 30,	
($000's, except MT and per unit amounts)	**2022**	2021	**2022**	2021
Sand volumes (MT)[1]	**753,233**	751,611	**2,279,470**	1,954,385
Sand revenue	**97,173**	79,343	**271,380**	203,556
Wellsite solutions	**21,748**	17,554	**53,620**	45,708
Terminal services	**985**	789	**3,461**	3,047
Sales	**119,906**	97,686	**328,461**	252,311
Cost of sales	**98,772**	79,994	**265,244**	200,139
Cost of sales – depreciation	**4,732**	4,921	**15,702**	17,031
Cost of sales	**103,504**	84,915	**280,946**	217,170
Gross margin	**16,402**	12,771	**47,515**	35,141
Operating expense	**4,564**	4,606	**13,701**	12,372
General & administrative expense	**2,205**	2,299	**7,392**	7,293
Depreciation	**2,833**	2,336	**8,194**	7,447
Income from operations	**6,800**	3,530	**18,228**	8,029
Other expense (income):				
Finance expense	**8,523**	7,638	**24,335**	22,511
Share-based compensation expense (recovery)	**(271)**	(3)	**302**	167
Loss (gain) on asset disposal	**2**	(54)	**(1,181)**	(63)
Unrealized loss (gain) on derivative instruments	**4,157**	—	**1,718**	(420)
Other income	**(25)**	(169)	**(556)**	(3,091)
Other expense[2]	**147**	51	**2,538**	95
Foreign exchange gain[3]	**(11,604)**	(354)	**(12,367)**	(1,333)
Total other expense	**929**	7,109	**14,789**	17,866
Net income (loss)	**5,871**	(3,579)	**3,439**	(9,837)
Net earnings (loss) per share ($/share)	**0.43**	(0.26)	**0.25**	(0.73)
Diluted net earnings (loss) per share ($/share)	**0.38**	(0.26)	**0.19**	(0.73)
Adjusted EBITDA[4]	**25,994**	11,310	**55,047**	36,931
Sand revenue sales/MT	**129.01**	105.56	**119.05**	104.15

	September 30, 2022	December 31, 2021
Total assets	**307,350**	266,031
Total non-current financial liabilities	**56,605**	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 'Contractual Obligations' and 'Operating and Financial Results' below.
(3) The average Canadian to United States ("US") dollar exchange rate for the three and nine months ended September 30, 2022, was $0.7659 and 0.7795, respectively (2021 - $0.7937 and 0.7992, respectively). Refer to 'Third Quarter 2022 Performance' for additional information.
(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 $0.5 million and $1.3 million, respectively, during the three and nine months ended September 30, 2021.

Third Quarter 2022 Highlights

Key highlights for the three months ended September 30, 2022, included the following:

- realized sand sales volumes of 753,233 MT and sand revenue of $97.2 million, a 22% increase from the third quarter of 2021;
- achieved a 28% increase in average realized sand price, excluding revenue from mine gate sales volumes;
- distributed 691,242 MT of proppants and chemicals through Source's Western Canadian Sedimentary Basin ("WCSB") terminal network;
- achieved a record for the highest number of days on site for the Sahara fleet in Canada;
- recorded utilization of 87% for the quarter and added two new Sahara customers;
- reported $30.5 million of available liquidity on its asset backed loan ("ABL") facility at the end of the quarter;
- realized gross margin of $16.4 million and Adjusted Gross Margin[1] of $21.1 million;
- reported net income of $5.9 million;
- realized Adjusted EBITDA[1] of $16.3 million, excluding the $9.7 million realized gain on the settlement of outstanding future forward exchange contracts during the quarter, a 44% increase from the third quarter of 2021; and
- subsequent to quarter end, closed a transaction for a new $75.4 million (US$55.0 million) credit facility.

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

Third Quarter 2022 Performance

Source generated $97.2 million of sand revenue during the third quarter, an increase of 22% over the same period in 2021 and an increase of $3.6 million over the second quarter of 2022. This is the highest quarterly sand revenue generated since the third quarter of 2018 and reflects improved sand sales pricing primarily due to improved industry dynamics. As a result, Source realized a 28% increase in average realized sand price, or $29.64 per MT, excluding the impact of mine gate sand sales volumes, compared to the third quarter last year, favorably impacting sand revenue. Commodity prices for oil and natural gas remain strong, resulting in sustained high levels of activity through the third quarter in the WCSB.

During the third quarter, cost of sales, excluding depreciation, was impacted by higher costs for transportation and freight, due to increased prices for fuel compared to the same period last year and additional costs for third party sand purchases, procured to ensure no customer supply interruptions resulting from increased customer demand. Despite continued cost pricing pressure, Source was able to mitigate certain cost increases through increased efficiencies at its Wisconsin facilities and pricing increases. Cost of sales was impacted by a weakening Canadian dollar on US denominated costs relative to the third quarter of 2021. The impact of the weaker Canadian dollar was offset in Adjusted EBITDA by gains realized on foreign currency forward contracts settled during the quarter.

Gross Margin	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's, except MT and per unit amounts)	**2022**	2021	**2022**	2021
Gross margin	**16,402**	12,771	**47,515**	35,141
Cost of sales – depreciation	**4,732**	4,921	**15,702**	17,031
Adjusted Gross Margin(1)	**21,134**	17,692	**63,217**	52,172
Gross margin/MT	**21.78**	16.99	**20.84**	17.98
Adjusted Gross Margin/MT(1)	**28.06**	23.54	**27.73**	26.69
Percentage of mine gate sand volumes	**11%**	—%	**10%**	—%
Percentage of sand volumes sold in the WCSB	**89%**	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 third quarter was $30.27 per MT, favorably impacted by improved customer and spot market pricing, as well as strong sand sales volumes. Compared to the same quarter last year, Adjusted Gross Margin per MT increased by 55% 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. The weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by approximately $2.07 per MT; however, this impact was offset by the settlement of foreign currency forward contracts settled during the quarter (see below).

Higher repairs and maintenance costs were offset by lower people costs realized, due to lower variable compensation expense recorded, resulting in slightly lower total operating expense for the third quarter of 2022 compared to the same period last year, despite no proceeds received from the CEWS program during the current quarter. General and administrative expense was also lower on a quarter-over-quarter basis, primarily attributed to lower selling and administrative costs driven by a lower provision for bad debt expense.

After excluding the realized gain on the settlement of foreign exchange forward contracts of $9.7 million, Adjusted EBITDA was $16.3 million for the third quarter, a reflection of the strong sand sales volumes and sand sales pricing realized despite the unfavorable impact of higher costs incurred for fuel and freight. The weakening of the Canadian dollar negatively impacted Adjusted EBITDA by $2.0 million during the quarter, which was offset by $2.1 million realized from the settlement of normal course foreign exchange contracts executed during the quarter.

In addition to the normal course foreign exchange contracts settled, as noted above, Source is renegotiating certain of its customer contracts to be denominated in US dollars which will further reduce its exposure to US dollar fluctuations. As a result of rebalancing US dollar denominated revenue, combined with the new ABL facility (see below) which is denominated in US dollars, Source wound up its outstanding foreign exchange forward contracts prior to September 30, 2022, resulting in a realized foreign exchange gain of $9.7 million during the quarter. Approximately $3.3 million of this realized foreign exchange gain related to remaining 2022 foreign exchange forward contracts, with $6.4 million of the realized gain related to contracts due to mature in 2023.

New Senior Credit Facility

On October 14, 2022, the Company closed a new revolving asset backed senior credit facility (the “new ABL”) with a syndicate comprised of FGI Worldwide LLC and CIT Northbridge Credit, as advised by CIT Asset Management LLC, providing access to funding of approximately $75.4 million (US$55.0 million). The new ABL provides Source with a lower cost of borrowing and less restrictive covenants which will allow Source to focus on the generation of free cash flow and the reduction of debt.

Upon closing of the new ABL, Source completed the August 15, 2022 cash interest payment for the Notes and repaid all outstanding draws on the Credit Facility (as defined below). The Company also entered into a supplemental indenture that governs the Notes which permitted Source to execute the new ABL facility in exchange for a one percent consent fee to the noteholders which was paid in kind on closing. For additional information, including the financial covenants of the new ABL facility, refer to ‘Long-term Debt’ below.

Liquidity and Capital Resources

Free Cash Flow	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's)	**2022**	2021	**2022**	2021
Adjusted EBITDA[1]	**25,994**	11,310	**55,047**	36,931
Financing expense paid	**(3,147)**	(1,857)	**(12,288)**	(6,009)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(4,454)**	(1,829)	**(9,348)**	(4,443)
Payment of lease obligations	**(3,849)**	(3,149)	**(11,003)**	(9,637)
Free Cash Flow[1]	**14,544**	4,475	**22,408**	16,842

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.

At September 30, 2022, Source had $30.5 million of available liquidity on its ABL facility. Source generated Free Cash Flow of $14.5 million for the three months ended September 30, 2022, compared with $4.5 million generated for the third quarter of 2021. The increase was driven primarily by a $5.0 million improvement in Adjusted EBITDA (excluding the gain realized from the settlement of outstanding future foreign exchange forward contracts of $9.7 million, as discussed above). This increase was partially offset by higher capital expenditures for the quarter, largely due to the maintenance work performed at the Peace River facility. Free Cash Flow was negatively impacted by higher interest expense incurred for the ABL facility, reflecting higher average draws outstanding prior to the end of the quarter and an increase in the variable interest rates for the facility. Incremental interest expense and obligations for leases as a result of monthly operating lease payments related to the Peace River facility also impacted Free Cash Flow for the quarter.

Capital expenditures	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's)	**2022**	2021	**2022**	2021
Terminal	**205**	31	**369**	233
Wellsite solutions	**69**	495	**594**	875
Production	**3,410**	391	**6,026**	870
Overburden removal	**729**	978	**3,134**	2,540
Other	**43**	—	**473**	—
Capital expenditures	**4,456**	1,895	**10,596**	4,518
Growth capital	**44**	506	**672**	1,107
Maintenance and sustaining capital	**4,412**	1,389	**9,924**	3,411
Capital expenditures	**4,456**	1,895	**10,596**	4,518
Proceeds on disposal of property, plant and equipment	***(2)***	*(66)*	***(1,248)***	*(75)*

Source’s capital expenditures for the third quarter of 2022 were $4.5 million, an increase of $2.6 million compared to the same period last year. The increase in expenditures for maintenance and sustaining capital was primarily related to the Peace River facility maintenance, as noted above, and a $0.2 million increase in costs associated with overburden removal for mining operations. Growth capital expenditures were lower, on a quarter-over-quarter basis, due to the Sahara unloading capacity enhancements and the purchase of production equipment to improve yields completed in the third quarter of last year.

Long-term debt

($000's)	**September 30, 2022**	**December 31, 2021**
Senior secured notes	**152,487**	147,350
ABL facility	**3,320**	18,406
Senior secured term loan	**10,500**	18,000
Other long-term debt, including unamortized debt issue costs	**(462)**	(725)
Total long-term debt	**165,845**	183,031
Less: current portion	(165,410)	(7,500)
Long-term portion	**435**	175,531
Standby letter of credit facility	***10,771***	*9,963*

Source's former credit facility structure contained restrictive covenants which limited Source's flexibility and ability to appropriately operate at the high levels demanded by activity in the WCSB. To address this limitation, Source initiated the process to refinance its Credit Facility in the second quarter of this year. Prior to the completion of the refinancing transaction and pursuant to the agreement which governs the former ABL facility, standby letter of credit facility and senior secured term loan (collectively, the "Credit Facility"), Source was prohibited from making the August 15, 2022 cash interest payment for the senior secured notes (the "Notes") as it did not meet the restricted payments test to enable the distribution. Consequently, the Company was in default under the indenture which governs the Notes and, as a result, the total amount outstanding for the Notes was presented as a current liability on the condensed consolidated statements of financial position as at September 30, 2022.

In September, 2022, Source completed an amendment which waived the cross default on the ABL facility, as a result of the failure to pay the August 15, 2022 cash interest payment as noted above, until October 14, 2022. Despite obtaining this waiver, the required minimum fixed charge coverage ratio of 1.25:1 for the fiscal months ended August and September, respectively, was not met and as a result the Company was in default under the amended and restated credit agreement as at September 30, 2022. Upon closing of the new ABL and the issuance of the August 15, 2022 interest payment, the events of default under the Notes and the Credit Facility were cured and amounts outstanding for the Notes and under the new credit facility were reclassified to long-term debt subsequent to the end of the period.

As outlined above, at September 30, 2022, Source was required to classify its total long-term debt outstanding as a current liability, leaving no long-term debt outstanding, compared to $175.5 million of long-term debt as at December 31, 2021. Excluding long-term debt presented as a current liability, the change in long-term debt was primarily due to lower amounts outstanding for the Credit Facility, reflecting lower draws for the ABL facility, net of cash on hand, and the repayment of $7.5 million completed on the Term Loan at the end of March 2022. These reductions were partly offset by an increase in the amount owed for the Notes, 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. Overall, total amounts outstanding for the credit facilities decreased by $22.6 million at the end of the third quarter, compared to December 31, 2021, attributed to strong activity levels realized, partially offset by a reduction in working capital for the quarter.

Finance expense	**Three months ended September 30,**		**Nine months ended September 30,**	
($000's)	**2022**	2021	**2022**	2021
Interest on Notes	**4,326**	4,768	**13,163**	13,762
Interest on Credit Facility	**1,533**	955	**4,188**	3,106
Interest on leases	**1,187**	691	**2,953**	2,119
Other interest expense (income)	**(43)**	42	**(15)**	96
Accretion	**1,189**	1,016	**3,392**	2,945
Other finance expense	**331**	166	**654**	483
Total finance expense	**8,523**	7,638	**24,335**	22,511

Finance expense was $8.5 million for the third 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 interest on the Credit Facility. Credit Facility interest expense was impacted by higher average draws on the facility prior to the end of the quarter, as well as continued interest rate hikes by the Bank of Canada and the Federal Reserve through September 30, 2022, impacting the variable interest rates for the facility. 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

Sustained levels of industry activity continue to favorably impact frac sand supply and demand fundamentals which are expected to remain favorable through 2023. These fundamentals, coupled with Source's leading service offerings and logistics capabilities, have translated into meaningful pricing gains and improved gross margins in 2022, particularly in the spot sand sales market, a trend that is expected to continue through 2023. Source's main customer contracts will expire over the next few quarters, with contract renewals creating opportunity for further growth in margins. Source customers have signaled growing confidence related to operating in the northeastern British Columbia region. Operations in this geological region require larger volumes of sand per well and, combined with Source's terminal network footprint, would support strong activity levels for Source next year.

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 is 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.

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. Thus far in 2022, Source has reclaimed eleven 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.

As an active member of its community, Source supports initiatives that align with its corporate values, support the charitable efforts of our employees and are located close to its operations. Source supports community needs in the areas of Arts and Culture, Education, Environment, Health and Wellness and Sports and Recreation through financial donations and employee volunteer hours.

For more information, Source's most recent ESG report is available at www.sourceenergyservices.com.

Operations Overview

Sand revenue is predominately comprised of sand sales in 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 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

($000's, except MT and per unit amounts)	2020	2021				2022		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sand volumes (MT)	*474,345*	*645,566*	*557,208*	*751,611*	*528,977*	*726,101*	*800,136*	*753,233*
Sand revenue	48,936	66,115	58,098	79,343	54,989	80,661	93,546	97,173
Wellsite solutions	9,582	14,121	14,033	17,554	11,913	15,416	16,456	21,748
Terminal services	451	1,653	605	789	648	892	1,584	985
Sales	58,969	81,889	72,736	97,686	67,550	96,969	111,586	119,906
Cost of sales	42,650	63,619	56,526	79,994	59,290	76,603	89,869	98,772
Cost of sales - depreciation	5,253	7,582	4,528	4,921	4,071	5,793	5,177	4,732
Cost of sales	47,903	71,201	61,054	84,915	63,361	82,396	95,046	103,504
Gross margin	11,066	10,688	11,682	12,771	4,189	14,573	16,540	16,402
Operating expense	3,198	3,718	4,048	4,606	4,142	4,336	4,801	4,564
General & administrative expense	1,203	2,604	2,390	2,299	1,990	2,489	2,698	2,205
Depreciation	2,647	2,785	2,326	2,336	2,426	2,654	2,707	2,833
Income (loss) from operations	4,018	1,581	2,918	3,530	(4,369)	5,094	6,334	6,800
Other expense (income):								
Finance expense	7,747	7,463	7,410	7,638	7,809	7,903	7,909	8,523
Share-based compensation expense (recovery)	77	186	(16)	(3)	476	759	(186)	(271)
Loss (gain) on asset disposal	—	—	(9)	(54)	—	—	(1,183)	2
Unrealized loss (gain) on derivative assets	—	—	(420)	—	173	1,619	(4,058)	4,157
Other income (loss)	228	(162)	(2,760)	(169)	(109)	(163)	(368)	(25)
Other expense(1)	112	44	—	51	108	2,129	262	147
Loss on sublease	—	—	—	—	1,159	—	—	—
Gain on debt extinguishment	(27,690)	—	—	—	—	—	—	—
Foreign exchange loss (gain)	(471)	(564)	(415)	(354)	581	(513)	(250)	(11,604)
Total other expense (income)	(19,997)	6,967	3,790	7,109	10,197	11,734	2,126	929
Net income (loss)	24,015	(5,386)	(872)	(3,579)	(14,566)	(6,640)	4,208	5,871
Net earnings (loss) per share ($/share)	4.58	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)	0.31	0.43
Diluted net earnings (loss) per share ($/share)	4.58	(0.40)	(0.06)	(0.26)	(1.08)	(0.49)	0.31	0.38
Net income (loss)	24,015	(5,386)	(872)	(3,579)	(14,566)	(6,640)	4,208	5,871
Interest expense	6,615	6,362	6,265	6,456	6,594	6,669	6,618	7,003
Depreciation	2,647	2,785	2,326	2,336	2,426	2,654	2,707	2,833
Cost of sales - depreciation	5,253	7,582	4,528	4,921	4,071	5,793	5,177	4,732
Gain on debt extinguishment	(27,690)	—	—	—	—	—	—	—
Finance expense (excluding interest expense)	1,132	1,101	1,145	1,182	1,215	1,234	1,291	1,520
Share-based compensation expense (recovery)	77	186	(16)	(3)	476	759	(186)	(271)
Loss (gain) on asset disposal	—	—	(9)	(54)	—	—	(1,183)	2
Unrealized loss (gain) on derivative assets	—	—	(420)	—	173	1,619	(4,058)	4,157
Loss on sublease	—	—	—	—	1,159	—	—	—
Other expense(1)	112	44	—	51	108	2,129	262	147
Adjusted EBITDA(2)	12,161	12,674	12,947	11,310	1,656	14,217	14,836	25,994
Sand revenue sales/MT	103.17	102.41	104.27	105.56	103.95	111.09	116.91	129.01
Gross margin	11,066	10,688	11,682	12,771	4,189	14,573	16,540	16,402
Cost of sales - depreciation	5,253	7,582	4,528	4,921	4,071	5,793	5,177	4,732
Adjusted Gross Margin(2)	16,319	18,270	16,210	17,692	8,260	20,366	21,717	21,134
Gross margin/MT	23.33	16.56	20.97	16.99	7.92	20.07	20.67	21.78
Adjusted Gross Margin/MT(2)	34.40	28.30	29.09	23.54	15.62	28.05	27.14	28.06

Notes:

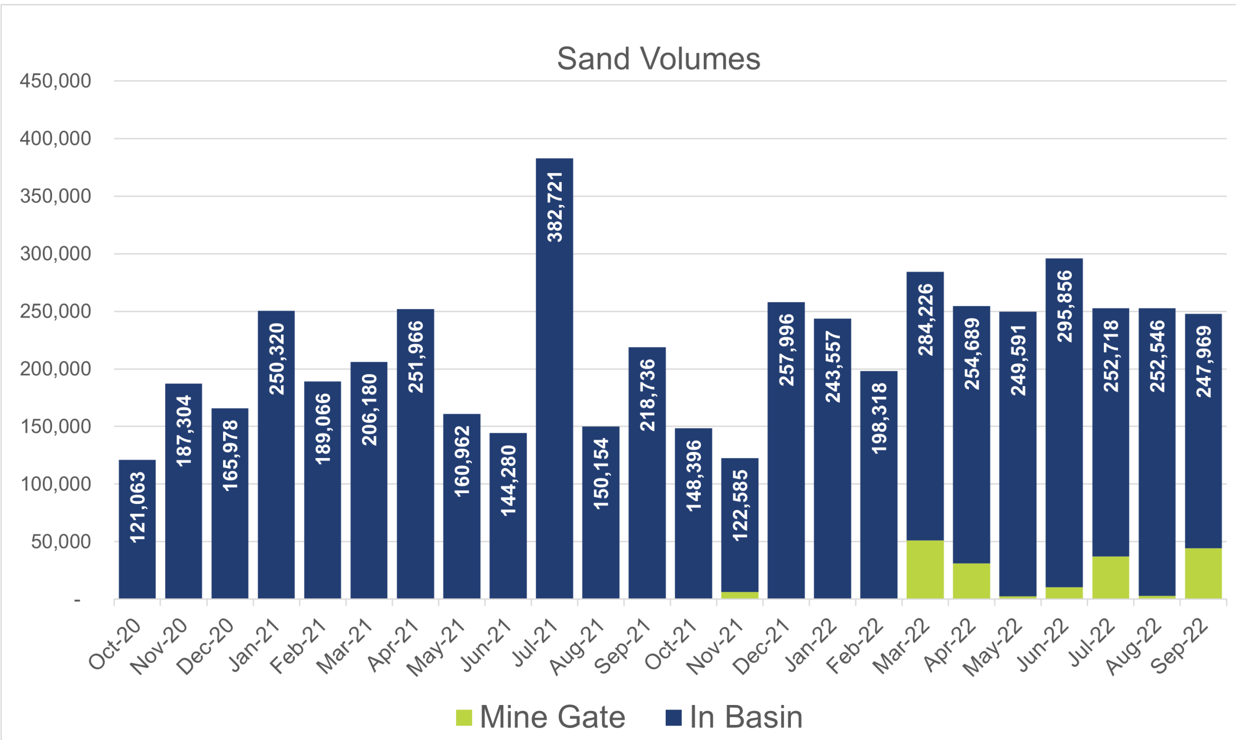
(1) Includes expenses related to the incident at the Fox Creek terminal facility (refer to 'Contractual Obligations' below) and one-time retirement payments in the first and second quarters of 2022.

(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 sold sand volumes of 753,233 MT for the three months ended September 30, 2022, generating sand revenue of $97.2 million, an increase of $17.8 million or 22% from the third quarter of 2021. For the nine months ended September 30, 2022, sand revenue was $271.4 million, an increase of $67.8 million or 33%, compared to the same period last year. The quarter-over-quarter increase was primarily due to a 28% increase in average realized sand price ($29.64 per MT, excluding mine gate sales). On a year-to-date basis, the increase is due to both 17% higher sand volumes and a 20% increase in average realized sand price ($20.61 per MT, excluding mine gate sales). During the three and nine months ended September 30, 2022, revenue realized from mine gate sales lowered the average realized sand price realized by $6.19 and $5.71 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 revenue reflects meaningful pricing gains realized for both spot customers and contracted customers, relative to the third quarter and first nine months of last year, primarily due to constrained sand supply in the WCSB.



Wellsite Solutions Revenue

For the third quarter of 2022, wellsite solutions revenue was $21.7 million, an increase of $4.2 million or 24% compared to the same period in 2021. During the three months ended September 30, 2022, wellsite solutions generated higher revenue as the impact of longer trips from terminal to the wellsite offset lower volumes trucked. Volumes were impacted by certain customer job delays and permitting delays. Sahara-related revenue increased 53% on a quarter-over-quarter basis, due to a 52% increase in days utilized across the nine-unit fleet. Sahara units operating in Canada realized one of the busiest quarters in its history, with units achieving 99% utilization during the month of July 2022.

Wellsite solutions revenue was $53.6 million for the nine months ended September 30, 2022, an increase of 17% or $7.9 million compared to the same period last year. On a year-to-date basis, the impact of increased ancillary logistics flow-through revenues compared to the same period in 2021 was partially offset by lower trucking volumes, partly attributed to customer job delays related to regional permitting issues. Sahara-related revenue increased 37% on a year-over-year basis due to an 88% increase in days utilized across the nine-unit fleet, primarily due to the addition of two new customers during the quarter for a total of four new customers added thus far in 2022.

Terminal Services Revenue

For the three and nine months ended September 30, 2022, terminal services revenue was $1.0 million and $3.5 million, respectively, an increase of $0.2 million and $0.4 million, respectively, compared to the same periods in 2021. The increase during the third quarter was primarily due to higher chemical and sand elevation volumes, as well as revenue generated from the transloading of other non-sand materials. The delivery of a one-time, special order of ceramic proppant contributed to the increase for the nine months ended September 30, 2022. Higher chemical elevation volumes also favorably impacted results for the first three quarters of the year, offsetting the reduction in sand elevation volumes and proppant storage revenue on a year-to-date basis, compared to last year.

Cost of Sales

	Three months ended September 30,		Nine months ended September 30,	
($000's)	**2022**	2021	**2022**	2021
Direct materials	**80,312**	64,401	**217,388**	159,311
People costs	**3,795**	2,870	**10,515**	7,899
Equipment costs	**785**	518	**2,066**	1,704
Transportation costs	**13,560**	11,969	**34,542**	30,859
Facility costs	**320**	236	**733**	366
Cost of sales	**98,772**	79,994	**265,244**	200,139
Cost of sales - depreciation	**4,732**	4,921	**15,702**	17,031

Cost of sales, excluding depreciation, increased by $18.8 million for the third quarter and $65.1 million for the nine months ended September 30, 2022, compared to the same periods in 2021. For the third quarter, the increase was driven primarily by increased transportation and freight costs, resulting from higher prices for fuel and trucking, as well as higher costs for third party sand purchases, completed to complement sand production at the processing facilities in Wisconsin. On a year-to-date basis, higher sand sales volumes realized continued to impact cost of sales, in addition to the higher costs for fuel, trucking and third party sand, as noted above. Last year, cost of sales was favorably impacted by proceeds received from the CEWS program, totaling $0.3 million and $0.8 million, respectively, for the third quarter and nine months ended September 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 third quarter of 2022, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed an increase of $3.51 per MT to cost of sales, compared to the same period last year. The increase in cost of sales resulting from the impact of foreign exchange was offset by foreign exchange gains realized from the settlement of foreign exchange forward contracts during the quarter (refer to 'Foreign Currency Risk' below).

Gross Margin

Gross margin increased by $3.6 million for the quarter. Excluding gross margin from mine gate volumes, Adjusted Gross Margin for the third quarter was $30.27 per MT, favorably impacted by improved customer and spot market pricing, as well as certain production adjustments to offset increasing costs for fuel. These improvements more than offset higher costs for transportation and freight due to higher fuel costs, compared to the third quarter of 2021. Excluding the impact of the weakening Canadian dollar during the three months ended September 30, 2022, and the benefit of proceeds from the CEWS program as well as production credits realized during the third quarter of 2021, Adjusted Gross Margin (excluding margin from mine gate volumes) increased 55% compared to the same period last year. The weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by approximately $2.07 per MT; however, this impact was offset by the settlement of foreign currency forward contracts settled during the quarter in the calculation of Adjusted EBITDA (see Foreign Currency Risk below).

For the nine months ended September 30, 2022, gross margin was favorably impacted by lower cost of sales - depreciation realized, attributed to lower rates of inventory depreciation per MT relative to the same period last year. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $29.22 per MT and 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 55% for the nine months ended September 30, 2022 compared to the same period last year.

Operating and General & Administrative Expense

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		**2022**		2021	
($000's)	**OPEX**	**G&A**	OPEX	G&A	**OPEX**	**G&A**	OPEX	G&A
People	**2,042**	**1,510**	2,296	1,346	**5,993**	**5,067**	6,620	4,996
Equipment	**500**	**1**	353	1	**1,660**	**1**	1,037	1
Facility	**386**	**13**	354	20	**1,180**	**43**	1,011	19
Selling and administrative	**1,636**	**681**	1,603	932	**4,868**	**2,281**	3,704	2,277
Operating and General & Administrative Expense	**4,564**	**2,205**	4,606	2,299	**13,701**	**7,392**	12,372	7,293

For the third quarter of 2022, total operating and general and administrative expense remained relatively flat, compared to the same period in 2021. On a year-to-date basis, total operating and general and administrative expense increased $1.4 million to $21.1 million. During the nine months ended September 30, 2022, operating expense increased by $1.3 million from the same period last year. The increase is primarily due to increased royalty costs incurred as a result of higher sand shipments from mines that require royalty payments, as well as higher repairs and maintenance for Source's railcar fleet which resulted in increased equipment costs. Despite an improvement in activity levels realized and no proceeds received from the CEWS program in the 2022 driving higher compensation expense for the quarter and on a year-to-date basis, this increase was more than offset by lower variable incentive compensation expense compared to the same periods last year.

General and administrative expense decreased $0.1 million in the third quarter of 2022 compared to the same quarter in 2021, primarily due to lower selling and administrative costs as a result of decreased professional fees and a lower bad debt provision in the current quarter. Partially offsetting this decrease, people costs increased in the quarter due to higher compensation expense, including no proceeds received from the CEWS program compared to $0.1 million received last year, partly offset by lower variable incentive compensation compared to prior year. For the nine months ended September 30, 2022, general and administrative expense increased by $0.1 million over the prior year, primarily due to higher people costs, partially offset by lower variable incentive compensation, as noted above.

Depreciation

Depreciation expense increased $0.5 million and $0.7 million, respectively, for the three and nine months ended September 30, 2022, compared to the same periods in 2021, primarily the result of a weakened Canadian dollar on US dollar denominated assets and the capitalization of the Peace River facility.

Finance Expense

Finance expense increased by $0.9 million and $1.8 million, respectively, for the three and nine months ended September 30, 2022, compared to the three and nine months ended September 30, 2021. The increases were primarily due to higher interest expense, resulting from increased average draws on the ABL facility as well as an increase in base interest rates which impacted floating rates for the Credit Facility. Higher interest from lease liabilities, due to the addition of the Peace River facility, also impacted finance expense. These increases were partially offset by lower interest expense incurred on a lower balance outstanding for the senior secured term loan and lower interest expense for the senior secured notes, with interest calculated at the lower rate of 10.5% through the majority of 2022, compared to the interest in kind rate of 12.5% in 2021.

Share-based Compensation

Share-based compensation recovery increased by $0.3 million for the three months ended September 30, 2022, compared to the third quarter of 2021 while on a year-to-date basis, share-based compensation expense increased $0.1 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 Loss (Gain) on Derivative Assets

Source recorded unrealized losses of $4.2 million and $1.7 million, respectively, for the three and nine months ended September 30, 2022, compared to a gain of $nil and $0.4 million, respectively, for the same periods last year. Source purchases foreign exchange forward contracts to further mitigate risk associated with the fluctuation in US dollar to Canadian dollar exchange rates. As a result of rebalancing US dollar denominated revenue, combined with the new ABL facility (see below) which is denominated in US dollars, as noted above, Source wound up all of its remaining outstanding foreign exchange forward contracts during the three months ended September 30, 2022 resulting in the derecognition of the derivative assets.

Other Income

For the three months ended September 30, 2022, other income remained relatively flat compared to the same period in the prior year. Compared to the nine months ended September 30, 2021, other income decreased $2.5 million in 2022, 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 three and nine months ended September 30, 2022, other expense increased by $0.1 million and $2.4 million, respectively, compared to the three and nine months ended September 30, 2021. The increase is primarily due to a one-time retirement payment in the first half of 2022.

Foreign Exchange Gain

The foreign exchange gains Source recognized during the three and nine months ended September 30, 2022, increased by $11.3 million and $11.0 million, respectively, compared to the same periods in the prior year. During the third quarter, the weakening of the Canadian dollar negatively impacted Adjusted EBITDA and to address this impact, Source settled foreign exchange contracts, realizing a $2.1 million gain on the settlement of these contracts which mitigated the currency impact on results for the quarter.

In addition to the normal course foreign exchange contracts settled during the period, as a result of rebalancing US dollar denominated revenue, noted above, and the new ABL facility (see below) which is denominated in US dollars, Source wound up all of its remaining outstanding foreign exchange forward contracts and realized an additional $9.7 million of foreign exchange gain, of which approximately $3.3 million related to remaining 2022 foreign exchange forward contracts, and $6.4 million related to contracts due to mature in 2023.

As well as the foreign exchange gains realized on the settlement of foreign exchange forward contracts outlined above, Source was impacted by foreign exchange rate movement on the settlement of working capital items denominated in US dollars for the three and nine months ended September 30, 2022, compared to the same periods last year.

Capital Resources and Management

Source funded its capital spend for the third quarter 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. Source intends to fund future working capital and capital expenditures using cash flows from operating activities, amounts available under the 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 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 as of September 30, 2022 is determined by levels of accounts receivable and inventory. 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 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. 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.

In May and July 2022, amendments to the ABL were completed which waived the application of the fixed charge coverage ratio for June 30, 2022 and July 31, 2022, respectively. In September 2022, Source completed an additional amendment to the ABL which waived the cross default on the ABL facility, as a result of the failure to pay the August 15, 2022 cash interest payment, until October 14 2022, as noted above. Despite the waiver obtained for the cross default on the ABL facility, the required minimum fixed charge coverage ratio of 1.25:1 for the fiscal months ended August and September, respectively, was not met and as a result the Company was in default under the amended and restated credit agreement as at September 30, 2022. The event of default was cured upon closing of the new ABL facility on October 14, 2022.

Source's capital management policy has not changed during the nine months ended September 30, 2022.

Long-term Debt

As outlined above, the Company closed a new ABL facility on October 14, 2022, providing access to funding of approximately $75.4 million (US$55.0 million). Prior to the closing and pursuant to the agreement which governs the former Credit Facility, Source was prohibited from making the August 15, 2022 cash interest payment for the Notes as it did not meet the restricted payments test to enable the distribution. Consequently, the Company was in default under the indenture which governs the Notes and the Notes were presented as a current liability.

Upon closing of the new ABL, Source completed the August 15, 2022 cash interest payment for the Notes and repaid all outstanding draws on the former ABL facility and the senior secured term loan. As a result of the closing and the issuance of the August 15, 2022 interest payment all events of default were cured and the Notes, as well as the new credit facility, were reclassified back to long-term debt in the consolidated interim statements of financial position subsequent to the end of the period.

The Company also entered into a supplemental indenture that governs the Notes which permitted Source to execute the new ABL facility in exchange for a one percent consent fee to the noteholders which was paid in kind on closing. The new ABL will result in an extinguishment of the Credit Facility and the Company expects to recognize a loss on extinguishment of debt of approximately $897 in respect of previously unamortized deferred financing costs.

The new ABL facility bears interest at the Secured Overnight Financing Rate ("SOFR"), plus applicable margin, and is secured by a first lien charge on cash, the accounts receivable and inventory of the Company and a second lien charge on all other assets of the business. The new ABL facility matures on the earlier of October 14, 2025 or six months prior to the maturity of the Notes, with amounts available under the new ABL subject to a borrowing base formula applied to accounts receivable and inventory. Additional terms of the Supplemental Indenture include a limit on capital expenditures incurred beyond overburden removal, mine development and maintenance activities, and limits on incurrences of additional debt and liens by Source.

Key financial covenants of the new ABL facility include:

- a fixed charge coverage ratio of 1:15:1 tested each fiscal calendar month and prior to a distribution based on trailing twelve months inputs; for 2022 calculations the inputs commence with January 1, 2022;
- maximum capital expenditures for each fiscal year equal to the lesser of $13,500 or 35% of trailing twelve months of earnings before interest, tax, depreciation and amortization; for 2022 calculations the inputs commence with January 1, 2022;
- 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 $25,000 for October 31, 2022 to December 31, 2022; and
- a minimum level of excess availability of $3,000 which increases to $5,000 by March 31, 2023.

Senior Secured Notes

On December 30, 2020, Source issued $142.2 million in aggregate principal amount of the Notes. The Notes bear interest at 10.5% and mature on March 15, 2025. The Notes contain prepayment options, whereby the Company may redeem all or a part of the Notes at any time at the applicable percentage (2022 - 101%, 2023 and thereafter - 100%), plus accrued and unpaid interest.

The 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 nine months ended September 30, 2022, Source paid interest in kind resulting in $5.0 million of additional Notes issued, with the May 2022 interest payment made in cash. As noted above, Source was prohibited from making the August 15, 2022 cash interest payment for the Notes as it did not meet the restricted payments test to enable the distribution. Consequently, the Company was in default under the indenture which governs the Notes, requiring the amount outstanding for the Notes to be classified as a current liability as at September 30, 2022. As outlined above, the Notes were reclassed to long-term debt upon closing of the new credit facility subsequent to the end of the quarter.

At September 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.

Credit Facility

At September 30, 2022, the Company had an ABL facility which matured on September 30, 2023, bearing interest based on the bank's prime lending rate and CDOR or LIBOR rates, plus an applicable margin. The ABL was 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 was subject to a borrowing base formula applied to accounts receivable and inventories. As of September 30, 2022, $3.3 million (excluding unamortized transaction costs) was drawn under this facility (December 31, 2021 - $18.4 million). Due to the maturity date of the ABL facility, amounts outstanding were presented as a current liability for the quarter.

The ABL facility included a standby letter of credit facility that did not affect the facility's borrowing base. The Credit Facility was also being used to support $10.8 million of letters of credit (December 31, 2021 - $10.0 million) leaving $30.5 million of available liquidity (December 31, 2021 - $12.5 million).

Source was subject to externally imposed capital requirements for the Credit Facility, requiring the Company to maintain the financial covenants as outlined above. The required minimum fixed charge coverage ratio of 1.25:1 for the fiscal months ended August and September, respectively, was not met and as a result the Company was in default under the amended and restated credit agreement as at September 30, 2022.

At September 30, 2022, Source had 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, bearing interest at Canadian prime plus 6% and maturing 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 September 30, 2022. Due to the maturity date of the facility, amounts outstanding for the Term Loan were presented as a current liability for the quarter.

Cash and Net Working Capital

($000's)	**September 30, 2022**	**December 31, 2021**
Current assets	117,520	106,745
Current liabilities(1)	(233,596)	(50,308)
Net working capital	(116,076)	56,437

Note:
(1) At September 30, 2022, current liabilities included the total amount long-term debt outstanding. Refer to 'Long-term Debt' above.

At September 30, 2022, current liabilities included the total amount of long-term debt outstanding as a result of Source being prohibited from making the August 15, 2022 cash interest payment for the Notes and the maturity date of the former Credit Facility, as outlined above. Upon closing of the new credit facility on October 14, 2022, all amounts outstanding for these obligations were reclassified to long-term liabilities.

Excluding amounts related to the reclass of long-term debt to current liabilities, total current assets less total current liabilities (net working capital) as at September 30, 2022 was $43.8 million, compared to $56.4 million as at December 31, 2021. The reduction in net working capital was mainly due to higher balances for accounts payable and accruals, attributed to increased activity levels and the timing of vendor payments as well as increased lease liabilities primarily as a result of the addition of the Peace River facility. The contract liability for the remaining amount of prepaid proppant received from a customer during the second quarter also contributed to the reduction in net working capital. These increases were partly offset by higher total accounts receivable as a result of higher sales volumes and activity levels during the third quarter, compared to the fourth quarter of 2021, and the reduction in current liabilities as a result of the payment made on the Term Loan earlier this year.

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing and transporting inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at September 30, 2022 are $15.2 million (December 31, 2021 - $14.7 million) and $19.7 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 $0.6 million for the three months ended September 30, 2022 (three months ended September 30, 2021 - $0.3 million), and $1.7 million for the nine months ended September 30, 2022 ($1.1 million for the nine months ended September 30, 2021).

In order to manage exposure to fluctuations in the Canadian to US dollar exchange rate, the Company will rebalance US denominated revenues where possible as well as hedge between prescribed minimum and maximum amounts of net US dollar exposure, as determined by the Company's foreign currency risk management policy, through the use of various instruments. As a result of ongoing currency exposure management, Source is renegotiating certain of its customer contracts to be denominated in US dollars. Due to this rebalancing and in advance of the completion of the new credit facility, which is denominated in USD dollars, the Company wound up and settled all outstanding foreign exchange forward contracts during the three months ended September 30, 2022. Refer to 'Operating and Financial Results' for additional information.

Source continues to monitor its exposure to fluctuations in foreign exchange rates and will continue to purchase hedging instruments to mitigate foreign exchange risk as appropriate.

Contract Liabilities

During the second quarter of 2022, Source entered into an agreement with a customer where the Company received $11.1 million as a prepayment for future purchases of proppant, expected to be delivered to the customer by December 31, 2022. Source recognized revenue of $8.9 million for the value of the goods delivered during the nine months ended September 30, 2022.

Contractual Obligations

Source has various commitments regarding lease agreements, various IT software subscriptions and physical natural gas contracts. The leases expire between October 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	81,785	5,179	16,517	12,411	8,220	4,909	34,549
Other commitments	2,332	728	1,556	20	16	12	—
Credit Facility(1)	13,820	—	13,820	—	—	—	—
Notes(2)	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.

(2) The contractual cash outflows above are presented notwithstanding the classification of the Notes as current on the condensed consolidated interim statement of financial position. Source did not issue the August 15, 2022 cash interest payment for the senior secured notes until October 14, 2022, upon closing of the new credit facility. Upon issuance of the cash interest payment, the Notes were reclassed to non-current liabilities in October. Refer to 'New Senior Credit Facility' above for additional information. If the Notes remained a current liability, a portion of the amounts presented above would be due and payable in 2022.

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 September 30, 2022 and November 8, 2022, Source had issued and outstanding 13,545,055 common shares (September 30, 2021 - 13,545,055).

Transactions between Related Parties

During the three and nine months ended September 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 September 30, 2022. There were no material weaknesses in the design of the DC&P and the ICFR at September 30, 2022, and no changes in ICFR during the period beginning on January 1, 2022 and ended on September 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 September 30, 2022, the fair value of the Notes was $98.1 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 (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 September 30,		**Nine months ended September 30,**	
($000's)	**2022**	2021	**2022**	2021
Net income (loss)	**5,871**	(3,579)	**3,439**	(9,837)
Add:				
Interest expense	**7,003**	6,456	**20,289**	19,083
Cost of sales – depreciation	**4,732**	4,921	**15,702**	17,031
Depreciation	**2,833**	2,336	**8,194**	7,447
Finance expense (excluding interest expense)	**1,520**	1,182	**4,046**	3,428
Share-based compensation expense (recovery)	**(271)**	(3)	**302**	167
Loss (gain) on asset disposal	**2**	(54)	**(1,181)**	(63)
Unrealized loss (gain) on derivative assets	**4,157**	—	**1,718**	(420)
Other expense(1)	**147**	51	**2,538**	95
Adjusted EBITDA	**25,994**	11,310	**55,047**	36,931
Financing expense paid	**(3,147)**	(1,857)	**(12,288)**	(6,009)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(4,454)**	(1,829)	**(9,348)**	(4,443)
Payment of lease obligations	**(3,849)**	(3,149)	**(11,003)**	(9,637)
Free Cash Flow	**14,544**	4,475	**22,408**	16,842

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

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended September 30,		**Nine months ended September 30,**	
($000's)	**2022**	2021	**2022**	2021
Gross margin	**16,402**	12,771	**47,515**	35,141
Cost of sales – depreciation	**4,732**	4,921	**15,702**	17,031
Adjusted Gross Margin	**21,134**	17,692	**63,217**	52,172

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", "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: 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 and specifically to reduce greenhouse gas emissions; our expectation that frac sand supply and demand fundamentals will remain favorable through 2023; our expectation that meaningful pricing gains will continue through 2023; our belief that improved gross margins, particularly in the spot sand sales market, will continue through 2023; our expectation that contract renewals over the next few quarters creates opportunity for further growth in margins; consumers' increasing confidence in connection with operating in northeastern British Columbia, and our expectation that operations in such geological region would support strong activities for Source next year; 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; our expectation as to the amount of loss on extinguishment of debt in connection with the new ABL; fluctuations in foreign currency; timing of the delivery of proppants under certain 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.