

SOURCE ENERGY SERVICES



CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Source Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of Source Energy Services Ltd. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at December 31, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

Assessment of indicators of impairment or impairment reversal of non-financial assets

For the year ended December 31, 2022, the carrying value of property, plant and equipment was \$135.2

How our audit addressed the key audit matter

We evaluated the Company's analysis of internal and external factors within their impairment and reversal of impairment indicators memorandum by considering

million. Refer to Note 3 Significant Accounting Policies of the consolidated financial statements for a description of the Company's accounting policy for impairment of non-financial assets. At each reporting date, property, plant and equipment in the cash generating unit (CGU) is assessed by management for indicators of impairment or impairment reversal. Management concluded there were no indicators of impairment or impairment reversal as of December 31, 2022. Significant management judgment is required analyzing external and internal indicators of impairment or historical impairment reversal with the estimate of cash flows being significant to the assessment.

Significant auditor judgment was required in evaluating the results of our audit procedures with respect to the internal and external indicators of impairment including the estimate of cash flows.

whether quantitative and qualitative information in the analysis was consistent with other evidence in other areas of the audit. This included:

- Information included in the Company's press releases and management's discussion and analysis.
- Other evidence obtained in other areas of the audit, including internal communications to management and the Board of Directors.
- Searched for significant changes in the external environment by inspecting publicly available market data for changes in the oil and gas commodity prices, interest rates, inflation and foreign exchange rates.
- Compared the Company's market capitalization to the carrying value of its net assets.

To test the Company's assessment of cash flows, we performed the following procedures, among others:

- Assessed the Company's historical forecasting accuracy by comparing actual earnings to prior period forecasts.
- Evaluated the Company's current forecast in comparison to historical results, third-party commodity price forecasts, analyst reports and industry publications.
- Evaluated the reasonableness of significant assumptions, such as the revenue growth rate and forecasted earnings before interest, taxes, depreciation and amortization by considering the budget approved by the board of directors, and the current and past performance of the Company, and available market data.
- Involved our internal valuation specialists to assess the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums.

Assessed the adequacy of the Company's disclosure in Note 7 in relation to the matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ross Haffie.

Ernst + Young LLP

Calgary, Alberta
March 8, 2023

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Financial Position

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

	Note	December 31, 2022	December 31, 2021
Assets			
Current assets			
Accounts receivable	4(d)	\$ 42,304	\$ 43,499
Prepaid expenses		7,708	5,728
Derivative assets	4(c)	—	1,181
Inventories	6	72,533	56,337
Total current assets		122,545	106,745
Derivative assets	4(c)	—	537
Deposits and restricted cash	10(c)	10,893	—
Property, plant and equipment	7	135,159	131,935
Right-of-use assets	8	58,300	26,814
Total assets		\$ 326,897	\$ 266,031
Liabilities and equity			
Current liabilities			
Accounts payable and accruals	4(e)	\$ 68,425	\$ 29,336
Contract liabilities	16	153	94
Lease liabilities	11	17,700	12,358
Current portion of long-term debt	10	—	7,500
Decommissioning provision	12	1,175	1,020
Total current liabilities		87,453	50,308
Lease liabilities	11	50,722	26,078
Long-term debt	10	176,518	175,531
Decommissioning provision	12	6,547	7,588
Total liabilities		\$ 321,240	\$ 259,505
Shareholders' equity			
Shareholders' equity	13	\$ 410,632	\$ 410,632
Contributed surplus		2,459	2,459
Accumulated deficit		(421,795)	(413,025)
Cumulative translation adjustment		14,361	6,460
Total shareholders' equity		\$ 5,657	\$ 6,526
Total liabilities and shareholders' equity		\$ 326,897	\$ 266,031

See accompanying notes to the consolidated financial statements.

Commitments and contingencies (Note 18)

Approved on behalf of the Board of Directors:

signed "Chris Johnson"

Chris Johnson
Director

signed "Scott Melbourn"

Scott Melbourn
Director

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Operations and Comprehensive Loss

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

	Note	2022	2021
Sales			
Sand revenue	16	\$ 341,671	\$ 258,545
Wellsite solutions	16	69,790	57,621
Terminal services	16	4,451	3,695
Total sales		415,912	319,861
Cost of sales	17	\$ 336,940	\$ 259,429
Cost of sales - depreciation		20,827	21,102
Gross margin		\$ 58,145	\$ 39,330
Operating expense	17	\$ 20,075	\$ 16,514
General & administrative expense	17	10,034	9,283
Depreciation		10,555	9,873
Income from operations		\$ 17,481	\$ 3,660
Other expense (income):			
Finance expense	19	\$ 33,147	\$ 30,320
Share-based compensation expense	14	947	643
Gain on asset disposal		(1,192)	(63)
Unrealized loss (gain) on derivative instruments	4(c)	1,718	(247)
Other income	20	(2,002)	(3,200)
Other expense	21	3,407	203
Loss on sublease		—	1,159
Loss on debt extinguishment	10(b)	862	—
Foreign exchange gain	4(f)	(10,636)	(752)
Total other expense		26,251	28,063
Loss before income taxes		\$ (8,770)	\$ (24,403)
Income taxes			
Current tax expense	9	\$ —	\$ —
Total income taxes		—	—
Net loss		\$ (8,770)	\$ (24,403)
Other comprehensive loss			
Foreign currency translation adjustment (subject to recycling)		7,901	(1,758)
Comprehensive loss		\$ (869)	\$ (26,161)
Loss per share (in dollars)			
Basic and diluted	15	\$ (0.65)	\$ (1.80)

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Changes in Equity

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

	Common share capital			Cumulative Translation Adjustment	Accumulated Deficit	Total Equity
	Number of Shares	\$	Contributed Surplus			
Balance at December 31, 2021	13,545,055	\$ 410,632	\$ 2,459	\$ 6,460	\$ (413,025)	\$ 6,526
Net loss					(8,770)	(8,770)
Unrealized foreign exchange gain				7,901		7,901
Balance at December 31, 2022	13,545,055	\$ 410,632	\$ 2,459	\$ 14,361	\$ (421,795)	\$ 5,657

	Common share capital			Cumulative Translation Adjustment	Accumulated Deficit	Total Equity
	Number of Shares	\$	Contributed Surplus			
Balance at December 31, 2020	13,545,055	\$ 410,632	\$ 2,459	\$ 8,218	\$ (388,622)	\$ 32,687
Net loss					(24,403)	(24,403)
Unrealized foreign exchange loss				(1,758)		(1,758)
Balance at December 31, 2021	13,545,055	\$ 410,632	\$ 2,459	\$ 6,460	\$ (413,025)	\$ 6,526

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Consolidated Statements of Cash Flows

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

	Note	2022	2021
Operating Activities			
Net loss		\$ (8,770)	\$ (24,403)
Adjusted for the following:			
Depreciation		31,382	30,975
Share-based compensation expense	14	947	643
Gain on asset disposal		(1,192)	(63)
Finance expense	19	33,147	30,320
Loss on debt extinguishment	10(b)	862	—
Unrealized loss (gain) on derivative instruments	4(c)	1,718	(247)
Loss on sublease		—	1,159
Satisfaction of performance obligations, net of proceeds on contract liabilities	16	59	(748)
Payments for share-based compensation		(289)	(117)
Payments made for decommissioning provision	12	(1,251)	(1,818)
Net changes in non-cash working capital	5	23,560	(21,690)
Cash flows provided by operating activities		\$ 80,173	\$ 14,011
Investing Activities			
Capital expenditures		(14,799)	(6,517)
Proceeds on disposal of property, plant and equipment		1,511	75
Payments made for Peace River transaction	8	(368)	—
Net changes in non-cash working capital	5	(242)	442
Cash flows used in investing activities		\$ (13,898)	\$ (6,000)
Financing Activities			
Proceeds (repayments) on long-term debt	5	(10,923)	13,110
Payments made for letters of credit on deposit	10(c)	(11,002)	—
Payment of lease obligations	11	(15,751)	(13,224)
Financing expense paid		(28,599)	(7,897)
Cash flows used in financing activities		\$ (66,275)	\$ (8,011)
Increase (decrease) in cash		\$ —	\$ —
Cash and cash equivalents, beginning of year		—	—
Cash and cash equivalents, end of year		\$ —	\$ —
Supplementary information for cash flows from operating activities			
Interest paid		(22,608)	(7,255)

See accompanying notes to the consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2022 and 2021

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

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. and its subsidiaries (“Source” or the “Company”) is a company that focuses on the integrated production and distribution of frac sand, as well as the distribution of other bulk completion materials not produced by Source. Source provides its customers with an end-to-end solution for frac sand supported by its Wisconsin and Peace River mines and processing facilities, its Western Canadian terminal network and its “last mile” logistics capabilities. Source also provides storage and logistics services for other bulk oil and gas well completion materials and has developed Sahara, a proprietary wellsite mobile sand storage and handling system.

The Company is incorporated under the Alberta Business Corporations Act and the head and principal office is located at 500, 1060 - 7th Street SW, Calgary, Alberta, T2R 0C4.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in the consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2022. The consolidated financial statements were authorized for issuance by the Board of Directors (the “Board”) on March 8, 2023.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and liabilities to estimated fair value.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

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.

Leases and right-of-use assets

The Company measures the lease liability and corresponding right-of-use (“RoU”) asset at the present value of the lease payments, which are discounted using the Company’s incremental borrowing rate when the interest rate implicit in the lease cannot be readily determined.

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 consolidated financial statements in future periods.

SOURCE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2022 and 2021

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

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 which 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, restricted share unit ("RSU"), performance share unit ("PSU"), deferred share unit ("DSU") and share appreciation right ("SAR"). 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's share price.

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, forecasted earnings before interest taxes depreciation and amortization, 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventories represent unprocessed mined sand, work in progress and sand available for shipment, as well as spare parts and supplies. The Company values inventory at the lower of cost or net realizable value.

Cost is determined using the weighted average cost method. Cost includes the cost of mining of the sand as well as the direct labor costs, utility costs, transportation costs and other processing costs to wash and dry the sand, as well as depreciation directly attributable to production equipment and depreciation of capitalized stripping activities.

Net realizable value is the estimated selling price less applicable selling expenses. When the weighted average cost of inventories exceeds the net realizable value, inventory is written down to the net realizable value. All write-downs are charged to cost of goods sold. The amount of the write-down may be reversed (up to original amount of the write-down) when there is a change in economic circumstances.

SOURCE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2022 and 2021

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

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Each entity of the consolidated financial statements is measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the entities that have a different functional currency are translated into Canadian dollars. Assets and liabilities are translated at the rate of exchange at the statement of financial position date, revenue and expenses are translated at the average exchange rate for the period (as this is considered a reasonable approximation of actual rates), and gains and losses in translation are recognized in shareholders' equity as a cumulative translation adjustment.

Transactions in currencies that differ from an entity's functional currency are translated into the functional currency using the exchange rate prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of foreign currency translation and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statements of operations and comprehensive loss.

Property, plant and equipment

All costs directly associated with the purchase and development of property, plant and equipment are capitalized and reflected at cost less accumulated depreciation and net impairment losses. Costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statements of operations and comprehensive loss as incurred.

Exchanges or swaps of property, plant and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in the consolidated statements of operations and comprehensive loss.

Depreciation of property, plant and equipment is provided using the straight line method at the following annual rates approximating their estimated useful lives in years:

Buildings	20
Equipment	7 - 20
Vehicles	5 - 7
Computer hardware and software	3 - 5

Depreciation of an asset or an asset under construction begins when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each such component where applicable.

The Company adheres to IFRIC 20 "stripping costs in the production phase of a surface mine". During the production phase of the mine, stripping costs incurred that provide access to a component of reserves that will be produced in future periods and that would not have otherwise been accessible are capitalized. The costs qualifying for capitalization are those costs directly incurred to perform the stripping activity that improves access to the resource body. The stripping activity asset is included as part of the carrying amount of the mining property. Capitalized stripping costs are amortized on a straight-line basis over the production period to which they relate.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed for indicators of impairment at each reporting period. If indicators of impairment exist, the recoverable amount of the assets is estimated. For purposes of assessing impairment, property, plant and equipment are grouped into CGUs, defined as the lowest levels for which there are separately identifiable independent cash inflows.

The recoverable amount of a CGU is the greater of its fair value less costs to dispose and its value in use. Fair value is determined to be the amount for which the asset would be sold in an arm's length transaction between knowledgeable and willing parties. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

SOURCE ENERGY SERVICES LTD.

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2022 and 2021

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses are recognized in the consolidated statements of operations and comprehensive loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in previous years.

Leases and right-of-use assets

Lessee

At the commencement of a lease, the Company recognizes a RoU asset and a lease liability. The lease liability is measured at the present value of the lease payments, which are discounted using the Company's incremental borrowing rate when the interest rate implicit in the lease cannot be readily determined. Each lease payment is allocated between the liability and finance expense. Lease payments included in the measurement of the lease liability are comprised of the following:

- fixed payment less any lease incentives;
- variable lease payments that depend on an index or rate;
- amounts expected to be paid for residual value guarantees;
- exercise price of a purchase option if the Company is reasonably certain to exercise; and
- penalties for termination if the lease term reflects the exercise of the option to terminate.

RoU assets are measured at cost which includes the following:

- the amount of the initial measurement of the lease liability;
- lease payments made at or before the commencement date, less any lease incentives received; and
- initial direct costs.

RoU assets are depreciated over the shorter of an asset's useful life and the lease term on a straight-line basis. The Company's lease contracts may contain termination, renewal and/or purchase options which are evaluated by the Company on a regular basis. The majority of renewal options available extend lease terms from one to five years and are accounted for when the Company is reasonably certain that it will exercise one of these options.

The Company enters into short-term and long-term lease arrangements for rail cars and locomotives, vehicles and equipment and real estate. The Company determines whether or not the contract contains a lease at inception. Payments associated with short-term leases for certain classes of assets and leases of low-value assets are recognized on a straight-line basis in the consolidated statements of operations and comprehensive loss in the period in which they are incurred.

Lessor

At the commencement of a lease, the Company performs an assessment to determine if the lease qualifies as a finance lease or an operating lease. A lease that transfers substantially all risks and rewards is classified as a finance lease and a lease that does not transfer substantially all risks and rewards is classified as an operating lease. For a finance lease, a receivable equal to the net investment in the lease is measured as the present value of the lease payments using the implicit rate in the lease.

In instances when the Company is an intermediate lessor, an assessment is performed to determine the classification of the sublease with reference to the RoU asset arising from the lease rather than reference to the underlying asset. For a sublease that transfers substantially all risks and rewards, it is classified as a finance lease; otherwise it is classified as an operating lease and rental income is recognized on a straight-line basis over the lease term.

A sublease classified as a finance lease is recognized as a receivable equal to the net investment in the lease. The RoU asset is derecognized and the difference between the RoU asset and the net investment is recognized in the consolidated statements of operations and comprehensive loss. At inception of the sublease, the net investment is measured at the present value of the lease payments using the interest rate implicit in the sublease. If the implicit rate cannot be determined, the discount rate used for the head lease is used to measure the net investment in the sublease. Finance income is recognized over the lease term at a constant rate of return on the net investment in the lease.

Provisions and contingent liabilities

Provisions are recognized by the Company when all of the following apply: (i) it has a legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of economic resources will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of that obligation. The obligation is not recorded and is disclosed as a contingent liability if any of the following apply: (i) it is not probable that an outflow will be required, (ii) the amount cannot be estimated reliably, or (iii) the existence of the outflow can only be confirmed by the occurrence of a future event.

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Decommissioning provision

Decommissioning provision is recognized for decommissioning and restoration obligations associated with the Company's mining reserves. The best estimate of the expenditure required to settle the present obligations at the statement of financial position date is recorded on a discounted basis using the pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the provision is added to the carrying amount of the associated property, plant and equipment asset and is depreciated over the useful life of the asset. The provision is accreted over time through charges to finance expenses. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related assets. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded liability and the actual costs incurred are recorded as a gain/loss in the consolidated statements of operations and comprehensive loss.

Income taxes

Current and deferred income tax expenses are recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income taxes for current and prior periods are measured at the amount expected to be payable or recoverable from the taxation authorities based on the income tax rates enacted at the end of the period.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the carrying amounts used for taxation purposes. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all temporary differences deductible to the extent future recovery is probable. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be generated to allow for all or part of the asset to be recovered. Deferred income tax balances are calculated using enacted or substantively enacted tax rates. Deferred income tax balances are adjusted to reflect changes in income tax rates that are enacted or substantively enacted with the adjustment being recognized in the period the change occurs, except items recognized in equity.

Deferred tax assets and liabilities are offset if both of the following thresholds are met: (i) there is a legally enforceable right to offset and (ii) the deferred tax assets and liabilities either relate to income taxes levied by the same taxation authority on the same taxable entity, or the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on different taxable entities where such different taxable entities either intend to settle current tax liabilities and assets on a net basis, or will have their tax assets and liabilities realized simultaneously.

Revenue recognition

The Company's revenue, which is comprised principally of sand sales and other services, is generally subject to contractual arrangements, which specify price and general terms and conditions. The Company recognizes sand sales when the contractual obligations are satisfied (typically when control of the product is transferred), while also considering if it has retained any material involvement in the sand being sold and if the revenue and costs related to the sale can be measured reliably. Revenue for third-party sand and chemical distribution is recognized based on contractual arrangements or when services have been completed. Revenue for wellsite solutions is recognized when services are provided. Revenue for rental of storage facilities is recognized on a monthly basis.

The Company offers certain arrangements whereby customers can purchase products and services together. Where such bundled arrangements exist, the amount of the transaction price allocated to each performance obligation is based upon the relative stand-alone selling prices of each distinct product or service in the contract. The best evidence of a stand-alone selling price is the observable price of a product or service when the Company sells that product or service separately in similar circumstances and to similar customers.

When a stand-alone selling price is not directly observable, the Company estimates using the residual approach method to determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone contract with a customer.

Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the consolidated statements of operations and comprehensive loss, using the effective interest method.

Finance expense comprises interest expense on borrowings, costs incurred to obtain financing and impairment losses recognized on financial assets. Amounts paid to financial institutions for the purpose of borrowing funds are capitalized upon recognition and are offset against the outstanding obligation to the financial institution. These costs are amortized over the remaining term of the facility placed.

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Earnings (loss) per share

Earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive potential shares are ignored in calculating diluted earnings per share. All options are considered anti-dilutive when the Company is in a loss position. As at December 31, 2022 and 2021, no options were outstanding.

Basis of consolidation

The consolidated financial statements include the accounts of Source Energy Services Ltd. and its subsidiaries, which are entities over which Source has control. Control exists when the Company is exposed to, or has right to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Source, and the accounting policies are aligned with the policies adopted by Source. All intercompany balances and income and expenses have been eliminated upon preparation of the consolidated financial statements. As at December 31, 2022 and 2021, all subsidiaries are 100% owned.

Share-based payments

The Company has various share-based compensation plans for employees, including an option plan, renewed as of March 18, 2021, which is available to directors, officers and certain employees as determined by the Company's Board. The option plan allows for the granting of options to purchase common shares to a maximum number equal to 10% of the issued and outstanding common shares of the Company. The price of each share purchase option granted is set by the Company's Board based on the market value of the Company's shares on the date of the grant.

In 2021, the Company authorized a share appreciation rights plan which is available to certain employees, effective March 18, 2021. A SAR gives the employee the right to receive a cash payment equal to the difference between fair market value of the Company's common shares at the time of exercise and the dollar amount set out in the SAR agreement. The SARs are settled for cash payment and accordingly are considered liability-settled awards for accounting purposes.

Under these plans, any cumulative expense is calculated at each statement of financial position date before vesting, representing the extent to which the vesting period has expired and management's best estimate of the number of awards that will ultimately vest.

The fair values of options and SARs are measured using the Black-Scholes valuation model. The model requires the input of assumptions including historical forfeiture rates and expected volatility based on the historical stock price of the Company. The expected term of options and SARs represents the period of time that awards granted are expected to be outstanding. The risk-free rate is based on the Government of Canada bond yields with a remaining term equal to the expected life of the awards used in the Black-Scholes valuation model. The fair value of the options is measured at the grant date. The fair value of the SARs is measured at the grant date and subsequently remeasured at each reporting period.

The Company also has share-based compensation plans that allow for DSUs, RSUs and PSUs to be granted to directors and certain employees. The DSUs, RSUs and PSUs are expected to be settled for cash payment and accordingly are considered liability-settled awards for accounting purposes.

Financial Instruments

The Company determines the classification of its financial instruments at initial recognition and records the instruments at their fair value plus, for those instruments not subsequently measured at fair value, directly attributable transaction costs. Financial assets and financial liabilities are recognized on the Company's consolidated statements of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

The Company considers whether a contract contains an embedded derivative when it first becomes a party to it. Embedded derivatives are separated from the host contract which is not measured at fair value through profit and loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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Financial assets

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset:

- a. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses;
- b. Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises; and
- c. Fair value through other comprehensive income: Instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the instruments' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. When the financial instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses.

Financial asset impairment

Financial assets are assessed for impairment using an expected credit loss model as required by IFRS 9. The Company has applied the simplified approach to recognize lifetime expected credit losses for its financial assets measured at amortized cost. As such, the loss allowance for a financial asset is recorded at an amount based on the lifetime expected credit loss at each reporting period.

Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, other than derivative financial instruments.

Derivative financial instruments

The Company enters into derivative financial instruments to mitigate its exposure to foreign exchange fluctuations. Derivative financial instruments are classified as fair value through profit or loss.

Government assistance

Claims for assistance under various government grant programs are recorded as a reduction of the cost of the related expenses in the period in which the eligible expenditures are incurred. Where government grants are provided in the form of a forgivable loan, proceeds are recorded as a financial liability and not recognized as a reduction of the cost of the related expenses incurred until reasonable assurance of forgiveness has been obtained. When forgiveness is obtained subsequent to the year in which the related expenses were incurred, the amount forgiven is recognized in other income.

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 consolidated financial statements.

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Future Accounting Policy Changes

The following amendments to accounting standards, issued by the IASB, are effective for fiscal years beginning on or after January 1, 2023:

Standard	Description of change
Classification of Liabilities as Current or Non-current (Amendment to IAS 1)	This amendment clarifies the classification requirements for non-current liabilities.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12)	This amendment changes the deferred tax initial recognition exemption, which does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of deferred tax assets and liabilities in the same amount.
Disclosure of Accounting Policies (Amendment to IAS 1)	This amendment states that a complete set of financial statements shall disclose material, rather than significant, accounting policy information.
Definition of Accounting Estimates (Amendment to IAS 8)	This amendment introduces a new definition for accounting estimates.
Lease Liability in a Sale and Leaseback (Amendment to IFRS 16)	This amendment adds subsequent measurement requirements for sale and leaseback transactions.
Non-current Liabilities with Covenants (Amendments to IAS 1)	These amendments clarify the information disclosure requirements for loan arrangements that contain covenants and the classification requirements when a covenant is breached.

The Company intends to adopt the amendments on their respective effective dates and the revisions are not expected to have a material impact on the consolidated financial statements.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk management overview

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

(b) Classification of financial instruments

The Company categorizes the following financial instruments at amortized cost:

	December 31, 2022	December 31, 2021
Financial instruments at amortized cost:		
Trade and other receivables	42,304	43,499
Trade and other payables	68,578	29,430
Lease liabilities (includes current portion)	68,422	38,436
Long-term debt (includes current portion)	176,518	183,031

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

(c) Fair value of financial instruments

The fair values of accounts receivable and accounts payable approximate their carrying values due to the short-term maturity of those instruments. The fair value of the credit facilities approximates their carrying value as they bear interest at floating market rates consistent with market rates for similar debt.

The Company analyzes financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Level 1: Values based on unadjusted quoted prices in active markets for identical assets or liabilities, accessible at the measurement date.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

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Level 3: Values based on prices or valuation techniques that require inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is classified as Level 3 if one or more of its unobservable inputs may significantly affect the measurement of its fair value. Appropriate inputs are chosen so that they are consistent with market evidence or management judgment. Due to the unobservable nature of the inputs, there may be uncertainty about the value of Level 3 financial instruments.

December 31, 2022	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
Financial liabilities at amortized cost:				
Senior secured notes	\$ 153,603	\$ —	\$ 114,739	\$ —

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

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's trade and other accounts receivable are due from purchasers of proppants and logistics services and are subject to normal industry credit risk. Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is materially mitigated by the size and reputation of the companies to which they extend credit.

The Company's revenues are generally derived from a group of large and reputable oilfield exploration and production companies and oilfield services customers. Orders for proppants are subject to guidelines established by the Company's credit and collection programs. In addition to the ongoing review and monitoring of aging trade receivables, in 2022 the Company obtained trade credit insurance to further mitigate credit risk. The Company's five largest customers account for 65% of the revenue for the year ended December 31, 2022, with the three largest making up 49% of revenue (year ended December 31, 2021, five customers accounted for 80%, three customers accounted for 66%). Three of those customers (two for the year ended December 31, 2021) account for 10% or more of total revenue individually in the year ended December 31, 2022. At December 31, 2022, approximately 94% of trade accounts receivable were insured.

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

As at	December 31, 2022	December 31, 2021
Not yet due	\$ 39,697	\$ 41,853
0 – 30 days	2,590	1,616
31 – 60 days	15	30
61 – 90 days	—	—
91+ days	2	—
Total trade and other receivables	\$ 42,304	\$ 43,499

The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on the lifetime expected credit loss provision. The Company uses an allowance matrix to estimate the credit losses of trade receivables which considers historical default rates as well as the days past due.

A loss allowance of \$71 was recorded as at December 31, 2022:

As at	December 31, 2022	December 31, 2021
Balance, beginning of year	73	\$ 272
Increase (decrease) in loss allowance	(2)	10
Specific provision for receivables deemed uncollectible	—	(209)
Balance, end of year	\$ 71	\$ 73

The Company's maximum exposure to credit risk is the carrying amount of trade and other receivables, cash and cash equivalents and derivative assets, if applicable. The Company is also exposed to counterparty credit risk with respect to cash and cash

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equivalents as well as foreign exchange forward contracts. These financial instruments are held with major financial institutions and management believes the investment grade credit ratings of these institutions minimizes this risk.

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk includes preparing operating and capital budgets and forecasts and monitoring performance against the budgets and forecasts. The Company may seek additional financing based on the results of these processes. The Company's ongoing liquidity is impacted by various external events and conditions, including foreign currency fluctuations and commodity price fluctuations as well as global economic conditions.

The financial liabilities on the consolidated statements of financial position consist of accounts payable and accrued liabilities, lease liabilities, a credit facility and senior secured notes. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future debt and equity financings. The Company has a credit facility to facilitate the management of liquidity risk.

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

As at December 31, 2022	Total	2023	2024	2025	2026	2027	2028 and beyond
Accounts payable and accruals	\$ 68,425	\$ 68,425	\$ —	\$ —	\$ —	\$ —	\$ —
Lease liabilities ⁽¹⁾	\$ 87,147	\$ 20,875	\$ 15,006	\$ 9,954	\$ 6,269	\$ 4,597	\$ 30,446
Credit facility ⁽²⁾	\$ 26,583	\$ —	\$ 26,583	\$ —	\$ —	\$ —	\$ —
Notes payable ⁽³⁾	\$ 205,461	\$ 17,335	\$ 17,341	\$ 170,785	\$ —	\$ —	\$ —

Notes:

(1) Includes interest for future periods.

(2) The timing and amount of interest payments on such balances will fluctuate depending on balances outstanding and applicable interest rates.

(3) Includes interest for future periods and assumes the Company will pay interest in cash at 10.5% through maturity.

(f) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Company's net earnings or the value of financial instruments and are largely outside the control of the Company. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits while maximizing returns. Primary market risks are as follows:

Foreign currency risk

The Company is exposed to currency price risk on sales denominated in United States ("US") dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing of inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at December 31, 2022 are \$11,861 (December 31, 2021 - \$14,696) and \$26,749 (December 31, 2021 - \$11,065) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net loss by \$2,292 for the year ended December 31, 2022 (\$1,507 in 2021).

In order to manage exposure to fluctuations in the Canadian to US dollar exchange rate, the Company monitors its net US dollar exposure on a regular basis. 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 purchase of various instruments. As a result of ongoing currency exposure management, and in advance of the completion of the new credit facility (refer to Note 10 for additional information), the Company wound up and settled existing forward contracts during the year ended December 31, 2022 which resulted in a realized foreign exchange gain of \$9,703.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact borrowings under its floating rate asset backed loan facility. The Company is exposed to interest rate price risk on long-term debt that bears interest at floating rates. The net effect of each 1% change in market interest rates would impact the related interest expense (income) for the Company's floating rate borrowings by \$266 at December 31, 2022 (\$364 at December 31, 2021). The Company had no derivative contracts in place as at or during the years ended December 31, 2022 and 2021 with respect to managing interest rate risk.

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(g) Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain shareholder and creditor confidence and to provide a platform to create value for its common shareholders. The Company's management is responsible for managing the Company's capital and does so through regular reviews of financial information including budgets and forecasts. The Company's directors are responsible for overseeing this process. The Company considers its capital structure to include equity, senior secured notes, credit facilities and leases.

The Company monitors capital based on its current working capital, available credit line, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company's management and approved by the Company's Board.

In order to maintain or adjust the capital structure, the Company may issue share capital, seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt or equity financing is impacted by external conditions, including global economic conditions. The Company continually monitors economic and general business conditions.

The Company's share capital is not subject to external restrictions; however, the amount of the operating facility available for use is determined by levels of accounts receivable and inventory. Pursuant to the credit agreement, the Company is subject to externally imposed capital requirements for the ABL facility. Refer to Note 10(b) for additional information.

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

5. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2022	2021
Accounts receivable	\$ 1,622	\$ (9,076)
Prepaid expenses	(2,897)	(1,320)
Inventories	(13,474)	(6,238)
Accounts payable and accruals	38,309	(5,056)
Changes in non-cash working capital	\$ 23,560	\$ (21,690)

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

	2022	2021
Accounts payable and accruals	\$ (242)	\$ 442
Changes in non-cash working capital	\$ (242)	\$ 442

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Changes in long-term debt for the years ended December 31, 2022 and 2021 were as follows:

	Senior secured notes	ABL facility and senior secured term loan
As at December 31, 2020	\$ 125,493	\$ 22,166
<i>Cash changes:</i>		
Proceeds	—	103,279
Repayments	—	(90,169)
<i>Non-cash and other changes:</i>		
Interest ⁽¹⁾	18,680	—
Accretion	3,221	631
Unrealized foreign exchange (gain) loss	—	(440)
Financing costs incurred	(44)	(188)
As at December 31, 2021	\$ 147,350	\$ 35,279
<i>Cash changes:</i>		
Proceeds	—	178,636
Repayments	—	(189,559)
<i>Non-cash and other changes:</i>		
Extinguishment of debt ⁽¹⁾	—	862
Interest ⁽²⁾	2,442	—
Accretion	3,811	1,115
Consent fee ⁽³⁾	1,635	—
Unrealized foreign exchange (gain) loss	—	1,100
Financing costs incurred	(1,635)	(5,263)
As at December 31, 2022	\$ 153,603	\$ 22,170

Note:

- (1) On October 14, 2022 the Company entered into a new credit facility which resulted in a loss on extinguishment of debt related to the Prior ABL and Term loan (as defined below). Refer to Note 10 for additional information.
- (2) The Company paid interest in kind, at a rate of 12.5%, for all quarterly interest payments in 2021 and the February 15, 2022 payment. Refer to Note 10 for additional information.
- (3) Pursuant to the terms and conditions of the Supplemental Indenture (as defined below), a one percent consent fee was paid in kind to the noteholders upon closing of the new credit facility. Refer to Note 10 for additional information.

6. INVENTORIES

Inventory consists of three main classifications:

As at	December 31, 2022	December 31, 2021
Unprocessed sand and work in progress	\$ 38,971	\$ 32,613
Sand available for shipment	29,384	20,386
Spare parts and supplies	4,178	3,338
Total inventories	\$ 72,533	\$ 56,337

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is depreciation expense related to sand-producing properties of \$9,486 as at December 31, 2022 (December 31, 2021 - \$8,722). The total amount of inventory expensed through cost of sales during the year ended December 31, 2022 was \$274,397 (December 31, 2021 - \$207,272). No inventory write-downs or reversals of prior write-downs were recorded during the year ended December 31, 2022.

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7. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Cost						
Balance as at December 31, 2020	\$ 203,297	\$ 194,850	\$ 6,346	\$ 22,404	\$ 14,297	\$ 441,194
Additions	385	77	—	3,110	3,330	6,902
Disposals	(34)	(158)	—	—	—	(192)
Completed construction in progress	257	2,141	19	(2,417)	—	—
Exchange differences	(633)	(575)	(15)	(21)	(17)	(1,261)
Balance as at December 31, 2021	\$ 203,272	\$ 196,335	\$ 6,350	\$ 23,076	\$ 17,610	\$ 446,643
Additions ⁽¹⁾	(322)	73	21	8,868	5,806	14,446
Disposals	(769)	(1,859)	—	—	—	(2,628)
Completed construction in progress	553	5,275	—	(5,828)	—	—
Transfers	—	1,727	40	—	—	1,767
Exchange differences	10,101	9,393	235	319	1,376	21,424
Balance as at December 31, 2022	\$212,835	\$210,944	\$6,646	\$26,435	\$24,792	\$481,652

Note:

(1) Includes changes in estimates for the decommissioning provision due to an increase in risk-free rates (refer to Note 12 for additional information).

Accumulated depreciation						
Balance as at December 31, 2020	\$ (135,657)	\$ (144,398)	\$ (6,137)	\$ —	\$ (14,075)	\$ (300,267)
Depreciation	(5,416)	(7,063)	(101)	—	(2,819)	(15,399)
Disposals	30	150	—	—	—	180
Exchange differences	366	369	14	—	29	778
Balance as at December 31, 2021	\$ (140,677)	\$ (150,942)	\$ (6,224)	\$ —	\$ (16,865)	\$ (314,708)
Depreciation	(5,797)	(7,307)	(69)	—	(3,918)	(17,091)
Disposals	423	1,791	—	—	—	2,214
Transfers	—	(1,010)	(35)	—	—	(1,045)
Exchange differences	(7,090)	(7,264)	(233)	—	(1,276)	(15,863)
Balance as at December 31, 2022	\$ (153,141)	\$ (164,732)	\$ (6,561)	\$ —	\$ (22,059)	\$ (346,493)

Carrying amounts

December 31, 2021	\$ 62,595	\$ 45,393	\$ 126	\$ 23,076	\$ 745	\$ 131,935
December 31, 2022	\$ 59,694	\$ 46,212	\$ 85	\$ 26,435	\$ 2,733	\$ 135,159

Assets under construction represent facilities that are being built at year end and are not amortized until the asset is deemed to be ready for use. Once deemed ready for use, the assets under construction will be allocated to their corresponding capital asset group and commence depreciating. No indicators of impairment or impairment reversal were noted as at December 31, 2022.

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8. RIGHT-OF-USE ASSETS

	Land & Building	Equipment & Vehicles	Rail cars	Peace River Facility ⁽²⁾	Total
Cost					
Balance as at December 31, 2020	\$ 8,510	\$ 17,265	\$ 41,654	\$ —	\$ 67,429
Additions ⁽¹⁾	(164)	7,223	528	—	7,587
Expired leases	(1,721)	(717)	(263)	—	(2,701)
Exchange differences	(3)	(58)	(177)	—	(238)
Balance as at December 31, 2021	\$ 6,622	\$ 23,713	\$ 41,742	\$ —	\$ 72,077
Additions	3,302	7,296	7,863	26,865	45,326
Expired leases	—	(2,243)	(363)	—	(2,606)
Transfers	—	(1,767)	—	—	(1,767)
Exchange differences	53	1,469	2,876	—	4,398
Balance as at December 31, 2022	\$ 9,977	\$ 28,468	\$ 52,118	\$ 26,865	\$ 117,428

Notes:

- (1) On November 15, 2021, the Company entered into a sublease agreement with a third party to lease the Company's previous head office location. As a result, the net book value of the original right-of-use asset was derecognized and a lease receivable was recorded.
- (2) On April 12, 2022, the Company entered into a transaction with Canadian Silica Industries to assume operation of its Peace River mine through a mining services agreement and a lease agreement for its frac sand processing facilities. As a result of the transaction, the Company recognized a right-of-use asset of \$26,865 and a corresponding lease obligation related to the sand processing facilities.

Accumulated depreciation					
Balance as at December 31, 2020	\$ (3,440)	\$ (8,761)	\$ (21,441)	\$ —	\$ (33,642)
Depreciation	(2,159)	(5,593)	(6,596)	—	(14,348)
Expired leases	1,721	717	263	—	2,701
Exchange differences	—	(3)	29	—	26
Balance as at December 31, 2021	(3,878)	(13,640)	(27,745)	\$ —	(45,263)
Depreciation	(1,761)	(5,133)	(6,334)	(1,281)	(14,509)
Expired leases	—	2,243	363	—	2,606
Transfers	—	1,045	—	—	1,045
Exchange differences	(26)	(896)	(2,085)	—	(3,007)
Balance as at December 31, 2022	\$ (5,665)	\$ (16,381)	\$ (35,801)	\$ (1,281)	\$ (59,128)

Carrying amounts

December 31, 2021	\$ 2,744	\$ 10,073	\$ 13,997	\$ —	\$ 26,814
December 31, 2022	\$ 4,312	\$ 12,087	\$ 16,317	\$ 25,584	\$ 58,300

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9. INCOME TAXES

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

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

	2022	2021
Income (loss) before income taxes	\$ (8,770)	\$ (24,403)
Statutory income tax rate	23.00 %	23.00 %
Expected income taxes	(2,017)	(5,613)
<i>Increase (decrease) in taxes from:</i>		
Non-taxable income	—	(719)
Non-deductible expenses	598	443
Share-based compensation	29	40
Unrealized foreign exchange and derivatives	282	(112)
Prior period adjustments	7,549	(2,443)
Unrecognized deferred tax assets	(5,571)	10,982
Rate differential on foreign activities	(707)	(2,487)
Other	(163)	(91)
Total income tax expense	\$ —	\$ —

Significant components of deferred income tax include:

As at	December 31, 2022	December 31, 2021
Difference between tax and reported amounts for depreciable assets	\$ 19,501	\$ 20,119
Finance fees	1,109	1,433
Foreign exchange on loans	17,279	13,590
Tax loss carryforwards recognized	32,579	35,366
Decommissioning provision	1,907	2,163
Mine development costs	732	688
Unrecognized deferred tax assets	(74,883)	(74,652)
Other	1,776	1,293
Deferred income tax asset	\$ —	\$ —

The Company has Canadian and foreign non-capital losses as at December 31, 2022 of \$124,238 (December 31, 2021 - \$117,903) and \$11,668 (December 31, 2021 - \$30,136), respectively. Canadian and foreign losses begin to expire in 2037.

10. LONG-TERM DEBT

As at	December 31, 2022	December 31, 2021
Senior secured notes, due March 15, 2025, bearing interest at 10.5% per annum (a)	\$ 153,603	\$ 147,350
ABL facility maturing September 2024. Interest is based on floating rates dependent upon the form of advance drawn (b)	26,583	—
Prior ABL facility (c)	—	18,406
Senior secured term loan (d)	—	18,000
Unamortized debt issuance costs for the ABL facility (b)	(4,413)	(1,127)
Other long-term debt ⁽¹⁾	745	402
Total long-term debt	\$ 176,518	\$ 183,031
Less: current portion	—	(7,500)
Long-term portion	\$ 176,518	\$ 175,531

Note:

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

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(a) Senior secured notes

On December 30, 2020, Source issued \$142,238 in aggregate principal of senior secured notes (the "Notes"), which bear interest at 10.5% and mature March 15, 2025. The Company deferred payment of interest owed in cash and paid interest in kind, at a rate of 12.5%, for all quarterly interest payments due on or before February 15, 2022, through the issuance of additional notes. For the year ended December 31, 2022, the Company paid interest in kind resulting in \$4,993 of additional Notes issued. Further, the Company incurred a consent fee of \$1,653 as a result of the new credit facility, which was paid in kind, as discussed below. The Notes are secured by a fixed and floating charge over all assets of the business and 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 plus accrued and unpaid interest. The Notes also contain a mandatory redemption feature for each fiscal year whereby Source shall redeem the portion of outstanding principal and accrued interest for the Notes that equals 50% of excess cash flows greater than \$10,000 in the applicable fiscal year. Excess cash flows are defined as cash flows provided by operating activities, less maintenance capital expenditures, amounts paid for lease obligations, taxes and amounts of interest or principal prepayments on the credit facilities or Notes incurred in the applicable fiscal year. No mandatory redemptions were required for the years ended December 31, 2022 and 2021.

Interest expense on the Notes was \$17,526 for the year ended December 31, 2022 (2021 - \$18,680).

(b) ABL facility

On October 14, 2022, the Company closed a new revolving asset backed senior credit facility (the "ABL") with a syndicate comprised of FGI Worldwide LLC ("FGI") and CIT Northbridge Credit, as advised by CIT Asset Management LLC ("CIT"), providing access to funding of approximately \$75,000 (US\$55,000). The Company also entered into a supplemental indenture that governs the Notes (the "Supplemental Indenture") which permitted Source to execute the new ABL credit facility in exchange for a one percent consent fee to the noteholders which was paid in kind on closing.

The 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 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 ABL subject to a borrowing base formula applied to accounts receivable and inventory.

Key financial covenants of the 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 commencing 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, commencing 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.

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. At December 31, 2022, Source was in compliance with all of its covenants.

Upon closing of the ABL facility, Source repaid all outstanding draws on the Prior ABL and Term Loan (as defined below). The execution of the ABL resulted in an extinguishment of the Prior ABL facility and Term Loan and the Company recognized a loss on extinguishment of debt of \$862 for the year ended December 31, 2022.

Any excess cash on hand is applied against amounts drawn on the ABL facility and at December 31, 2022, \$26,583 was drawn (less unamortized finance costs of \$4,413 for a net balance of \$22,171) (December 31, 2021 - \$nil). There was \$8,412 of availability on the facility at December 31, 2022.

Interest on the ABL facility amounted to \$737 for the year ended December 31, 2022 (2021 - \$nil).

(c) Prior ABL facility

The Company had an ABL facility (the "Prior ABL") that would have matured on September 30, 2023, and bore interest based on the bank's prime lending rate and CDOR or LIBOR rates, plus an applicable margin. The Prior 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 noted above, on October 14, 2022 the Prior ABL was

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extinguished, resulting in no amounts drawn on the facility at December 31, 2022 (December 31, 2021 - \$18,406). At December 31, 2021 there was \$12,496 of availability on the facility.

Interest on the above facility amounted to \$3,638 for the year ended December 31, 2022 (2021 - \$2,580).

The Prior ABL facility included a US\$8,500 standby letter of credit facility which was not extinguished under the terms of the ABL facility. The Prior ABL also included an amount committed to supporting letters of credit under the facility which were transferred to deposits upon closing of the ABL facility and resulted in \$10,893 classified as non-current assets on the consolidated statements of financial position at December 31, 2022. The amounts on deposit are required to secure letters of credit issued in respect of reclamation obligations related to mining operations in Wisconsin. Of the total amount held on deposit, \$7,632 is restricted cash at December 31, 2022. The amount committed to supporting letters of credit under the Prior ABL facility at December 31, 2021 was \$9,963.

(d) Senior secured term loan

Source had an additional credit facility in the form of a senior secured term loan (the "Term Loan") that would have matured on September 30, 2023. The Term Loan bore interest at Canadian prime plus 6% and was secured by a fixed and floating first charge over all assets of the business. Pursuant to the terms of the facility, a \$7,500 repayment was completed in March 2022 and upon closing of the ABL facility, as noted above, the outstanding balance of \$10,500 was repaid and the facility was extinguished.

Interest on the Term Loan was \$961 for the year ended December 31, 2022 (2021 - \$1,557).

The effective interest rate realized on long-term debt for the year ended December 31, 2022 was 11.9% (2021 - 12.7%).

11. LEASE LIABILITIES

As at	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 38,436	\$ 42,329
Lease additions ⁽¹⁾	38,500	6,038
Lease modifications	5,229	3,514
Lease payments	(15,751)	(13,224)
Exchange differences	2,008	(221)
Balance, end of year	\$ 68,422	\$ 38,436
Less: current portion	(17,700)	(12,358)
Long-term portion	\$ 50,722	\$ 26,078

Note:

(1) On April 12, 2022, the Company entered into a transaction with Canadian Silica Industries to assume operation of its Peace River mine through a mining services agreement and a lease agreement for its frac sand processing facilities. As a result of the transaction, the Company recognized a right-of-use asset and a corresponding lease obligation of \$25,497 related to the sand processing facilities.

The Company enters into lease arrangements related to rail cars, equipment and vehicles, office buildings and surface leases. Lease liabilities are measured at the present value of the remaining lease payments at the incremental borrowing rate of 8%. Leases with a lease term of twelve months or less for certain classes of assets and low-value assets of \$441 were expensed to cost of sales or operating expense in the year ended December 31, 2022 (2021 - \$177). The Company recognized \$4,267 of interest on lease liabilities for the year ended December 31, 2022 (2021 - \$2,792).

12. DECOMMISSIONING PROVISION

As at	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 8,608	\$ 9,969
Liabilities incurred	404	678
Liabilities settled	(1,251)	(1,818)
Accretion	246	141
Changes in estimates	(782)	(318)
Exchange differences	497	(44)
Balance, end of year	\$ 7,722	\$ 8,608
Less: current portion	(1,175)	(1,020)
Long-term portion	\$ 6,547	\$ 7,588

The Company's decommissioning provision relates to reclamation of land and facilities where its mines operate. Management estimates the costs to abandon and reclaim its properties based on current reclamation technology, acres disturbed and the

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estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provision has been discounted using risk-free rates of 3.31% for expenditures planned within the next ten years and 3.29% for longer-term expenditures at December 31, 2022 (December 31, 2021 - 1.47% and 1.75%, respectively). The economic lives of the underlying assets are currently estimated to be between 8 and 38 years.

13. SHAREHOLDERS' EQUITY

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

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

14. SHARE-BASED COMPENSATION

(a) Option plan

The Company's option plan allows for the granting of options to purchase common shares to a maximum number equal to 10% of the issued and outstanding common shares of the Company. Options vest over three years and expire after five years. As at December 31, 2022 and 2021, no options were outstanding.

(b) Other share-based compensation plans

The Company has share-based compensation plans that allow for DSUs, RSUs and PSUs to be granted to directors and certain employees. The RSUs vest 1/3 on the anniversary date of the grant over a three-year period. Subject to achievement of performance criteria set out by the Board, the PSUs awarded vest 1/3 on the anniversary date of the grant over a three-year period. The RSUs and PSUs may be settled in cash or shares and accordingly are considered a liability-settled award for accounting purposes as they are expected to be settled for cash payment. At December 31, 2022, a liability of \$859 has been recorded for these units, of which \$580 has been classified as current (December 31, 2021 - \$457 and \$297, respectively).

The DSUs vest and are expensed over the earlier of five years or when a director or other participant ceases in their role and are payable only when a director or participant leaves the Company. The DSUs are expected to be settled for cash payment and accordingly are considered a liability-settled award for accounting purposes. At December 31, 2022, a liability of \$270 has been recorded for these units, of which \$91 has been classified as current (December 31, 2021 - \$143 and \$60, respectively).

The fair value of the RSUs, PSUs and DSUs was determined using the Company's share price at period end and a forfeiture rate of 5%. The following table provides a summary of the status of the Company's liability-settled compensation plans and changes during the years ended December 31, 2022 and 2021:

(number of units)	RSU	PSU	DSU
Balance as at December 31, 2020	136,856	73,614	84,489
Granted	174,666	392,500	110,231
Exercised	(57,700)	(3,449)	(28,986)
Forfeited	(5,795)	(87,088)	—
Balance as at December 31, 2021	248,027	375,577	165,734
Granted	117,500	286,500	79,000
Exercised	(133,747)	(111,007)	—
Forfeited	(1,056)	(254)	—
Balance as at December 31, 2022	230,724	550,816	244,734
Vested as at December 31, 2022	—	75,056	23,779

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(c) Share appreciation rights

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

	December 31, 2022		December 31, 2021
	2022 Grant	2021 Grant	
Forfeiture rate (%)	9 %	9 %	7 %
Volatility (%)	122 %	122 %	127 %
Risk free interest rate (%)	3.75 %	3.75 %	0.25 %
Dividend yield (%)	— %	— %	— %
Option life (years)	2.34	1.21	2.21
Exercise price	\$ 1.84	\$ 1.54	\$ 1.54
Share price ⁽¹⁾	\$ 2.03	\$ 1.83	\$ 1.66

Note:

(1) The share price for the 2022 grant is based on the year-to-date volume weighted average share price ("VWAP"). For the 2021 grant, the share price is based on the VWAP for the twenty days preceding the measurement date.

As at December 31, 2022, a liability of \$242 has been recorded for the number of SARs outstanding:

	SARs Outstanding	Average Exercise Price	Weighted Exercise Price
Balance as at December 31, 2020	—	\$	—
Granted	252,500	\$	1.54
Forfeited	(28,500)	\$	1.54
Balance as at December 31, 2021	224,000	\$	1.54
Granted	184,500	\$	1.84
Forfeited	(43,500)	\$	1.67
Balance as at December 31, 2022	365,000	\$	1.68
Vested as at December 31, 2022	66,333	\$	1.54
Weighted average remaining contractual life (years)			1.73

Total share-based compensation expense for all share-based payment plans was \$947 for the year ended December 31, 2022 (2021 - \$643).

15. LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2022 was based on the losses available to holders of common shares of \$(8,770) (2021 - \$(24,403)), and a weighted average number of common shares outstanding for the year ended December 31, 2022 and 2021 of 13,545,055. Diluted loss per share is calculated by adjusting the loss and number of shares for the effects of potential dilution, which are comprised of restricted and performance share units granted to employees. In a loss position, these shares are anti-dilutive and excluded from diluted loss per share. At December 31, 2022, Source had 781,577 shares outstanding that could have a potentially dilutive effect in a future period (December 31, 2021 - 722,395).

	2022	2021
Weighted average common shares outstanding, end of year	13,545,055	13,545,055
Loss per share		
Basic and diluted	(0.65)	(1.80)

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16. REVENUE

The following table presents the Company's sales, disaggregated by revenue source for the year ended December 31, 2022:

	2022		2021
Revenue from contracts with customers:			
Sand revenue	\$ 341,671	\$	258,545
Wellsite solutions	69,790		56,121
Terminal services	3,735		2,752
Total revenue from contracts with customers	\$ 415,196	\$	317,418
Storage facilities ⁽¹⁾	716		2,443
Total revenue	\$ 415,912	\$	319,861

Note:

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

Contract Liabilities

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

As at	December 31, 2022		December 31, 2021
Balance, beginning of year	\$ 94	\$	776
Cash proceeds	11,301		119
Satisfaction of performance obligations	(11,242)		(867)
Non-cash interest income	—		(35)
Exchange differences	—		101
Balance, end of year	\$ 153	\$	94
Less: current portion	(153)		(94)
Long-term portion	\$ —	\$	—

Revenue estimated to be recognized based on minimum volume commitments in a long-term terminal services contract as at December 31, 2022:

2023	\$	300
2024		300
Total	\$	600

17. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the consolidated statements of operations and comprehensive loss using the function of expense method whereby expenses are classified according to their function within the Company. This method was selected as it is more closely aligned with the Company's business structure. The Company's functions under IFRS are as follows:

- Cost of sales;
- Operating; and
- General & administrative.

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Cost of sales includes direct operating costs (including product costs, direct labour and overhead costs) and depreciation on assets relating to operations. Additional information on the nature of expenses is as follows:

	2022				2021 ⁽¹⁾			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	\$274,397	\$ —	\$ —	\$274,397	\$207,272	\$ —	\$ —	\$207,272
Salary costs	14,038	8,969	6,993	30,000	10,627	8,420	6,533	25,580
Equipment costs	2,733	2,746	1	5,480	2,327	1,435	1	3,763
Transportation costs	44,904	—	—	44,904	38,743	—	—	38,743
Facility costs	868	1,591	65	2,524	460	1,379	33	1,872
Selling costs	—	6,769	3	6,772	—	5,280	(151)	5,129
Administration costs	—	—	2,972	2,972	—	—	2,867	2,867
Total	\$336,940	\$ 20,075	\$ 10,034	\$367,049	\$259,429	\$ 16,514	\$ 9,283	\$285,226

Note:

(1) Included in 2021 cost of sales, operating and general & administrative salary costs are wage subsidies received as part of the Canada Emergency Wage Subsidy program of \$1,438.

18. COMMITMENTS AND CONTINGENCIES

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

2023	\$	1,539
2024	\$	21
2025	\$	16
2026	\$	12
Total	\$	1,588

Additionally, under the terms of the Peace River facility lease (as described in Note 8), the Company is exposed to potential future cash outflows for variable lease payments which commence when production exceeds 150,000 metric tonnes per year. In 2022, no variable lease payments were incurred under the terms of the lease agreement.

In the ordinary course of conducting business, the Company occasionally becomes involved in legal proceedings relating to contracts, environmental issues or other matters. While the amount of any proceeding or litigation is inherently uncertain, management of the Company believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Company, except as noted below:

The Company is currently pursuing claims against certain organizations in respect of damages related to the structural failure of assets at its Fox Creek terminal facility (refer to Note 20 for additional information). The Company intends to pursue this matter for which the damages, if awarded to the Company in their entirety, could be a material amount. However, litigation is inherently uncertain and a favourable outcome cannot be assured.

19. FINANCE EXPENSE

	2022	2021
Interest	\$ 27,102	\$ 25,677
Accretion	5,172	3,993
Other	873	650
Total	\$ 33,147	\$ 30,320

20. OTHER INCOME

During 2022, the Company received net proceeds of \$2,469 from the Employee Retention Credit program under the Coronavirus Aid, Relief and Economic Security Act, administered by the US Small Business Administration. This benefit was partly offset by the reversal of a provision previously recorded in respect of a sales and use tax recovery related to the Company's Wisconsin processing facilities.

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21. OTHER EXPENSE

In May 2019, an incident occurred during the construction of assets to provide additional storage capacity at the Company's Fox Creek terminal facility which resulted in the dismantlement of all related assets. In relation to the legal proceedings discussed in Note 18, the Company incurred costs of \$1,060, recorded as other expense for the year ended December 31, 2022 (2021 - \$203).

Additionally, a one-time retirement payment of \$2,347 is included in other expense for the year ended December 31, 2022 (2021 - \$nil).

22. SEGMENT AND GEOGRAPHICAL INFORMATION

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

Sales for the year ended December 31,	Canadian Operations	US Operations	Corporate ⁽¹⁾	Total
2022	\$ 401,389	\$ 14,523	\$ —	\$ 415,912
2021	\$ 318,512	\$ 1,349	\$ —	\$ 319,861

Total Assets	Canadian Operations	US Operations	Corporate ⁽¹⁾	Total
December 31, 2022	\$ 145,799	\$ 164,726	\$ 16,372	\$ 326,897
December 31, 2021	\$ 106,519	\$ 151,959	\$ 7,553	\$ 266,031

Note:

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

23. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation is comprised of:

	2022	2021
Short-term employment benefits	2,086	2,723
Share-based payments	95	120
Post-employment benefits	38	16
Total	2,219	2,859

Aside from compensation to key management personnel, there were no related party transactions during the years ended December 31, 2022 and 2021.