SOURCE ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2023

www.sourceenergyservices.com

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated May 4, 2023, reflects the operating and financial results of Source Energy Services Ltd. and its subsidiaries, collectively ("Source" or the "Company"), as at and for the three months ended March 31, 2023, compared with the corresponding periods in the prior year. The MD&A is provided to assist readers in understanding the Company's financial performance and position during the periods presented and significant trends that may impact the future performance of Source.

This discussion should be read in conjunction with Source's audited consolidated financial statements for the three months ended March 31, 2023 and 2022 together with the accompanying notes (the "Financial Statements"). The Financial Statements and other information relating to Source, including the Annual Information Form ("AIF") for the year ended December 31, 2022, are available under the Company's SEDAR profile at www.sedar.com. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise stated, all amounts are expressed in Canadian dollars.

Certain financial measures referred to in this MD&A are not prescribed by IFRS and might not be comparable to similar financial measures disclosed by other issuers. "Adjusted EBITDA" is, among other things, used by management as a representation of earnings generated to fund capital investments and meet financial obligations, and "Adjusted Gross Margin" is used by management in measuring pricing and operating cost performance relative to other publicly listed competitors. "Free Cash Flow" is generally used to assess the ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. Refer to 'Non-IFRS Measures' for further information regarding the following non-IFRS measures used in this MD&A: "Adjusted EBITDA", "Adjusted Gross Margin" and "Free Cash Flow", as well as a reconciliation to IFRS measures of the Company.

This MD&A contains "forward-looking statements" or "forward-looking information" within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements") based on Source's current expectations and projections. For information on the material factors and assumptions underlying such forward-looking statements, refer to 'Forward-Looking Statements' included at the end of this MD&A.

About Source

Source is a company that focuses on the integrated production and distribution of frac sand, as well as the distribution of other bulk completion materials not produced by Source. Source provides its customers with an end-to-end solution for frac sand supported by its Wisconsin and Peace River mines and processing facilities, its Western Canadian terminal network, its "last mile" logistics capabilities and Sahara, a proprietary wellsite mobile sand storage and handling system.

Source's full-service approach allows customers to rely on its logistics platform to increase reliability of supply and to ensure the timely delivery of frac sand and other bulk completion materials at the wellsite.

Q1 2023 Performance Highlights

Source achieved the following results for the first quarter of 2023:

- realized record sand sales volumes of 907,483 MT, the highest quarterly sand sales volumes in Source's history, and a 25% increase from the first quarter of 2022;
- achieved total revenue of $163.7 million, a 69% increase from the first quarter of 2022, and the highest quarterly revenue generated since the inception of Source;
- recorded utilization of 94% for the Canadian Sahara fleet and 73% for the US Sahara fleet, and achieved a record for the highest trucked volumes in Source history;
- realized gross margin of $31.8 million and Adjusted Gross Margin(1) of $37.8 million, increases of 118% and 86%, respectively, when compared to the same period in 2022;
- reported net income of $7.9 million, a $14.5 million improvement from the $6.6 million net loss recognized in the first quarter of 2022; and
- realized Adjusted EBITDA(1) of $27.6 million, a 94% increase from the first quarter of 2022.

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

Results Overview

($000's, except MT and per unit amounts)	Three months ended March 31, 2023	2022
Sand volumes (MT)[1]	**907,483**	726,101
Sand revenue	**131,755**	80,661
Wellsite solutions	**30,627**	15,416
Terminal services	**1,342**	892
Sales	**163,724**	96,969
Cost of sales	**125,927**	76,603
Cost of sales – depreciation	**6,045**	5,793
Cost of sales	**131,972**	82,396
Gross margin	**31,752**	14,573
Operating expense	**5,884**	4,336
General & administrative expense	**4,229**	2,489
Depreciation	**3,091**	2,654
Income from operations	**18,548**	5,094
Other expense (income):		
Finance expense	**9,288**	7,903
Share-based compensation expense	**1,537**	759
Gain on asset disposal	**(451)**	—
Unrealized loss on derivative instruments	**—**	1,619
Other income	**(556)**	(163)
Other expense[2]	**226**	2,129
Loss on sublease	**3**	—
Foreign exchange loss (gain)[3]	**622**	(513)
Total other expense	**10,669**	11,734
Net income (loss)	**7,879**	(6,640)
Basic and diluted earnings (loss) per share ($/share)	**0.58**	(0.49)
Adjusted EBITDA[4]	**27,618**	14,217
Sand revenue sales/MT	**145.19**	111.09

	March 31, 2023	December 31, 2022
Total assets	**335,239**	326,897
Total non-current financial liabilities	**234,280**	233,787

Notes:
(1) One metric tonne ("MT") is approximately equal to 1.102 short tons.
(2) Includes expenses related to the incident at the Fox Creek terminal facility, and other one-time expenses, refer to 'Contractual Obligations' and 'Operating and Financial Results' below.
(3) The average Canadian to United States ("US") dollar exchange rate for the three months ended March 31, 2023, was $0.7394 (2022 - $0.7898).
(4) Adjusted EBITDA is not defined under IFRS, refer to 'Non-IFRS Measures' below.

First Quarter 2023 Performance

Source recorded total revenue of $163.7 million, an increase of $66.8 million or 69% compared to the first quarter of 2022, driven by strong sand sales volumes and higher average realized sand pricing. Strong Western Canadian Sedimentary Basin ("WCSB") completion activity levels throughout the first quarter of the year drove records in sand sales volumes, trucked sand volumes and utilization days for the Canadian Sahara fleet. Pricing improved for all lines of business, as renewed contract pricing became effective and spot pricing remained strong. The renewal of a major customer contract in the quarter positions the Company for strong pricing performance for the near term.

Cost of sales, excluding depreciation, increased during the first quarter of 2023, due to the 25% increase in sand sales volumes and higher costs for transportation, compared to the three months ended March 31, 2022. During the first quarter, Source incurred costs for third party sand purchases, procured to complement production from the Wisconsin facilities and to ensure no supply interruptions due to the significant increase in customer demand for certain mesh sizes. During the first quarter of 2022, no third party sand purchases were completed. These cost increases were partly mitigated by improved sales distribution across mesh sizes resulting in improved yields. Cost of sales was also impacted by a weakening Canadian dollar on US denominated costs relative to the first quarter last year.

Gross Margin	**Three months ended March 31,**	
($000's, except MT and per unit amounts)	**2023**	2022
Gross margin	**31,752**	14,573
Cost of sales – depreciation	**6,045**	5,793
Adjusted Gross Margin(1)	**37,797**	20,366
Gross margin/MT	**34.99**	20.07
Adjusted Gross Margin/MT(1)	**41.65**	28.05
Percentage of mine gate sand volumes	**11%**	7%
Percentage of core product sand volumes sold	**89%**	93%
Sales mix impact of mine gate sales/MT	**3.22**	0.49

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

For the three months ended March 31, 2023, gross margin increased by $17.2 million, attributed to higher sand sales volumes and improved pricing. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $44.87 per MT, compared to $28.54 per MT in the first quarter of 2022, favorably impacted by improved contract customer and spot market pricing, despite higher costs for transportation. Gross margin and Adjusted Gross Margin also benefited from the 51% increase in sand volumes trucked and strong Sahara fleet utilization for the first quarter, driving a 61% increase in Sahara-related revenue, compared to the same period last year.

Operating expenses increased on a quarter-over-quarter basis, largely attributed to the increased activity realized during the period, as higher sand shipments drove increased royalty costs, higher repairs and maintenance costs and higher variable incentive compensation cost. General and administrative expense also increased relative to the first quarter of 2022, primarily driven by higher people costs resulting from increased variable incentive compensation expense.

Adjusted EBITDA was $27.6 million for the first quarter, an increase of $13.4 million or 94% compared to the three months ended March 31, 2022, the result of record activity levels and strong sales pricing realized. The weakening of the Canadian dollar negatively impacted Adjusted EBITDA by $0.6 million for the first quarter; however, the renegotiation of certain customer contracts which are now denominated in US dollars will assist with mitigating the impact of fluctuations in foreign exchange rates for the balance of the year.

Liquidity and Capital Resources

Free Cash Flow	**Three months ended March 31,**	
($000's)	**2023**	2022
Adjusted EBITDA(1)	**27,618**	14,217
Financing expense paid	**(7,539)**	(2,347)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(2,146)**	(2,024)
Payment of lease obligations	**(5,047)**	(3,518)
Free Cash Flow(1)	**12,886**	6,327

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

Source generated Free Cash Flow of $12.9 million for the three months ended March 31, 2023, compared to $6.3 million generated for the first quarter of 2022. The increase is attributed to a $13.4 million improvement in Adjusted EBITDA, reflecting strong activity levels and increased prices compared to the first quarter last year. This was partially offset by higher financing expense paid, as $4.4 million of interest on the Notes (as defined below) was paid in cash during the quarter, compared to 2022 where interest incurred for the Notes during the first quarter was paid in kind. An increase in payments for lease obligations, including interest expense for these lease obligations, was attributed to lease payments for the Peace River facility which did not commence until April of 2022.

Capital expenditures	**Three months ended March 31,**	
($000's)	**2023**	2022
Terminal	**—**	62
Wellsite solutions	**57**	315
Production	**932**	72
Overburden removal	**1,594**	1,197
Other	**15**	379
Capital expenditures	**2,598**	2,025
Growth capital	**15**	530
Maintenance and sustaining capital	**2,583**	1,495
Capital expenditures	**2,598**	2,025
Proceeds on disposal of property, plant and equipment	***(451)***	—

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

Source's capital expenditures for the first quarter of 2023 were $2.6 million, an increase of $0.6 million compared to the same period last year. The increase in expenditures for maintenance and sustaining capital was primarily related to maintenance completed for the Peace River facility, and an increase in costs associated with overburden removal for mining operations of $0.4 million, driven by higher sand sales volumes. Growth capital expenditures were lower, on a quarter-over-quarter basis, due to the completion of assessments for the drilling program at the Peace River mine, and the completion of Source's ninth Sahara unit mid-last year. During the first quarter of 2023, Source sold excess equipment, generating proceeds of $0.5 million. Management continues to assess equipment and other assets required to service Source's operations to ensure optimal levels are maintained on an on-going basis.

Source funded its capital spend for the first quarter of 2023 and 2022 through amounts available under the Credit Facility (as defined below) as well as the ABL (as defined below) and cash flows from operations. Free Cash Flow generated will be used to lower debt balances outstanding, as well as to fund requirements of the operations of the business.

Finance expense	**Three months ended March 31,**	
($000's)	**2023**	2022
Interest on Notes	**4,274**	4,558
Interest on Credit Facility and ABL	**1,568**	1,431
Interest on leases	**1,274**	679
Other interest expense (income)	**14**	—
Accretion	**1,858**	1,070
Other finance expense	**300**	165
Total finance expense	**9,288**	7,903

Finance expense was $9.3 million for the first quarter of 2023. Compared to the same period last year, the $1.4 million increase was mainly due to higher accretion expense and interest for outstanding lease obligations, resulting from the addition of the Peace River facility in 2022. These increases were partly offset by lower interest expense on the Notes, with the interest payment paid in cash at a rate of 10.5% during the first quarter, compared to the first quarter last year where Source paid interest in kind at a rate of 12.5%.

Long-term debt		
($000's)	**March 31, 2023**	**December 31, 2022**
Senior secured notes	**154,750**	153,603
ABL facility	**25,394**	26,583
Other long-term debt, including unamortized ABL debt issue costs	**(3,073)**	(3,668)
Total long-term debt	**177,071**	176,518
Standby letter of credit facility	*US$13,500*	*US$8,500*

Long-term debt remains relatively unchanged from December 31, 2022, with the majority of the movement related to accretion for the Notes, partially offset by slightly lower draws on the ABL. During the three months ended March 31, 2023, the standby letter of credit facility was increased to US$13.5 million.

Business Outlook

Strong industry activity continued to favorably impact frac sand supply and demand fundamentals in the WCSB which are expected to remain strong through 2023. Previous well permitting issues in the northeastern British Columbia region, which caused customer delays through 2022, have now been resolved and customers are expected to bring increased activity to the region again as exploration and production ("E&P") companies catch up on their development plans. Source has renewed customer contracts with terms and conditions reflective of the current operating environment and continues to improve production efficiencies through an expansion of mesh sizes and ongoing operating cost management. Source believes these fundamentals, coupled with Source's leading service offerings and logistics capabilities required for larger volumes of sand per well, as well as Source's terminal network footprint, will continue to support strong gross margins for the remainder of 2023.

In the longer-term, Source believes the increased demand for natural gas, driven by power generation facilities, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB. Source continues to see increased demand from customers that are primarily focused on the development of natural gas properties in the Montney, Duvernay and Deep Basin. This trend is consistent with Source's view that natural gas will be an important transitional fuel that is critical for the successful movement to a less carbon intensive world.

Source continues to focus on increasing its involvement in the provision of logistics services for other items needed at the wellsite in response to customer requests to expand its service offerings and to further utilize its existing Western Canadian terminals to provide additional services.

ESG Update

Source is committed to operating in a sustainable manner and works closely with its stakeholders to go above and beyond current regulatory requirements through initiatives such as voluntary greenhouse gas emissions reduction programs, as well as Source's production water recycling program.

During the first quarter of 2023, Source developed its annual greenhouse gas emissions plans to continue to improve upon previous reductions. The emissions rates are released bi-annually, at which time the effectiveness of the plans is assessed. Source's water recycling program reduces the reliance on local well water and during the first quarter of 2023, over 107 million litres of water were recycled in the production process, representing 35% of total water usage. Water recycling opportunities are typically lower during the first quarter due to winter conditions, as is land reclamation due to snow coverage.

In the first quarter, Source continued its pursuit of safety excellence and released its annual health and safety objectives, outlining improvements in the management system and new initiatives. The focus and commitment to the health and safety of employees resulted in the lowest first quarter recordable injury frequency rate in the Company's history.

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

Source's third annual ESG report will be released later this year and will detail the Company's 2022 ESG performance. For more information, Source's most recent ESG report is available at www.sourceenergyservices.com.

Operations Overview

Sand revenue is predominately comprised of sand sales in the WCSB at a Source terminal or to a customer at the wellsite utilizing Source's integrated logistics business model. This is Source's core business.

Sand revenue may also include mine gate sand sales, which include the sale of products that are lower in demand and sold at either the mine sites in the US or to certain customer sites in the WCSB. Mine gate sand sales are undertaken to maximize production efficiencies but are not considered Source's core business and are typically sold at lower sales prices and may provide a comparatively lower margin per MT sold.

Wellsite solutions revenue is comprised of revenue from "last mile" logistics (i.e., from a Source terminal to the wellsite), and wellsite service offerings including Sahara units. Source believes its "last mile" services benefit customers by managing overall trucking activity, increasing reliability of supply at the wellsite and increasing operational efficiencies. Source also provides terminal services for certain well-completion products that are not produced by Source, primarily consisting of hydrochloric acid and chemicals. The magnitude of terminal services revenue realized by Source generally follows completion activity trends in the WCSB.

Principal costs involved in the production of frac sand include the costs of labour, utilities, transportation, maintenance and the depreciation of its manufacturing facilities and equipment. Source also incurs transportation and related costs to move sand to its terminal facilities and customer wellsites, primarily comprised of transportation and fuel surcharges, third party trucking costs and demurrage fees. These costs can vary significantly, impacted by the volume of sand produced and sold, as well as market and economic factors. Source also incurs material cash outlays relating to equipment and rail car lease obligations.

Source's business is seasonal in nature, with the majority of activity normally occurring in the first and third quarters of the year. As a result, Source's operating results may vary on a quarterly basis. Lower activity levels are usually realized in the fourth quarter, as E&P companies evaluate remaining capital spend for the year, and in the second quarter due to spring break-up. Spring break-up occurs for a period of approximately eight weeks between March and June as the frost comes out of the roads in Western Canada and hauling weight restrictions are put in place. The severity of the winter snowfalls and the amount of moisture received during this period impact the length of spring break-up. In addition, some exploration and production areas in Northern Canada are accessible only in the winter months when the ground is frozen. There are other factors that will impact the Company's activities from quarter-to-quarter including commodity prices and completion activity levels of E&P companies.

Consistent with general industry practice, Source mines and washes more sand than current delivery requirements during the warmer months when Source's processing facilities are more efficient. The excess sand is placed in stockpiles that feed drying operations throughout the year. Frac sand washing facilities in Wisconsin and at Peace River are generally not operated during the winter months; however, Source's sand washing facility at its Sumner facility is fully enclosed and heated, making it capable of operating year-round. Winter operations at the Sumner facility are an important aspect of Source's business, as the WCSB is seasonally busiest in the winter months. Source's wash plants at the Blair, Preston and Peace River facilities are not enclosed and therefore are generally not operated during the winter months, but the dry plants at all of Source's facilities are operated on a year-round basis.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2021			2022				2023
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sand volumes (MT)	*557,208*	*751,611*	*528,977*	*726,101*	*800,136*	*753,233*	*566,130*	*907,483*
Sand revenue	58,098	79,343	54,989	80,661	93,546	97,173	70,291	131,755
Wellsite solutions	14,033	17,554	11,913	15,416	16,456	21,748	16,170	30,627
Terminal services	605	789	648	892	1,584	985	990	1,342
Sales	72,736	97,686	67,550	96,969	111,586	119,906	87,451	163,724
Cost of sales	56,526	79,994	59,290	76,603	89,869	98,772	71,696	125,927
Cost of sales - depreciation	4,528	4,921	4,071	5,793	5,177	4,732	5,125	6,045
Cost of sales	61,054	84,915	63,361	82,396	95,046	103,504	76,821	131,972
Gross margin	11,682	12,771	4,189	14,573	16,540	16,402	10,630	31,752
Operating expense	4,048	4,606	4,142	4,336	4,801	4,564	6,374	5,884
General & administrative expense	2,390	2,299	1,990	2,489	2,698	2,205	2,642	4,229
Depreciation	2,326	2,336	2,426	2,654	2,707	2,833	2,361	3,091
Income (loss) from operations	2,918	3,530	(4,369)	5,094	6,334	6,800	(747)	18,548
Other expense (income):								
Finance expense	7,410	7,638	7,809	7,903	7,909	8,523	8,812	9,288
Share-based compensation expense (recovery)	(16)	(3)	476	759	(186)	(271)	645	1,537
Loss (gain) on asset disposal	(9)	(54)	—	—	(1,183)	2	(11)	(451)
Unrealized loss (gain) on derivative assets	(420)	—	173	1,619	(4,058)	4,157	—	—
Other income	(2,760)	(169)	(109)	(163)	(368)	(25)	(1,446)	(556)
Other expense(1)	—	51	108	2,129	262	147	869	226
Loss on sublease	—	—	1,159	—	—	—	—	3
Loss on debt extinguishment	—	—	—	—	—	—	862	—
Foreign exchange loss (gain)	(415)	(354)	581	(513)	(250)	(11,604)	1,731	622
Total other expense (income)	3,790	7,109	10,197	11,734	2,126	929	11,462	10,669
Net income (loss)	(872)	(3,579)	(14,566)	(6,640)	4,208	5,871	(12,209)	7,879
Net earnings (loss) per share ($/share)	(0.06)	(0.26)	(1.08)	(0.49)	0.31	0.43	(0.90)	0.58
Diluted net earnings (loss) per share ($/share)	(0.06)	(0.26)	(1.08)	(0.49)	0.31	0.38	(0.90)	0.58
Net income (loss)	(872)	(3,579)	(14,566)	(6,640)	4,208	5,871	(12,209)	7,879
Interest expense	6,265	6,456	6,594	6,669	6,618	7,003	6,812	7,129
Depreciation	2,326	2,336	2,426	2,654	2,707	2,833	2,361	3,091
Cost of sales - depreciation	4,528	4,921	4,071	5,793	5,177	4,732	5,125	6,045
Loss on debt extinguishment	—	—	—	—	—	—	862	—
Finance expense (excluding interest expense)	1,145	1,182	1,215	1,234	1,291	1,520	2,000	2,159
Share-based compensation expense (recovery)	(16)	(3)	476	759	(186)	(271)	645	1,537
Loss (gain) on asset disposal	(9)	(54)	—	—	(1,183)	2	(11)	(451)
Unrealized loss (gain) on derivative assets	(420)	—	173	1,619	(4,058)	4,157	—	—
Loss on sublease	—	—	1,159	—	—	—	—	3
Other expense(1)	—	51	108	2,129	262	147	869	226
Adjusted EBITDA(2)	12,947	11,310	1,656	14,217	14,836	25,994	6,454	27,618
Sand revenue sales/MT	104.27	105.56	103.95	111.09	116.91	129.01	124.16	145.19
Gross margin	11,682	12,771	4,189	14,573	16,540	16,402	10,630	31,752
Cost of sales - depreciation	4,528	4,921	4,071	5,793	5,177	4,732	5,125	6,045
Adjusted Gross Margin(2)	16,210	17,692	8,260	20,366	21,717	21,134	15,755	37,797
Gross margin/MT	20.97	16.99	7.92	20.07	20.67	21.78	18.78	34.99
Adjusted Gross Margin/MT(2)	29.09	23.54	15.62	28.05	27.14	28.06	27.83	41.65

Notes:

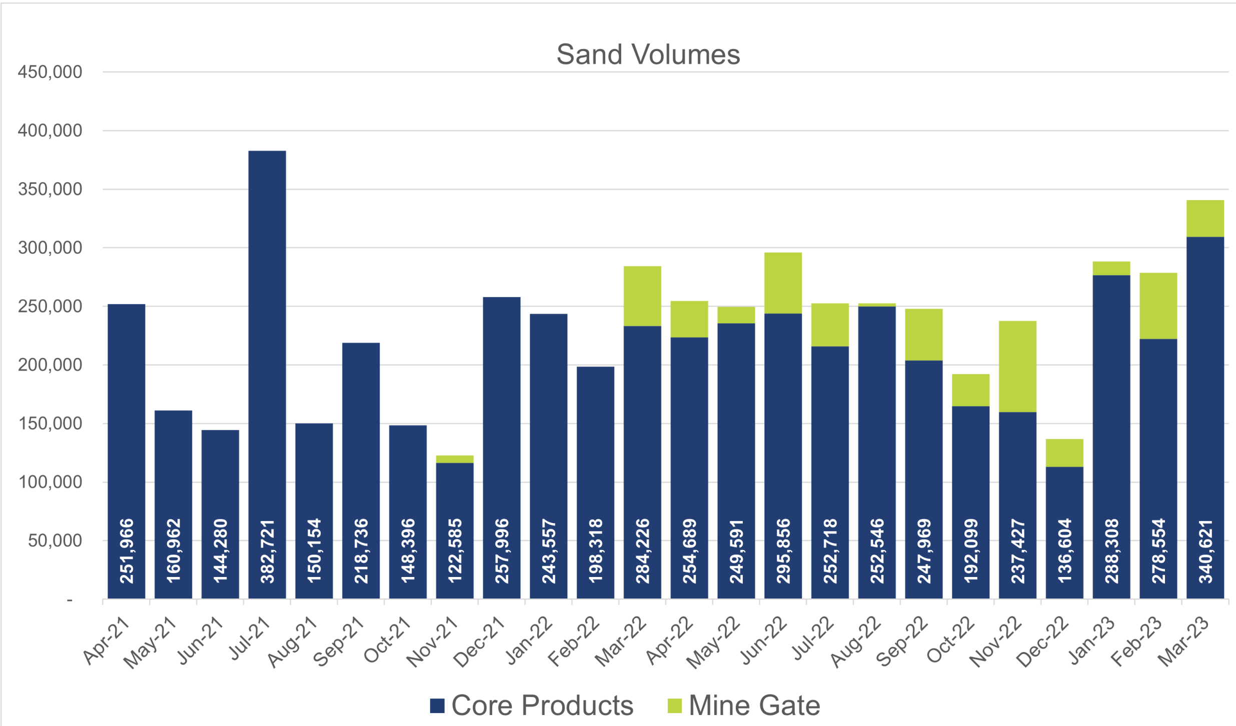
(1) Includes expenses related to the incident at the Fox Creek terminal facility (refer to 'Contractual Obligations' below) and one-time retirement payments in the first and second quarters of 2022.

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

Operating and Financial Results

Sand Revenue

For the three months ended March 31, 2023, Source realized sand revenue of $131.8 million, an increase of $51.1 million or 63% compared to the same period last year. The increase is due to 25% higher sand volumes, or 181,382 MT, and a 31% increase in average realized sand price, or $34.10 per MT. Excluding mine gate sales, average realized sand price increased by $37.12 per MT compared to the three months ended March 31, 2022. Revenue realized from mine gate sales lowered the average realized sand price by $8.01 per MT; however, all mine gate sales have a significantly favorable impact on cost of sales and gross margins, as noted below. Sand supply scarcity continues in the WCSB, and increased sand revenue for the quarter reflects high demand driven by strength in oil prices and pricing gains realized for both spot customers and contracted customers.



Wellsite Solutions Revenue

Wellsite solutions revenue was $30.6 million for the three months ended March 31, 2023, an increase of 99% or $15.2 million compared to the first quarter last year. The record setting volumes trucked during the quarter were 51% higher than volumes trucked during the first quarter of 2022, resulting in an increase in trucking revenue of 115%. Sahara-related revenue increased 61%, on a quarter-over-quarter basis, due to a 40% increase in days utilized across the nine-unit fleet. Sahara units operating in the US generated an increase in revenue of $1.3 million, or 255%, while the Canadian fleet generated an increase in revenue of $1.5 million, or 37%, compared to the first three months of 2022.

Terminal Services Revenue

For the three months ended March 31, 2023, terminal services revenue was $1.3 million, an increase of $0.5 million compared to the first quarter of 2022. The increase was primarily due to higher chemical elevation volumes as well as revenue generated from the transloading of other non-sand materials, including condensate rail cars. The recognition of transloading services for a sand sale executed in the fourth quarter of 2022 also contributed to the increase, compared to the first quarter of 2022.

Cost of Sales

	Three months ended March 31,	
($000's)	**2023**	2022
Direct materials	**99,257**	62,428
People costs	**4,097**	3,166
Equipment costs	**917**	707
Transportation costs	**21,503**	10,180
Facility costs	**153**	122
Cost of sales	**125,927**	76,603
Cost of sales - depreciation	**6,045**	5,793

Cost of sales, excluding depreciation, increased by $49.3 million for the three months ended March 31, 2023 compared to the same period in 2022. The increase was driven primarily by increased costs associated with higher sand sales volumes, third party sand purchases completed to complement sand production at the processing facilities in Wisconsin and terminal sales mix, compared to the first quarter last year. Transportation costs for rail and trucking remain significantly higher and impacted cost of sales relative to the first quarter of 2022. As noted above, the impact of lower-value mine gate sales favorably impacts cost of sales, driving improved production efficiencies and yields.

Significant components of cost of sales are denominated in US dollars, including sand processing and rail transportation, and are therefore subject to exchange rate fluctuations. During the period, a weakening of the Canadian dollar on US dollar denominated components of cost of sales contributed an increase of $6.75 per MT to cost of sales, compared to the first quarter last year.

Gross Margin

For the three months ended March 31, 2023, gross margin increased by $17.2 million, attributed to higher sand sales volumes and improved pricing in all areas, as noted above. Excluding gross margin from mine gate volumes, Adjusted Gross Margin was $44.87 per MT for the first quarter, compared to $28.54 per MT for the same period last year, favorably impacted by the growth in sand sales volumes and improved contract and spot market pricing, despite higher costs for transportation, compared to the first quarter of 2022. Gross margin and Adjusted Gross Margin also benefited from the 51% increase in sand volumes trucked during the quarter, which contributed to the $2.5 million increase in gross margin realized from wellsite solutions, compared to the same period last year.

During the three months ended March 31, 2023, the weakening of the Canadian dollar negatively impacted Adjusted Gross Margin by approximately $4.35 per MT.

Operating and General & Administrative Expense

	Three months ended March 31,			
	2023		2022	
($000's)	**OPEX**	**G&A**	OPEX	G&A
People	**2,466**	**3,252**	1,894	1,699
Equipment	**970**	**—**	619	—
Facility	**430**	**8**	405	14
Selling and administrative	**2,018**	**969**	1,418	776
Operating and General & Administrative Expense	**5,884**	**4,229**	4,336	2,489

For the three months ended March 31, 2023, total operating and general and administrative expense increased $3.3 million to $10.1 million. Operating expense increased by $1.5 million from the first quarter in 2022 due to additional selling costs incurred as a result of higher activity levels, including increased royalty costs for higher sand shipments from mines that require royalty payments. People costs were higher than the prior year's first quarter due to higher variable incentive compensation expense. Equipment costs increased due to repairs and maintenance costs incurred at the Peace River mining facility, compared to the three months ended March 31, 2022.

General and administrative expense increased $1.7 million in the first quarter in 2023 compared to same period in 2022, primarily due to higher people costs attributed to higher variable incentive compensation recognized. Higher selling and administrative costs resulted from increased professional and legal fees incurred during the three months ended March 31, 2023, compared to the same period last year.

Depreciation

Depreciation expense increased $0.4 million for the three months ended March 31, 2023, compared to the first quarter of 2022, primarily the result of a weakened Canadian dollar on US dollar denominated assets and the capitalization of the Peace River facility which occurred in the second quarter of 2022.

Share-based Compensation

Share-based compensation expense increased $0.8 million for the three months ended March 31, 2023 compared to the first three months of 2022. The change is attributed to the movement in Source's share price relative to the prior period in addition to new grants in the year compared to 2022 when new grants occurred in the second quarter. Share-based compensation expense is attributed to deferred share units ("DSUs"), restricted share units ("RSUs"), performance share units ("PSUs") and share appreciation rights ("SARs").

Other Income

Compared to the three months ended March 31, 2022, other income increased $0.4 million for the three months ended March 31, 2023, primarily due to revenue generated from certain freight forwarding services provided during the quarter.

Other Expense

For the three months ended March 31, 2023, other expense decreased by $1.9 million compared to the three months ended March 31, 2022. The decrease is primarily due to a one-time retirement payment made during the first quarter of 2022, partially offset by increased professional fees associated with the incident that occurred at the Fox Creek terminal facility in 2019.

Foreign Exchange Gain

Source was impacted by foreign exchange rate movement on the settlement of working capital items denominated in US dollars of $0.6 million for the three months ended March 31, 2023. For additional information, refer to 'Foreign Currency Risk' below.

Capital Resource Management

Source's capital management policy is to maintain a strong capital base that optimizes its ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its stakeholders. Source considers its capital structure to include Source's equity, the Notes and ABL and manages its capital structure through various means including monthly management meetings and quarterly Board meetings to review financial information. Source evaluates and monitors its capital based on its current working capital, available bank line, projected cash flows provided by operating activities and anticipated capital expenditures. Source's management prepares annual capital expenditure and operating budgets which are approved by the Board and are regularly reviewed and updated as necessary.

Source's ability to fund future operating expenses and capital expenditures, to make scheduled payments of interest on the Notes and the ABL and to satisfy any of Source's other present or future debt obligations will depend on Source's future operating performance which will be affected by general economic, financial and other factors.

Source's capital management policy has not changed during the three months ended March 31, 2023.

Long-term Debt

On October 14, 2022, the Company closed a new revolving asset backed senior credit facility (the "ABL") providing access to funding of US$55.0 million. Upon closing of the ABL, Source repaid all outstanding draws on the Credit Facility (as defined below).

Senior Secured Notes

On December 30, 2020, Source issued $142.2 million in aggregate principal amount of senior secured first lien notes (the "Notes"). The Notes bear interest at 10.5% and mature on March 15, 2025. The Notes contain prepayment options, whereby the Company may redeem all or a part of the Notes at any time, 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.

The Company deferred payment of interest owed in cash and paid interest in kind, at a rate of 12.5%, for all quarterly interest payments made through February 15, 2022, through the issuance of additional Notes. Pursuant to the closing of the ABL facility, the Company entered into a supplemental indenture that governs the Notes (the "Supplemental Indenture") which permitted Source to execute the ABL facility in exchange for a one percent consent fee of $1.6 million, which was paid in kind to noteholders on closing. 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 March 31, 2023, the aggregate principal amount of Notes outstanding was $165.1 million. The Notes are secured by a fixed and floating charge over all assets of the business, except for an amount up to a maximum of amounts committed under the senior secured term loan, as outlined below, plus accrued interest and fees. The Notes also have a second charge on accounts receivable and inventory.

Credit Facility and ABL

The ABL resulted in an extinguishment of the former ABL facility, standby letter of credit facility, and senior secured term loan (collectively, the "Credit Facility"). 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;
- maximum capital expenditures for each fiscal year equal to the lesser of $13.5 million or 35% of trailing twelve months of earnings before interest, tax, depreciation and amortization; and
- a minimum level of excess availability of $5.0 million.

As of March 31, 2023, $25.4 million (excluding unamortized transaction costs) was drawn, leaving $25.0 million of availability on the facility. As of March 31, 2023, Source was in compliance with all of its covenants.

Prior to the closing of the ABL facility, the Company had a prior ABL facility (the "Prior ABL") that included an US$8.5 million standby letter of credit facility which was not extinguished under the terms of the ABL facility. During the three months ended March 31, 2023, the standby letter of credit facility was increased to US$13.5 million. The Prior ABL also included letters of credit under the facility which were transferred to deposits upon closing of the ABL facility.

The Company also had an additional credit facility in the form of a senior secured term loan (the "Term Loan"). Upon closing of the ABL facility the outstanding balance of $10.5 million was repaid, and the facility was extinguished.

Cash and Net Working Capital

($000's)	**March 31, 2023**	**December 31, 2022**
Current assets	131,868	122,545
Current liabilities	(87,018)	(87,453)
Net working capital	44,850	35,092

Total current assets less total current liabilities (net working capital) as at March 31, 2023 was $44.9 million, compared to $35.1 million as at December 31, 2022. The increase in net working capital was mainly due to higher balances for accounts receivable, reflecting significantly increased activity levels during the quarter, partially offset by a reduction in inventory levels. At the end of December 2022, Source had higher levels of inventory on hand to accommodate anticipated first quarter sales volumes.

Source operates in a working capital and capital expenditure intensive industry where capital is required to fund working capital growth and maintenance capital expenditures for the Company. Source intends to fund future working capital and capital expenditures using cash flows from operating activities, amounts available under the ABL and additional debt or equity issuances as may be required. The availability of any additional future funding will depend on, among other things, operating performance and the current state of the equity and debt capital markets.

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on the cost of manufacturing and transporting inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable and are subject to fluctuations in the foreign exchange rate. Source monitors its net foreign currency exposure on a regular basis. Included in accounts receivable and accounts payable and accrued liabilities at March 31, 2023 are $18.4 million (December 31, 2022 - $11.9 million) and $24.2 million (December 31, 2022 - $26.7 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $0.6 million for the three months ended March 31, 2023 ($0.4 million for the three months ended March 31, 2022).

In order to manage exposure to fluctuations in the Canadian to US dollar exchange rate, the Company will rebalance US denominated revenues where possible as well as enter into foreign currency contracts between prescribed minimum and maximum amounts of net US dollar exposure, as determined by the Company's foreign currency risk management policy. Source has renegotiated certain of its customer contracts to be denominated in US dollars. Source continues to monitor its exposure to fluctuations in foreign exchange rates and will continue to use foreign currency contracts to mitigate foreign exchange risk as appropriate.

Contractual Obligations

Source has various commitments regarding lease agreements, various IT software subscriptions and physical natural gas contracts. The leases expire between April 2023 and April 2037, the IT software subscriptions expire between January 2023 and September 2026 and the natural gas contracts expire in October 2023 and October 2024. The financial liabilities on Source's interim consolidated statements of financial position consist of the Notes, ABL and leases. Source's planned cash outflows relating to lease commitments and financial liabilities are outlined in the table below:

($000's)	**Total**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028 and beyond**
Lease liabilities	81,895	15,579	15,667	9,563	5,984	4,658	30,444
Other commitments	2,980	1,600	1,352	16	12	—	—
ABL[(1)]	25,394	—	25,394	—	—	—	—
Notes	195,399	12,965	17,341	165,093	—	—	—

Note:
(1) Interest payments on such balances have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates.

Source is a party to contracts with numerous customers. Source's customers consist primarily of E&P companies and pressure pumping companies operating in the WCSB. Source has structured contracts with customers outlining fixed pricing, the terms of which vary from one to three years, which help mitigate the impact of any non-payment or non-performance. Source's customers are also serviced on a spot basis where volume thresholds are not set, and orders are serviced on an as-available basis at prevailing market prices.

In the ordinary course of conducting business, Source occasionally becomes involved in legal proceedings relating to contracts, environmental issues or other matters. While any proceeding or litigation has an element of uncertainty, management of Source believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or on the financial condition of Source, except as follows:

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

Outstanding Shares

The Company's share capital is not subject to external restrictions. As at March 31, 2023 and May 4, 2023, Source had issued and outstanding 13,545,055 common shares (March 31, 2022 - 13,545,055).

Off-Balance Sheet Arrangements

Source does not have any off-balance sheet arrangements at this time.

Transactions between Related Parties

During the three months ended March 31, 2023, there were no related party transactions.

Proposed Transactions

Source does not have any proposed transactions other than those occurring in the ordinary course of business.

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certificate for annual filings requires the Chief Executive Officer and the Chief Financial Officer to certify the design of Source's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at March 31, 2023. There were no material weaknesses in the design of the DC&P and the ICFR at March 31, 2023, and no changes in ICFR during the period beginning on January 1, 2023 and ended on March 31, 2023 that have materially affected or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. While the Company's certifying officers believe that the Company's DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Financial Instruments and Other Instruments

Risk Management Overview

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

For additional information regarding the risks that Source is exposed to, see the disclosure provided under the heading 'Risk Factors' in the AIF.

Fair Value of Financial Instruments

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the ABL approximates the carrying value as it bears interest at floating market rates consistent with market rates for similar debt. Based on the closing market price as of March 31, 2023, the fair value of the Notes was $125.5 million.

Critical Accounting Estimates

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity.

Allowance for doubtful accounts

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored. A provision for doubtful accounts is established based on the expected credit loss model under IFRS 9.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of average cost and net realizable value. Allowances are made against obsolete or damaged inventories and charged to cost of sales. The reversal of any write-down of inventory arising from an increase in net realizable value would be recognized as a reduction in cost of sales in the period in which the reversal occurred.

Depreciation

The amounts recorded for depreciation of property and equipment are based on estimates of the useful lives of the assets and residual values. The estimated residual value and useful lives of property and equipment are reviewed at the end of each reporting period and adjusted if required.

Decommissioning liabilities

The amounts recorded for decommissioning liabilities are based on the Company's mining activities and the estimated costs to abandon and reclaim the land and facilities, the estimated time period in which these costs will be incurred in the future and the discount and inflation rates. Any changes to these estimates could change the amount of decommissioning liability and may materially impact the interim condensed consolidated financial statements in future periods.

Income taxes

The amounts recorded for deferred income taxes are based on estimates regarding the timing of the reversal of temporary differences and tax rates currently substantively enacted. Legislation and regulations in the various jurisdictions that the Company operates in are subject to change and differing interpretations require management judgment. Income tax filings are subject to audits, re-assessments and changes in facts, circumstances and interpretations of the standards could result in a material change in the Company's provision for income taxes. As such, income taxes are subject to measurement uncertainty including judgment regarding the recognition or derecognition of deferred tax assets.

Share-based compensation

The Company's compensation plans include the following award types: stock option, RSUs, PSUs, DSUs and SARs. DSUs and SARs are cash-settled awards and RSUs and PSUs may be settled in common shares but are expected to be settled for cash. As such, these awards are considered liability-settled awards for accounting purposes. The fair value of stock options and SARs are estimated using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected unit life, estimated forfeitures and estimated volatility of Source.

Cash-generating units

The determination of a cash-generating unit ("CGU") is based on management's judgment regarding geographical proximity, shared equipment and mobility of equipment. Management has determined that the Company's operations represent one CGU.

Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). The recoverable amount of a CGU is determined using an approach which considers a discounted cash flow model and an earnings multiple approach. The discounted cash flow model incorporates significant assumptions including a revenue growth rate and discount rate. The earnings multiple approach uses earnings before interest, taxes, depreciation and amortization less corporate expenses and comparable market multiples to determine the recoverable amount of the CGU. Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Embedded derivatives

An embedded derivative is a component of a contract that modifies the cash flows of the contract. Embedded derivatives are separated from the contract and accounted for as derivative liabilities or assets. Embedded derivatives are measured at fair value through profit or loss. The fair value of the derivatives may be based on prices or valuation techniques that require inputs that are not based on observable market data.

Revenue recognition

Contractual arrangements for revenue may have multiple contractual elements within them, resulting in complex recognition in the financial statements. The contractual elements which require significant consideration may include embedded derivatives, contract liabilities, take-or-pay commitments and leasing arrangements. Significant judgement is required in identifying and assessing the appropriate accounting recognition for each contractual element identified within these contractual arrangements.

Newly Adopted Accounting Policies

The following amendments have been issued by the International Accounting Standards Board and were adopted by the Company effective for the fiscal year beginning January 1, 2023:

Standard	Description of change
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.

The Company completed its assessment of the impact of the amendments and concluded that they do not have a material impact on the interim condensed consolidated financial statements.

NON-IFRS MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. These financial measures do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), cash flows from operating activities, gross margin and other measures of financial performance as determined in accordance with IFRS.

Source believes that the non-IFRS measure of Adjusted EBITDA is a useful measure to management and investors to provide relative performance and measure changes in respect of Source's financial performance in the context of earnings generated to fund capital investments and meet financial obligations. Adjusted Gross Margin is useful to management and investors in measuring pricing and operating cost performance relative to other publicly listed competitors throughout North America. Adjusted EBITDA per MT and Adjusted Gross Margin per MT are calculated by taking the non-IFRS measures and dividing by sand volumes for the periods stated.

Free Cash Flow is a useful measure to management and investors as it reflects the Company's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. Previously, Source included the movement in cash flows from operating activities as part of the calculation of Free Cash Flow; however, changes in working capital can have significant fluctuations due to the seasonality of Source's operations. Management believes use of Adjusted EBITDA in the calculation is more representative of the funds generated to pay down debt and other returns to investors. As such, the presentation of Free Cash Flow has been revised and prior periods have been restated to reflect the current definition.

Adjusted EBITDA represents earnings generated to fund capital investments and meet financial obligations. It represents, for the period presented, net income (loss) plus income taxes, interest expense, cost of sales - depreciation, depreciation, amortization, impairment and gain (loss) on debt extinguishment; and is adjusted to add back or deduct, as applicable, the following expense charges or benefits incurred in such period which, in management's view, are not indicative of the underlying business performance: finance expense excluding interest expense, loss (gain) on asset disposal, transaction and related professional fees, unrealized loss (gain) on derivative instruments, gain on settlement of deferred revenue, share-based compensation, loss (gain) on sublease and other expense as it relates to the incident at the Fox Creek terminal facility and one-time retirement payments. The reconciliation to the most comparable IFRS measure, net income (loss), can be found in the table below.

Adjusted Gross Margin represents a margin more comparable to other publicly listed competitors throughout North America. It represents, for the period presented, gross margin plus cost of sales - depreciation. The reconciliation to the most comparable IFRS measure, gross margin, can be found in the table below.

Free Cash Flow represents, for the period presented, Adjusted EBITDA, adjusted for financing expense paid, capital expenditures (net of proceeds on disposal of property, plant and equipment), mandatory debt repayments and various non-cash operating activities. Free Cash Flow is considered a key non-IFRS measure as it reflects Source's ability to generate cash flows that can be used to pay down long-term debt or provide other forms of returns to investors. The reconciliation to the most comparable IFRS measure, net income (loss), can be found in the table below.

This MD&A makes reference to these non-IFRS measures. These non-IFRS measures and other financial estimates of management are based upon variable components. There can be no assurance that these components and future calculations of non-IFRS measures will not vary. Investors are cautioned not to consider these non-IFRS measures in isolation or place undue reliance on ratios or percentages calculated using these non-IFRS measures.

Reconciliation of Adjusted EBITDA and Free Cash Flow to Net Income (Loss)

	Three months ended March 31,	
($000's)	**2023**	2022
Net income (loss)	**7,879**	(6,640)
Add:		
Interest expense	**7,129**	6,669
Cost of sales – depreciation	**6,045**	5,793
Depreciation	**3,091**	2,654
Finance expense (excluding interest expense)	**2,159**	1,234
Share-based compensation expense	**1,537**	759
Gain on asset disposal	**(451)**	—
Unrealized loss on derivative assets	**—**	1,619
Loss on sublease	**3**	—
Other expense(1)	**226**	2,129
Adjusted EBITDA	**27,618**	14,217
Financing expense paid	**(7,539)**	(2,347)
Capital expenditures, net of proceeds on disposal of property, plant and equipment	**(2,146)**	(2,024)
Payment of lease obligations	**(5,047)**	(3,518)
Free Cash Flow	**12,886**	6,327

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

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three months ended March 31,	
($000's)	**2023**	2022
Gross margin	**31,752**	14,573
Cost of sales – depreciation	**6,045**	5,793
Adjusted Gross Margin	**37,797**	20,366

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements relating to, without limitation, expectations, intentions, plans and beliefs, including information as to the future events, results of operations and Source's future performance (both operational and financial) and business prospects. In certain cases, forward-looking statements can be identified by the use of words such as "expects", "estimates", "intends", "believes", "continues", "focus", "could", "trends", "commitments", "positions" or variations of such words and phrases, or state that certain actions, events or results "may" or "will" be taken, occur or be achieved. Such forward-looking statements reflect Source's beliefs, estimates and opinions regarding its future growth, results of operations, future performance (both operational and financial), and business prospects and opportunities at the time such statements are made, and Source undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change unless required by applicable law. Forward-looking statements are necessarily based upon a number of estimates and assumptions made by Source that are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Forward-looking statements are not guarantees of future performance.

In particular, this MD&A contains forward-looking statements pertaining, but not limited to: expectations that frac sand supply and demand fundamentals will remain strong through 2023; plans to rebalance US denominated revenues where possible as well as enter into foreign currency contracts between prescribed minimum and maximum amounts of net US dollar exposure; plans to renegotiate certain customer contracts denominated in US dollars and expectations that this renegotiation will mitigate the impact of fluctuations in foreign exchange rates; expectations that the resolution of permitting issues in northeastern British Columbia will bring increased activity to the region; beliefs respecting strong gross margins in 2023; expectations that increased demand for natural gas, increased natural gas pipeline export capabilities and liquefied natural gas exports will drive incremental demand for Source's services in the WCSB; continued increases in demand from customers primarily focused on the development of natural gas properties in Montney, Duvernay and Deep Basin; views that natural gas is an important transitional fuel for the successful movement to a less carbon intensive world; Source's focus on and expectations regarding increasing Source's involvement in the provision of logistics services for other wellsite items; expectations that the renewal of a major customer contract will position the Company for strong pricing performance; ESG initiatives and goals, including but not limited to those related to greenhouse gas emissions reduction, production water recycling, health and safety, and contributions to charitable initiatives; the benefits that Source's "last mile" services provide to customers; Source's focus on expenditure levels to generate free cash flows and use of free cash flows to deleverage the business; expectations regarding funding for future working capital and capital expenditures; planned cash outflows relating to lease commitments and financial liabilities; the availability of any additional future funding; expectations on Source's ability to meet its capital needs; fluctuations in foreign currency; amount and timing of interest payments with respect to Source's ABL; and expectations regarding the outcome of legal claims and proceedings, including but not limited to the outcome of Source's anticipated claim for damages related to the structural failure of assets at its Fox Creek terminal facility.

By their nature, forward-looking statements involve numerous current assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Source to differ materially from those anticipated by Source and described in the forward-looking statements.

With respect to the forward-looking statements contained in this MD&A, assumptions have been made regarding, among other things: proppant market prices; future oil, natural gas and liquefied natural gas prices; future global economic and financial conditions; predictable inflationary pressures; future commodity prices, demand for oil and gas and the product mix of such demand; levels of activity in the oil and gas industry in the areas in which Source operates; the continued availability of timely and safe transportation for Source's products, including without limitation, Source's rail car fleet and the accessibility of additional transportation by rail and truck; the maintenance of Source's key customers and the financial strength of its key customers; the maintenance of Source's significant contracts or their replacement with new contracts on substantially similar terms and that contractual counterparties will comply with current contractual terms; operating costs; that the regulatory environment in which Source operates will be maintained in the manner currently anticipated by Source; future exchange and interest rates; geological and engineering estimates in respect of Source's resources; the recoverability of Source's resources; the accuracy and veracity of information and projections sourced from third parties respecting, among other things, future industry conditions and product demand; demand for horizontal drilling and hydraulic fracturing and the maintenance of current techniques and procedures, particularly with respect to the use of proppants; Source's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which Source conducts its business and any other jurisdictions in which Source may conduct its business in the future; future capital expenditures to be made by Source; future sources of funding for Source's capital program; Source's future debt levels; the impact of competition on Source; and Source's ability to obtain financing on acceptable terms.

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought by or against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; uninsured and underinsured losses; risks related to the transportation of Source's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the impact of extreme weather patterns and natural disasters; the impact of climate change risk; the ability of Source to retain and attract qualified management and staff in the markets in which Source operates; labour disputes and work stoppages and risks related to employee health and safety; general risks associated with the oil and natural gas industry, loss of markets, consumer and business spending and borrowing trends; limited, unfavorable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; implementation of recently issued accounting standards; the use and suitability of Source's accounting estimates and judgments; the impact of information systems and cyber security breaches; the impact of inflation on capital expenditures; and risks and uncertainties related to pandemics such as COVID-19, including changes in energy demand.

Although Source has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will materialize or prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers should not place undue reliance on forward-looking statements. These statements speak only as of the date of this MD&A. Except as may be required by law, Source expressly disclaims any intention or obligation to revise or update any forward-looking statements or information whether as a result of new information, future events or otherwise.

Any financial outlook and future-oriented financial information contained in this MD&A regarding prospective financial performance, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action based on management's assessment of the relevant information that is currently available. Projected operational information contains forward-looking information and is based on a number of material assumptions and factors, as are set out above. These projections may also be considered to contain future oriented financial information or a financial outlook. The actual results of Source's operations for any period will likely vary from the amounts set forth in these projections and such variations may be material. Actual results will vary from projected results. Readers are cautioned that any such financial outlook and future-oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein. The forward-looking information and statements contained in this document speak only as of the date hereof and have been approved by the Company's management as at the date hereof. The Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.