SOURCE ENERGY SERVICES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

UNAUDITED

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

SOURCE ENERGY SERVICES LTD.

Interim Condensed Consolidated Statements of Financial Position - Unaudited

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

	Note		September 30, 2023		December 31, 2022
Assets					
Current assets					
Accounts receivable	4(d)	$	39,378	$	42,304
Prepaid expenses			4,242		7,708
Inventories	6		85,331		72,533
Total current assets			128,951		122,545
Deposits and restricted cash	10(c)		3,604		10,893
Property, plant and equipment	7		131,744		135,159
Right-of-use assets	8		57,514		58,300
Total assets		$	321,813	$	326,897
Liabilities and equity					
Current liabilities					
Accounts payable and accruals	4(e)	$	61,561	$	68,425
Contract liabilities	16		2,479		153
Lease liabilities	11		16,605		17,700
Current portion of long-term debt	10		9,302		—
Decommissioning provision	12		1,188		1,175
Total current liabilities			91,135		87,453
Lease liabilities	11		48,167		50,722
Long-term debt	10		156,379		176,518
Decommissioning provision	12		6,716		6,547
Total liabilities		$	302,397	$	321,240
Shareholders' equity					
Shareholders' equity	13	$	410,632	$	410,632
Contributed surplus			2,459		2,459
Accumulated deficit			(407,450)		(421,795)
Cumulative translation adjustment			13,775		14,361
Total shareholders' equity		$	19,416	$	5,657
Total liabilities and shareholders' equity		$	321,813	$	326,897

See accompanying notes to the interim condensed consolidated financial statements.

Commitments and contingencies (Note 18)

SOURCE ENERGY SERVICES LTD.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income - Unaudited

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

		For the three months ended September 30,		For the nine months ended September 30,	
	Note	**2023**	**2022**	**2023**	**2022**
Sales					
Sand revenue	16	$ 102,180	$ 97,173	$ 335,885	$ 271,380
Wellsite solutions	16	21,725	21,748	76,332	53,620
Terminal services	16	759	985	3,099	3,461
Total sales		124,664	119,906	415,316	328,461
Cost of sales	17	$ 93,876	$ 98,772	$ 316,567	$ 265,244
Cost of sales - depreciation		5,746	4,732	17,040	15,702
Gross margin		$ 25,042	$ 16,402	$ 81,709	$ 47,515
Operating expense	17	$ 5,306	$ 4,564	$ 17,206	$ 13,701
General & administrative expense	17	3,119	2,205	11,252	7,392
Depreciation		2,174	2,833	7,998	8,194
Income from operations		$ 14,443	$ 6,800	$ 45,253	$ 18,228
Other expense (income):					
Finance expense	19	$ 8,777	$ 8,523	$ 27,267	$ 24,335
Share-based compensation expense (recovery)	14	1,567	(271)	5,038	302
Loss (gain) on asset disposal		356	2	(1,776)	(1,181)
Unrealized loss on derivative instruments		—	4,157	—	1,718
Other income		(85)	(25)	(1,223)	(556)
Other expense	20	663	147	1,158	2,538
Loss on sublease		—	—	3	—
Gain on debt extinguishment	10(a)	(280)	—	(280)	—
Foreign exchange loss (gain)	4(f)	(287)	(11,604)	721	(12,367)
Total other expense		10,711	929	30,908	14,789
Income before income taxes		$ 3,732	$ 5,871	$ 14,345	$ 3,439
Income taxes					
Current and deferred tax expense	9	$ —	$ —	$ —	$ —
Total income taxes		—	—	—	—
Net income		$ 3,732	$ 5,871	$ 14,345	$ 3,439
Other comprehensive income					
Foreign currency translation adjustment (subject to recycling)		1,513	5,550	(586)	7,184
Comprehensive income		$ 5,245	$ 11,421	$ 13,759	$ 10,623
Earnings per share (in dollars)					
Basic	15	$ 0.28	$ 0.43	$ 1.06	$ 0.25
Diluted	15	$ 0.28	$ 0.38	$ 1.06	$ 0.19

See accompanying notes to the interim condensed consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Interim Condensed Consolidated Statements of Changes in Equity - Unaudited

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

	Common share capital					
	Number of Shares	**$**	**Contributed Surplus**	**Accumulated Deficit**	**Cumulative Translation Adjustment**	**Total Equity**
Balance at December 31, 2022	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (421,795)**	**$ 14,361**	**$ 5,657**
Net income				14,345		**14,345**
Unrealized foreign exchange loss					(586)	**(586)**
Balance at September 30, 2023	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (407,450)**	**$ 13,775**	**$ 19,416**

	Common share capital					
	Number of Shares	**$**	**Contributed Surplus**	**Accumulated Deficit**	**Cumulative Translation Adjustment**	**Total Equity**
Balance at December 31, 2021	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (413,025)**	**$ 6,460**	**$ 6,526**
Net income				3,439		**3,439**
Unrealized foreign exchange gain					7,184	**7,184**
Balance at September 30, 2022	**13,545,055**	**$ 410,632**	**$ 2,459**	**$ (409,586)**	**$ 13,644**	**$ 17,149**

See accompanying notes to the interim condensed consolidated financial statements.

SOURCE ENERGY SERVICES LTD.

Interim Condensed Consolidated Statements of Cash Flows - Unaudited

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

		For the three months ended September 30,		For the nine months ended September 30,	
	Note	**2023**	**2022**	**2023**	**2022**
Operating Activities					
Net income		$ 3,732	$ 5,871	$ 14,345	$ 3,439
Adjusted for the following:					
Depreciation		7,920	7,565	25,038	23,896
Share-based compensation expense (recovery)	14	1,567	(271)	5,038	302
Loss (gain) on asset disposal		356	2	(1,776)	(1,181)
Finance expense	19	8,777	8,523	27,267	24,335
Gain on debt extinguishment	10(a)	(280)	—	(280)	—
Unrealized loss on derivative instruments		—	4,157	—	1,718
Satisfaction of performance obligations, net of proceeds on contract liabilities	16	113	(4,440)	(40)	2,190
Payments for share-based compensation		(616)	—	(1,171)	(289)
Payments made for decommissioning provision	12	(580)	(414)	(1,143)	(940)
Net changes in non-cash working capital	5	(2,927)	16,651	(13,473)	3,003
Cash flows provided by operating activities		$ 18,062	$ 37,644	$ 53,805	$ 56,473
Investing Activities					
Capital expenditures		(3,628)	(4,456)	(12,440)	(10,596)
Proceeds on disposal of property, plant and equipment and reimbursement of capital costs		43	2	6,067	1,248
Payments made for Peace River transaction	8	—	—	—	(368)
Net changes in non-cash working capital	5	(1,962)	590	(439)	434
Cash flows used in investing activities		$ (5,547)	$ (3,864)	$ (6,812)	$ (9,282)
Financing Activities					
Repayments on long-term debt	5	(5,915)	(26,784)	(15,803)	(23,900)
Repayments on senior secured notes	10(a)	(2,106)	—	(2,106)	—
Proceeds from deposits and restricted cash	10(c)	7,265	—	7,265	—
Payment of lease obligations	11	(4,758)	(3,849)	(14,504)	(11,003)
Financing expense paid		(7,001)	(3,147)	(21,845)	(12,288)
Cash flows used in financing activities		$ (12,515)	$ (33,780)	$ (46,993)	$ (47,191)
Increase (decrease) in cash		$ —	$ —	$ —	$ —
Cash and cash equivalents, beginning of period		—	—	—	—
Cash and cash equivalents, end of period		$ —	$ —	$ —	$ —
Supplementary information for cash flows from operating activities					
Interest paid		(6,280)	(2,782)	(20,264)	(11,461)

See accompanying notes to the interim condensed consolidated financial statements.

(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 interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as at and for the three and nine months ended September 30, 2023, and do not include all the information required for full annual financial statements. As such, they should be read in conjunction with the December 31, 2022 audited annual consolidated financial statements. These financial statements are available on SEDAR.

The policies applied in the interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as at September 30, 2023. The interim condensed consolidated financial statements were authorized for issuance by the Board of Directors (the "Board") on November 8, 2023.

Use of estimates and judgments

The preparation of the interim condensed 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. These estimates are further described in the Company's December 31, 2022 audited annual consolidated financial statements which can be found on SEDAR.

Material accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the Company's December 31, 2022 audited annual consolidated financial statements, except as noted below:

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.

3. SEASONALITY OF OPERATIONS

The Company's business is seasonal in nature, with the majority of activity normally being in the first and third quarters. Lower activity levels are usually realized in the fourth quarter, as exploration and production ("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. As a result, the Company's operating results may vary on a quarterly basis. There are other factors that may impact the Company's activities quarter-to-quarter including commodity prices and E&P companies' completion activity levels.

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

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 interim condensed 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:

	September 30, 2023	December 31, 2022
Financial instruments at amortized cost:		
Trade and other receivables	39,378	42,304
Trade and other payables	64,040	68,578
Lease liabilities (includes current portion)	64,772	68,422
Long-term debt (includes current portion)	165,681	176,518

(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.

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).

September 30, 2023	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial liabilities at amortized cost:				
Senior secured notes	$ 154,801	$ —	$ 139,017	$ —

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

(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. Source's five largest customers account for 74% of the revenue for the three months ended

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

September 30, 2023, with the three largest making up 58% (three months ended September 30, 2022, five customers accounted for 69%, three customers accounted for 51%). The Company's five largest customers account for 79% of the revenue for the nine months ended September 30, 2023, with the three largest making up 68% of revenue (nine months ended September 30, 2022, five customers accounted for 67%, three customers accounted for 49%). Three of those customers (three for the nine months ended September 30, 2022) account for 10% or more of total revenue individually in the nine months ended September 30, 2023. At September 30, 2023, approximately 93% of trade accounts receivable were insured.

As at September 30, 2023, the Company's trade and other receivables, net of loss allowances, were comprised of the following:

As at		September 30, 2023		December 31, 2022
Not yet due	$	35,141	$	39,697
0 – 30 days		3,998		2,590
31 – 60 days		201		15
61 – 90 days		10		—
91+ days		28		2
Total trade and other receivables	**$**	**39,378**	**$**	**42,304**

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 $74 was recorded as at September 30, 2023:

As at		September 30, 2023		December 31, 2022
Balance, beginning of period		71	$	73
Increase (decrease) in loss allowance		3		(2)
Balance, end of period	**$**	**74**	**$**	**71**

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 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 interim condensed 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 September 30, 2023		Total		2023		2024		2025		2026		2027		2028 and beyond
Accounts payable and accruals	$	61,561	$	61,561	$	—	$	—	$	—	$	—	$	—
Lease liabilities[1]	$	80,280	$	5,461	$	18,124	$	11,925	$	8,159	$	6,073	$	30,538
Credit facility[2]	$	11,969	$	—	$	11,969	$	—	$	—	$	—	$	—
Senior secured notes payable[3]	$	186,474	$	4,303	$	17,078	$	165,093	$	—	$	—	$	—

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, including 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 September 30, 2023 are $26,917 (December 31, 2022 - $11,861) and $26,978 (December 31, 2022 - $26,749) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would impact net income by $201 for the three months ended September 30, 2023 ($650 for the three months ended September 30, 2022) and $854 for the nine months ended September 30, 2023 ($1,733 for the nine months ended September 30, 2022).

Prior to a rebalancing of US dollar denominated revenues, the Company had forward contracts in place in order to manage the increased exposure to fluctuations in the Canadian to US dollar exchange rate. In September 2022, in advance of the completion of the ABL facility (as defined below), the Company wound up and settled existing forward contracts during the three months ended September 30, 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 $120 at September 30, 2023 ($266 at December 31, 2022). The Company had no derivative contracts in place as at or during the periods ended September 30, 2023 and 2022 with respect to managing interest rate risk.

(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 periods ended September 30, 2023 and December 31, 2022.

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

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating assets and liabilities for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Accounts receivable	$ 5,325	$ 10,376	$ 3,304	$ (8,240)
Prepaid expenses	501	(2,232)	3,463	(244)
Inventories	(7,875)	2,399	(11,619)	(1,471)
Accounts payable and accruals	(878)	6,108	(8,621)	12,958
Changes in non-cash working capital	**$ (2,927)**	**$ 16,651**	**$ (13,473)**	**$ 3,003**

Changes in non-cash investing assets and liabilities for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Accounts payable and accruals	$ (1,962)	$ 590	$ (439)	$ 434
Changes in non-cash working capital	**$ (1,962)**	**$ 590**	**$ (439)**	**$ 434**

Changes in long-term debt for the nine months ended September 30, 2023 and the year ended December 31, 2022 were as follows:

	Senior secured notes	**ABL facility and senior secured term loan**
As at December 31, 2021	$ 147,350	$ 35,279
Cash changes:		
Proceeds from ABL facility	—	178,636
Repayments on ABL facility	—	(189,559)
Non-cash and other changes:		
Extinguishment of debt(1)	—	862
Interest(2)	2,442	—
Accretion(3)	3,811	1,115
Consent fee(4)	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
Cash changes:		
Proceeds from ABL facility	—	445,773
Repayments on ABL facility	—	(461,576)
Repayments on senior secured notes(5)	(2,106)	—
Non-cash and other changes:		
Extinguishment of debt(5)	(280)	—
Accretion(3)	3,584	2,099
Unrealized foreign exchange (gain) loss	—	1,187
Financing costs incurred	—	(351)
As at September 30, 2023	**$ 154,801**	**$ 9,302**

Notes:
(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 the February 15, 2022 payment. Refer to Note 10 for additional information.
(3) Includes accretion of deferred financing fees and amounts related to accretion of the senior secured notes to their aggregate principal value.
(4) 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.
(5) In July 2023, the Company repurchased $2,500 principal value of outstanding senior secured notes which resulted in a gain on extinguishment of debt. Refer to Note 10 and Note 22 for additional information.

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

6. INVENTORIES

Inventory consists of three main classifications:

As at	September 30, 2023	December 31, 2022
Unprocessed sand and work in progress	$ 59,013	$ 38,971
Sand available for shipment	22,124	29,384
Spare parts and supplies	4,194	4,178
Total inventories	**$ 85,331**	**$ 72,533**

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is depreciation expense related to sand-producing properties of $10,645 as at September 30, 2023 (December 31, 2022 - $9,486). The total amount of inventory expensed through cost of sales during the three and nine months ended September 30, 2023 was $74,622 and $249,140, respectively (three and nine months ended September 30, 2022 - $80,312 and $217,388, respectively). No inventory write-downs or reversals of prior write-downs were recorded during the three and nine months ended September 30, 2023.

7. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Cost						
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
Additions[(2)]	1,530	—	—	4,185	7,844	13,559
Disposals	(3,447)	(4,067)	(20)	—	—	(7,534)
Completed construction in progress	93	684	25	(802)	—	—
Transfers	—	3,213	—	—	—	3,213
Exchange differences	(347)	(307)	(7)	36	(17)	(642)
Balance as at September 30, 2023	**$210,664**	**$210,467**	**$6,644**	**$29,854**	**$32,619**	**$490,248**

Notes:
(1) Includes changes in estimates for the decommissioning provision due to an increase in risk-free rates (refer to Note 12 for additional information).
(2) In June 2023, Source executed a contract to construct a Sahara unit on behalf of a customer. Capital costs incurred of $2,366 were fully reimbursed during the period.

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Mine Preparation Costs	Total
Accumulated depreciation						
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)
Depreciation	(4,291)	(3,377)	(19)	—	(7,151)	(14,838)
Disposals	1,872	3,682	20	—	—	5,574
Transfers	—	(3,216)	—	—	—	(3,216)
Exchange differences	216	231	7	—	15	469
Balance as at September 30, 2023	**$ (155,344)**	**$ (167,412)**	**$ (6,553)**	**$ —**	**$ (29,195)**	**$ (358,504)**
Carrying amounts						
December 31, 2022	$ 59,694	$ 46,212	$ 85	$ 26,435	$ 2,733	$ 135,159
September 30, 2023	**$ 55,320**	**$ 43,055**	**$ 91**	**$ 29,854**	**$ 3,424**	**$ 131,744**

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

Assets under construction represent facilities that are being built at period 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 September 30, 2023.

8. RIGHT-OF-USE ASSETS

	Land & Building	Equipment & Vehicles	Rail cars	Peace River Facility(1)	Total
Cost					
Balance as at December 31, 2021	$ 6,622	$ 23,713	$ 41,742	$ —	$ 72,077
Additions and modifications	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
Additions and modifications	1,555	7,509	1,590	—	10,654
Expired leases	—	(670)	—	—	(670)
Transfers	—	(3,213)	—		(3,213)
Exchange differences	(5)	(46)	(92)	—	(143)
Balance as at September 30, 2023	**$ 11,527**	**$ 32,048**	**$ 53,616**	**$ 26,865**	**$ 124,056**

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 of $26,865 and a corresponding lease obligation related to the sand processing facilities.

	Land & Building	Equipment & Vehicles	Rail cars	Peace River Facility	Total
Accumulated depreciation					
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)
Depreciation	(1,759)	(3,555)	(4,698)	(1,336)	(11,348)
Expired leases	—	670	—	—	670
Transfers	—	3,216	—		3,216
Exchange differences	(2)	10	40	—	48
Balance as at September 30, 2023	**$ (7,426)**	**$ (16,040)**	**$ (40,459)**	**$ (2,617)**	**$ (66,542)**
Carrying amounts					
December 31, 2022	$ 4,312	$ 12,087	$ 16,317	$ 25,584	$ 58,300
September 30, 2023	**$ 4,101**	**$ 16,008**	**$ 13,157**	**$ 24,248**	**$ 57,514**

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

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% (2022 - 23%) for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Income before income taxes	$ 3,732	$ 5,871	$ 14,345	$ 3,439
Statutory income tax rate	23.00 %	23.00 %	23.00 %	23.00 %
Expected income taxes	858	1,350	3,299	791
Increase (decrease) in taxes from:				
Non-deductible expenses	237	159	726	399
Share-based compensation	21	(1)	123	18
Unrealized foreign exchange and derivatives	—	281	—	—
Prior period adjustments	(1,353)	(83)	(1,353)	(83)
Unrecognized deferred tax assets	198	(1,558)	(2,389)	(425)
Rate differential on foreign activities	(223)	(315)	(540)	(729)
Other	262	167	134	29
Total income tax expense	**$ —**	**$ —**	**$ —**	**$ —**

The Company has Canadian and foreign non-capital losses as at September 30, 2023 of $94,734 (December 31, 2022 - $124,238) and $22,123 (December 31, 2022 - $11,668), respectively. Canadian and foreign losses begin to expire in 2037.

10. LONG-TERM DEBT

As at	September 30, 2023	December 31, 2022
Senior secured notes, due March 15, 2025, bearing interest at 10.5% per annum (a)	$ 154,801	$ 153,603
ABL facility maturing September 2024, with interest based on floating rates (b)	11,969	26,583
Unamortized debt issuance costs for the ABL facility (b)	(2,667)	(4,413)
Other long-term debt(1)	1,578	745
Total long-term debt	**$ 165,681**	**$ 176,518**
Less: current portion	(9,302)	—
Long-term portion	**$ 156,379**	**$ 176,518**

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

(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 $21,220 of additional notes. Further, the Company incurred a consent fee in 2022 of $1,635 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 three and nine months ended September 30, 2023 and 2022.

In July 2023, the Company purchased and cancelled a portion of the outstanding Notes in the open market, with an aggregate principal value of $2,500, for gross proceeds of $2,152 including accrued and unpaid interest. This repurchase resulted in a gain on extinguishment of debt of $280 during the period. Refer to Note 22 for additional repurchases completed subsequent to September 30, 2023.

Interest expense on the Notes was $4,269 and $12,865, respectively, for the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 - $4,326 and $13,163, respectively).

(b) ABL facility

On October 14, 2022, the Company closed a 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 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. Consequently, amounts outstanding under the ABL facility have been presented as a current liability for the period ended September 30, 2023.

Amounts available under the ABL are 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 $13,500 or 35% of trailing twelve months of earnings before interest, tax, depreciation and amortization; and
- a minimum level of excess availability of $5,000.

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 September 30, 2023, 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 September 30, 2023, $11,969 was drawn (less unamortized finance costs of $2,667 for a net balance of $9,302) (September 30, 2022 - $nil). Including the minimum availability covenant, as noted above, there was $17,862 of availability on the facility at September 30, 2023.

Interest on the ABL facility amounted to $756 and $3,284, respectively, for the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 - $nil).

(c) Prior ABL facility

The Company had an ABL facility (the "Prior ABL") that was extinguished on October 14, 2022 and bore interest based on the bank's prime lending rate and CDOR or LIBOR rates, plus an applicable margin. The amount available under the general operating facility was subject to a borrowing base formula applied to accounts receivable and inventory. Interest on the Prior ABL facility amounted to $1,249 and $3,283, respectively, for the three and nine months ended September 30, 2022.

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. During the three months ended March 31, 2023, the standby letter of credit facility was increased to US$13,500. The Prior ABL also included an amount committed to supporting letters of credit under the facility, issued in respect of reclamation obligations related to mining operations in Wisconsin, which were transferred to deposits upon closing of the ABL facility. During the nine months ended September 30, 2023, certain of the letters of credit were exchanged for surety bonds, resulting in a reduction to the amounts held on deposit. As at September 30, 2023, $3,604 (December 31, 2022 - $10,893) has been classified as non-current assets on the interim condensed consolidated statements of financial position in respect of these deposits, of which $1,318 is restricted cash (December 31, 2022 - $7,632).

(d) Senior secured term loan

Source had an additional credit facility in the form of a senior secured term loan (the "Term Loan") that was extinguished on October 14, 2022. 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. Interest on the Term Loan was $284 and $905, respectively, for the three and nine months ended September 30, 2022.

The effective interest rate realized on long-term debt for the nine months ended September 30, 2023 was 11.8% (December 31, 2022 - 11.9%).

11. LEASE LIABILITIES

As at	September 30, 2023	December 31, 2022
Balance, beginning of period	$ 68,422	$ 38,436
Lease additions(1)	7,789	38,500
Lease modifications	3,191	5,229
Lease payments	(14,504)	(15,751)
Exchange differences	(126)	2,008
Balance, end of period	**$ 64,772**	**$ 68,422**
Less: current portion	(16,605)	(17,700)
Long-term portion	**$ 48,167**	**$ 50,722**

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 $52 and $137, respectively, were expensed to cost of sales or operating expense in the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 - $252 and $381, respectively). The Company recognized $1,204 and $3,723, respectively, of interest on lease liabilities for the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 - $1,187 and $2,953, respectively).

12. DECOMMISSIONING PROVISION

As at	September 30, 2023	December 31, 2022
Balance, beginning of period	$ 7,722	$ 8,608
Liabilities incurred	263	404
Liabilities settled	(1,143)	(1,251)
Accretion	232	246
Changes in estimates	860	(782)
Exchange differences	(30)	497
Balance, end of period	**$ 7,904**	**$ 7,722**
Less: current portion	(1,188)	(1,175)
Long-term portion	**$ 6,716**	**$ 6,547**

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 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 an inflation rate of 2.83% and risk-free rates of 3.93% for expenditures planned within the next ten years and 4.09% for longer-term expenditures at September 30, 2023 (December 31, 2022 - 1.94%, 3.31% and 3.29%, respectively). The majority of these costs are expected to occur between 6 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 September 30, 2023:

(stated in thousands, except share amounts)	Number of shares	Amount
Balance as at December 31, 2022 and September 30, 2023	**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 September 30, 2023 and December 31, 2022, no options were outstanding.

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

(b) Other share-based compensation plans

The Company has share-based compensation plans that allow for deferred share unit ("DSU"), restricted share unit ("RSU"), and performance share unit ("PSU") 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 September 30, 2023, a liability of $3,586 has been recorded for these units, of which $3,020 has been classified as current (December 31, 2022 - $859 and $580, 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 September 30, 2023, a liability of $877 has been recorded for these units, of which $360 has been classified as current (December 31, 2022 - $270 and $91, 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 three and nine months ended September 30, 2023 and the year ended December 31, 2022:

(number of units)	RSU	PSU	DSU
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
Granted	127,500	355,854	162,211
Exercised	(106,561)	(37,542)	(134,057)
Forfeited	(21,666)	(80,233)	—
Balance as at September 30, 2023	**229,997**	**788,895**	**272,888**
Vested as at September 30, 2023	**—**	**249,234**	**—**

(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:

	September 30, 2023			December 31, 2022	
	2023 Grant	**2022 Grant**	**2021 Grant**	**2022 Grant**	**2021 Grant**
Forfeiture rate (%)	9 %	9 %	9 %	9 %	9 %
Volatility (%)	106 %	106 %	106 %	122 %	122 %
Risk free interest rate (%)	3.00 %	3.50 %	3.50 %	3.75 %	3.75 %
Dividend yield (%)	— %	— %	— %	— %	— %
Option life (years)	2.44	1.59	0.46	2.34	1.21
Exercise price	$ 2.22	$ 1.84	$ 1.54	$ 1.84	$ 1.54
Share price(1)	$ 4.79	$ 5.17	$ 5.04	$ 2.03	$ 1.83

Note:
(1) The share price for the 2023 and 2022 grants 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.

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

As at September 30, 2023, a liability of $774 has been recorded for the number of SARs outstanding, of which $325 has been classified as a current liability:

	SARs Outstanding		Weighted Average Exercise Price
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
Granted	200,000	$	2.22
Exercised	(13,167)	$	—
Forfeited	(28,333)	$	—
Balance as at September 30, 2023	**523,500**	**$**	**1.87**
Vested as at September 30, 2023	**174,833**		
Weighted average remaining contractual life (years)	**1.49**		

Total share-based compensation expense (recovery) for all share-based payment plans was $1,567 and $5,038, respectively, for the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 - $(271) and $302, respectively).

15. EARNINGS PER SHARE

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2023 was based on the earnings available to holders of common shares of $3,732 and $14,345, respectively, (three and nine months ended September 30, 2022 - $5,871 and $3,439, respectively), and a weighted average number of common shares outstanding for the three and nine months ended September 30, 2023 and 2022 of 13,545,055. Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of potential dilution, which are comprised of restricted and performance share units granted to employees. For the three and nine months ended September 30, 2023, Source had 1,018,891, and 999,720, respectively, of shares outstanding that could have a potentially dilutive effect in a future period (dilutive effect for the three and nine months ended September 30, 2022 - 781,898 and 702,451, respectively).

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Weighted average common shares outstanding, end of period	**13,545,055**	13,545,055	**13,545,055**	13,545,055
Dilutive effect of restricted and performance share units	—	781,898	—	702,451
Weighted average common and common equivalent shares outstanding	**13,545,055**	14,326,953	**13,545,055**	14,247,506
Earnings per share				
Basic	**0.28**	0.43	**1.06**	0.25
Diluted	**0.28**	0.38	**1.06**	0.19

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

16. REVENUE

The following table presents the Company's sales, disaggregated by revenue source for the three and nine months ended September 30, 2023:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue from contracts with customers:				
Sand revenue	$ 102,180	$ 97,173	$ 335,885	$ 271,380
Wellsite solutions	21,725	21,748	76,332	53,620
Terminal services	662	799	2,700	2,940
Total revenue from contracts with customers	$ 124,567	$ 119,720	$ 414,917	$ 327,940
Storage facilities(1)	97	186	399	521
Total revenue	**$ 124,664**	**$ 119,906**	**$ 415,316**	**$ 328,461**

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 periods below:

As at	September 30, 2023	December 31, 2022
Balance, beginning of period	$ 153	$ 94
Cash proceeds(1)	2,430	11,301
Satisfaction of performance obligations	(153)	(11,242)
Exchange differences	49	—
Balance, end of period	**$ 2,479**	**$ 153**
Less: current portion	(2,479)	(153)
Long-term portion	**$ —**	**$ —**

Note:
(1) In June, 2023, Source executed a contract to construct a Sahara unit on behalf of a customer. Capital costs incurred were fully reimbursed during the period.

17. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the interim condensed consolidated statements of operations and comprehensive income 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.

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:

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

Three months ended September 30,	2023				2022			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$ 74,622	$ —	$ —	$ 74,622	$ 80,312	$ —	$ —	$ 80,312
Salary costs	4,291	2,432	2,480	9,203	3,795	2,042	1,510	7,347
Equipment costs	1,014	362	—	1,376	785	500	1	1,286
Transportation costs	13,751	—	—	13,751	13,560	—	—	13,560
Facility costs	198	383	12	593	320	386	13	719
Selling costs	—	2,129	(7)	2,122	—	1,636	(17)	1,619
Administration costs	—	—	634	634	—	—	698	698
Total	**$ 93,876**	**$ 5,306**	**$ 3,119**	**$102,301**	**$ 98,772**	**$ 4,564**	**$ 2,205**	**$105,541**

Nine months ended September 30,	2023				2022			
	COS	OPEX	G&A	Total	COS	OPEX	G&A	Total
Direct material	$249,140	$ —	$ —	$249,140	$217,388	$ —	$ —	$217,388
Salary costs	12,461	7,659	8,731	28,851	10,515	5,993	5,067	21,575
Equipment costs	3,066	2,245	3	5,314	2,066	1,660	1	3,727
Transportation costs	51,398	—	—	51,398	34,542	—	—	34,542
Facility costs	502	1,230	22	1,754	733	1,180	43	1,956
Selling costs	—	6,072	3	6,075	—	4,868	21	4,889
Administration costs	—	—	2,493	2,493	—	—	2,260	2,260
Total	**$316,567**	**$ 17,206**	**$ 11,252**	**$345,025**	**$265,244**	**$ 13,701**	**$ 7,392**	**$286,337**

18. COMMITMENTS AND CONTINGENCIES

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

2023	$	595
2024	$	2,122
2025	$	855
2026	$	703
Total	**$**	**4,275**

Additionally, under the terms of the Peace River facility lease (as described in Note 11), the Company is exposed to potential future cash outflows for variable lease payments which commence when production exceeds 150,000 metric tonnes per year. During the three and nine months ended September 30, 2023, no variable lease payments were incurred under the terms of the lease agreement (three and nine months ended September 30, 2022 - $nil).

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.

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

19. FINANCE EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Interest	$ 6,117	$ 7,003	$ 19,794	$ 20,289
Accretion(1)	2,098	1,189	5,915	3,392
Other	562	331	1,558	654
Total	**$ 8,777**	**$ 8,523**	**$ 27,267**	**$ 24,335**

Note:
(1) Includes accretion of deferred financing fees, amounts related to accretion of the Notes to their aggregate principal value, and accretion of the Company's decommissioning provision.

20. 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 $162 and $656, respectively, recorded as other expense for the three and nine months ended September 30, 2023 (three and nine months ended September 30, 2022 - $147 and $2,538, respectively).

During the three months ended September 30, 2023, the Company incurred costs to repair a piece of equipment, located at a terminal facility, which malfunctioned during the period. The cost of repairs for the equipment will be reimbursed through an insurance claim, of which a portion was received through an interim disbursement subsequent to the end of the quarter.

Additionally, a one-time retirement payment of $2,347 was included in other expense for the nine months ended September 30, 2022.

21. 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 three months ended September 30,	Canadian Operations	US Operations	Corporate(1)	Total
2023	**$ 121,726**	**$ 2,938**	**$ —**	**$ 124,664**
2022	$ 117,520	$ 2,386	$ —	$ 119,906

Sales for the nine months ended September 30,	Canadian Operations	US Operations	Corporate(1)	Total
2023	**$ 406,488**	**$ 8,828**	**$ —**	**$ 415,316**
2022	$ 320,154	$ 8,307	$ —	$ 328,461

Total Assets	Canadian Operations	US Operations	Corporate(1)	Total
September 30, 2023	**$ 143,889**	**$ 169,691**	**$ 8,233**	**$ 321,813**
December 31, 2022	$ 145,799	$ 164,726	$ 16,372	$ 326,897

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

22. SUBSEQUENT EVENT

In October 2023, the Company purchased and cancelled a portion of the outstanding Notes with an aggregate principal value of $7,051 for gross proceeds of $6,479, including accrued and unpaid interest, resulting in a gain on extinguishment of debt of $411.