

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") dated August 2, 2017 is provided to assist readers in understanding Source's (as defined herein) financial performance and position during the periods presented and significant trends that may impact the future performance of Source. It should be read in conjunction with each of Source's unaudited condensed interim consolidated financial statements and related notes for the three and six month period ended June 30, 2017, Source's audited combined annual financial statements and related notes as at and for the year ended December 31, 2016 and related management's discussion and analysis, which are found in Source's long form final prospectus dated April 6, 2017 (the "Final Prospectus"), each of which are available under the Company's SEDAR profile at www.sedar.com. All amounts are expressed in thousands of Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except where otherwise noted.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See "Non-IFRS Measures" for information regarding the following non-IFRS measures used in this MD&A: "EBITDA", "Adjusted EBITDA" and "Adjusted Gross Margin". This MD&A contains "forward-looking statements" or "forward-looking information" within the meaning of applicable Canadian and United States 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. Additional information about Source is available under the Company's SEDAR profile at www.sedar.com, including the Final Prospectus.

Unless otherwise or the context indicates otherwise, "Source" refers to Source Energy Services Ltd. (the "Company") and its subsidiaries, collectively (or prior to the closing of the Reorganization, to Source Energy Services Canada LP ("Source Canada LP") and Source Energy Services US LP ("Source US LP"), their respective general partners and each of their respective subsidiaries and Berthold Transload Inc. ("Berthold"), an affiliated entity, on a consolidated basis).

On April 13, 2017, Source completed a reorganization (the "Reorganization") pursuant to which the Company acquired, directly and indirectly, a majority of the limited partnership interests of Source Canada LP, all of the limited partnership interests of Source US LP and all of the shares of Source Energy Services Canada LP GP Ltd., of Source Energy Services US II LP GP Ltd. and of Berthold, such that those entities became subsidiaries of the Company. See "Corporate Structure" in the Final Prospectus, which is available under the Company's SEDAR profile at www.sedar.com.

About Source

Source is a fully integrated producer, supplier and distributor of high quality Northern White frac sand primarily to the Western Canadian Sedimentary Basin (the "WCSB"). Source provides its customers with a full end-to-end solution through its Wisconsin mine assets, processing facilities, unit train capable rail assets, strategically located terminal network and "last mile" logistics capabilities. Source's full service approach allows customers to rely on its logistics capabilities to increase reliability of supply and to ensure the timely delivery of their growing frac sand requirements. In addition to its transload terminal network and in-basin storage capabilities, Source has also developed Sahara, a proprietary wellsite mobile sand storage and handling system.

Results overview

Source had a very strong second quarter of 2017, despite spring break up, as western Canadian completion activity remained robust. Sand sales volumes increased 210% compared to the second quarter of 2016 while wellsite solutions revenue also increased by 138% compared to the same period. Sand sales year to date for 2017, now exceed full year sand sales for 2016, and the demand outlook remains strong for the remainder of the year. Adjusted Gross Margins for the quarter were \$31.96 per metric tonne ("MT") which is a 19% improvement over the Adjusted Gross Margins realized in the first quarter of 2017. On a year to date basis Adjusted Gross Margins are \$29.39/MT which is 37% higher than the Adjusted Gross Margins realized in the first six months of 2016. Adjusted EBITDA for the second quarter of 2017 has improved by \$18 million to \$9.0 million compared to the same period in 2016. For the six months ended June 30, 2017 Adjusted EBITDA is \$16.2 million which is \$20.0 million higher than in the comparable period of 2016.

Completion of its IPO, in April 2017, allowed Source to strengthen its balance sheet by reducing its long-term liabilities by \$139.8 million and allowed it to complete the acquisition of the Blair Facility in the second quarter of 2017, improving its sand supply position. See “History of the Business” included at the end of this MD&A for additional information. This positions Source to continue to be a leading provider of proppant and related services in western Canada.

Business Outlook

With the continued strong economic results being realized by E&P companies operating in the Montney, Duvernay and Deep Basin areas of the WCSB, Source expects well completion activity to continue to show significant improvement over 2016. Canadian well completion sand intensities on average continue to lag the U.S. well completion sand intensities however the Canadian average is rising as U.S. style completions are being gradually adopted by Canadian E&P companies. Provided that commodity prices remain at similar levels to what they are today, and that E&P companies continue with their previously announced capital plans, significant improvement in sand sales compared to 2016 is expected to continue through the balance of 2017. Source also expects that activity levels and sand intensity levels will continue to rise in 2018.

Review of Operations for the three and six months ended June 30, 2017 and 2016

	Three Months Ended		Six Months Ended	
	30-June		30-June	
<i>(\$000's, except MT and per unit amounts)</i>	2017	2016	2017	2016
Sand Volumes (MT) ⁽¹⁾	414,286	133,636	834,297	393,754
Sand Revenue	50,555	17,066	102,185	58,013
Wellsite Solutions	16,629	6,982	27,164	7,840
Terminal Services	1,475	1,049	3,743	2,579
Sales	68,659	25,097	133,092	68,432
Cost of Sales	55,420	25,755	108,575	60,004
Cost of Sales Depreciation	2,810	1,989	5,368	4,350
Cost of Sales	58,230	27,744	113,943	64,354
Gross Margin	10,429	(2,647)	19,149	4,078
Operating and General and Administrative Expenses	5,718	7,906	9,602	12,672
Depreciation	1,540	1,523	2,807	2,822
Income (loss) from operations	3,171	(12,076)	6,740	(11,416)
Other expense(income):				
Loss (gain) on asset disposal	(3)	1,460	(3)	1,460
Finance expense	9,409	4,902	18,888	8,402
Loss/(gain) on derivative liability	(31)	-	(4,165)	-
Stock based compensation expense	3,870	-	3,870	-
Other income	(432)	(55)	(964)	(1,083)
Management Fees	-	636	417	814
Foreign exchange loss/(gain)	(157)	569	524	878
Total other expense (income)	12,656	7,512	18,567	10,471
Income (loss) before income taxes	(9,485)	(19,588)	(11,827)	(21,887)
Current Income Tax	1,691	4	1,691	4
Deferred income tax	(2,340)	-	(2,680)	-
Net Income (loss)	(8,836)	(19,592)	(10,838)	(21,891)
Adjusted EBITDA ⁽²⁾	8,959	(9,078)	16,204	(3,775)
Sand Revenue Sales/MT	122.03	127.71	122.48	147.33

	June 30, 2017	December 31, 2016
Total Assets	331,593	219,406
Total non-current financial liabilities	99,649	239,549

Note:

⁽¹⁾ one metric tonne is approximately equal to 1.102 short tons

⁽²⁾ Adjusted EBITDA is not defined under IFRS, see “Non-IFRS Measures” below

Sales

Most of Source's revenue is derived from mining, processing and providing a full frac sand delivery solution to customers in-basin or at the wellsite. In addition, Source generates revenue from related services including terminal services, which involve transloading services, and wellsite solutions, which include the provision of storage and logistics services at the wellsite. Frac sand sales occur at Source's terminals or at the customer's wellsite. These sales primarily occur under a variety of contracts with terms between one and three years. Typically, the contracts commit customers to a percentage of their Northern White frac sand requirements that range from 25% to 100% of their sand needs. The pricing under the contracts range from current market pricing to fixed prices with adjustment mechanisms based on various factors. Frac sand sales also occur on a spot basis and transloading, wellsite storage and logistics coordination service sales are earned on a fee-for-service basis.

Overall sales for the second quarter of 2017 increased by \$43.6 million or 174% to \$68.7 million, when compared to the \$25.1 million generated in the second quarter of 2016. The increase is driven by all areas of the business. Sequentially from the first quarter of 2017, Source also saw a 7% (\$4.2 million) increase in sales due to increased wellsite solutions revenues. Normally, second quarter sales activities decline due to the seasonal impact of road bans being put in place during spring break up. The continued relative stability of oil and gas commodity prices and particularly the continued premium on Western Canadian natural gas liquids prices in 2017 has provided exploration and development companies confidence to continue their drilling and completion programs in 2017 especially in the Montney, Duvernay and Deep Basin areas of the WCSB.

Source's sand sales increased by \$33.5 million in the second quarter of 2017 compared to the second quarter of 2016, as a 210% (280,650 MT) increase in sales volumes was partially offset by the impact of a 4% (\$5.68/MT) price decrease compared to the second quarter of 2016. Sales volumes ramped up dramatically in the second quarter of 2017 compared to the second quarter of 2016 due to a significant increase in completion activity levels through the traditionally slower spring break up period. The continued trend of increasing sand intensity levels in completion programs in western Canada was also a key contributor to the increased sales volumes. While spring break up did affect sand sales early in the second quarter, customers planned their 2017 completion programs to effectively work through spring break up. Drier weather in 2017, also reduced the spring break up effect as road bans were not as severe as they were in 2016. In 2016, low commodity prices and very wet weather led to very soft sand sales volumes. Canadian well completion sand intensities on average continue to lag the U.S. well completion sand intensities. However, the Canadian average continues to rise as U.S. style completions are being gradually adopted by Canadian E&P companies. Compared to the first quarter of 2017, sand sales decreased by \$1.1 million as a 1% decrease in sand volumes (5,725 MT) and a 1% decline in average prices (\$0.90/MT) due to the impact of spring break up and customer mix in the second quarter. Sequentially the minor decline from the first quarter to the second quarter in 2017 is significantly better than management's expectation of a normal spring break up which generally encounters a 25% decline.

Sand pricing in the second quarter of 2017 decreased compared to the second quarter of 2016, due to the mix of product sales by location, increased sales of coarser sand at lower prices as well as price concessions given in late 2016, that extended through to the end of the second quarter of 2017. Sand pricing is anticipated to increase in the third quarter of 2017, as concession pricing ended at the end of the second quarter of 2017. Second quarter average sales prices were impacted by some coarse grade sales at lower pricing to ensure production efficiency was maintained. If the impact of these coarse sales was removed from the sales mix, the average realized sand price in the quarter would have been \$1.04/MT higher than the price realized by Source in the second quarter of 2016. During the second quarter of 2017, Source saw 41% of its sand sales occur in US dollars, compared to 12% in the second quarter of 2016, which was impacted by a 4.4% increase in the strength of the Canadian dollar quarter over quarter. As North American sand sales volumes continue to ramp up in the second quarter of 2017 sand spot pricing is continuing to rise.

For the first six months of 2017, Source has sold 1,862 MT's more sand than it sold in all of 2016, and its sand volumes are 112% higher than the first six months of 2016. Improved completion activity levels and increasing well intensities are the principal drivers of the increase. Average sand pricing for the first six months of 2017 was \$122.48, which is 17% lower than the average sand price in the first six months of 2016, due to the mix of product sales by location, increased sales of coarser sand at lower prices as well as price concessions given in late 2016, that extended through to the end of the second quarter of 2017.

E&P companies in 2017 continued to work to manage their well completion costs, and continued to use Source to help manage their "last mile" logistics costs from the terminal to the wellsite by placing Source's personnel and its

Sahara unit on the customers' wellsite. Wellsite revenue increased by \$9.6 million in the second quarter of 2017 compared to the second quarter of 2016 due to a 142% increase in sand sales occurring at the wellsite and a 540% increase in revenues generated from the Sahara units. Source manages overall trucking costs and sand supply reliability for some of its customers, which in turn helps them succeed with their completion programs. Sequentially, wellsite revenue increased \$6.1 million over the first quarter of 2017 as Source trucked more volume to the wellsite in the second quarter of 2017 and had a 95% increase in Sahara revenues in the second quarter of 2017 compared to the first quarter of 2017. On a year to date basis, Source has seen a \$19.3 million increase in wellsite revenue from a 105% increase in volumes trucked and 345% increase in Sahara revenues.

Source also provides terminal services for certain well-completion products that aren't produced by Source. The revenue generated from these terminal services increased by \$0.4 million or 41%, in the second quarter of 2017, compared to the second quarter of 2016, as the increase in industry activity translated into a 3% increase in transloading services for other proppant products and a 158% increase in hydrochloric acid transloading revenue. Terminal services sales generally follow completion trends in the WCSB. On a year to date basis terminal services revenues are up \$1.2 million or 45% for the same reasons they are up in the quarter.

Cost of Sales

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$000's, except MT and per unit amounts)</i>	2017	2016	2017	2016
Direct Materials	30,481	12,001	62,253	38,639
People Costs	6,048	2,529	10,923	5,391
Equipment Costs	2,644	1,863	5,165	3,354
Transportation Costs	14,726	7,839	27,240	9,877
Facility Costs	1,521	1,523	2,994	2,743
Cost of Sales	55,420	25,755	108,575	60,004

Cost of sales, which is composed of sand processing costs, rail freight, rail car leases, terminal operation costs, third party trucking costs, and wellsite operations costs, increased by \$29.6 million or 115% to \$55.4 million in the second quarter of 2017 as compared to the same period in 2016, while sales volumes increased by 210%. The increase in cost of sales is due to increased production costs due to higher sales volumes and the increased use of third party trucking firms to support the "last mile" solution for Source's customers. Sand production costs per unit declined by 26% in the second quarter of 2017 compared to the second quarter of 2016 as production rose, and the fixed cost elements of production were spread over more units. Sand production costs however, were higher than expected as Source incurred \$1.4 million of incremental costs to acquire third party sand to meet customer requirements in the quarter until the Blair Facility which was acquired during the second quarter of 2017 was fully operational. Year to date cost of sales is \$108.6 million which is \$48.6 million higher than the prior year period for the same reasons as the second quarter was higher. Source has incurred \$4.2 million of incremental costs to acquire third party sand to meet contractual commitments for the six months ended June 30, 2017. The Blair Facility becoming fully operational in the second quarter will significantly reduce the need to do this in the foreseeable future. Yields from the mines were consistent with expectations for both the second quarter and on a year to date basis. Significant components of cost of sales are mainly U.S. dollar denominated costs including sand processing, rail freight, and rail car leases and therefore subject to fluctuations of the Canadian dollar compared to the U.S. dollar. In the second quarter of 2017, the average Canadian/U.S. dollar exchange rate strengthened by 4.4% as compared to the second quarter of 2016, which led to decreases in the Canadian dollar equivalent cost of sales.

Costs associated with sand processing equipment and overburden stripping costs are capitalized as the cost is incurred and depreciated on a unit of production basis. Cost of sales — depreciation increased by \$0.8 million year over year, primarily due to taking depreciation on 2016 capital additions, which was mainly due to fourth quarter of 2016 capital additions and the impact of the acquisition and operation of the Blair Facility.

Gross Margin

(\$000's, except MT and per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Gross Margin	10,429	(2,647)	19,149	4,078
Cost of Sales — depreciation	2,810	1,989	5,368	4,350
Adjusted Gross Margin ⁽¹⁾	13,239	(658)	24,517	8,428
Gross Margin %	15.2%	(10.5%)	14.4%	6.0%
Gross Margin/MT	\$25.17	(\$19.81)	\$22.95	\$10.36
Adjusted Gross Margin % ⁽¹⁾	19.3%	(2.6%)	18.4%	12.3%
Adjusted Gross Margin/MT ⁽¹⁾	\$31.96	(\$4.92)	\$29.39	\$21.40

Note:

⁽¹⁾ Adjusted Gross Margin is not defined under IFRS, see “Non-IFRS Measures” below

Adjusted Gross Margin was \$13.2 million or 19.3% for the second quarter of 2017 compared to \$(0.7) million or (2.6%) in the second quarter of 2016. The Adjusted Gross Margin percentage improved significantly year over year despite the incremental cost incurred to acquire the third-party sand, and the impact of the low margin sand sales on coarser grade sand, due to the improved production costs discussed above. Sequentially from the first quarter of 2017 Adjusted Gross Margin increased by \$2.0 million or \$5.11/MT due to improved wellsite solutions profitability in the quarter. On a year to date basis the Adjusted Gross Margin has increased \$16.1 million, to \$24.5 million despite having purchased \$4.2 million of third party sand year to date and the impact of the low margin sand sales for coarser grade sand.

Gross margin of \$10.4 million or 15.2% in 2017 increased by \$13.1 million from the second quarter of 2016 for the same reasons the Adjusted Gross Margin improved. Gross margins were also impacted by an increase in cost of sales – depreciation.

Operating and General and Administrative Expenses

(\$000's, except MT and per unit amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Operating and General and Administrative Expenses				
People	3,655	2,003	5,867	4,371
Equipment	543	1,429	1,122	2,780
Facility	806	685	1,459	1,311
Selling and Administrative	714	3,789	1,154	4,210
	5,718	7,906	9,602	12,672

Operating and general and administrative expenses for the three months ended June 30, 2017 were \$5.7 million, a decrease of \$2.2 million from the prior year second quarter. Costs associated with people increased year over year due to the replacement of some positions where staff had left a position during the downturn and the positions were not filled at that time, as well as the payment of some prior compensation arrangements to staff that were triggered by the completion of the IPO. Equipment costs of \$0.5 million in the second quarter of 2017 were \$0.9 million lower than in the second quarter of 2016, due to excess rail car costs and higher equipment repairs and maintenance in the second quarter of 2016. These excess rail car leases expired by the end of 2016 and have been removed from the rail fleet. These rail cars are being replaced with newer, more functional cars at lower lease rates. The rail car fleet currently includes 1,280 cars at June 30, 2017. Rail car lease costs that are not considered excess fleet are recorded as part of cost of sales. Excess fleet costs are captured in operating expenses. Facility costs at \$0.8 million were slightly higher during the second quarter of 2017 as Source moved its head office to accommodate its additional staffing needs. Selling and administrative costs at \$0.7 million were \$3.1 million lower than in the same period of 2016, when Source wrote off a bad debt related to a pressure pumper who had previously gone bankrupt. On a year to date basis operating and general and administrative costs are lower by \$3.1 million for the same reasons they were in the second quarter of 2017.

Expenses

The principal expenses involved in the production of frac sand are excavation, labour, utilities, transportation and maintenance costs. Source contracts a third party to remove the overburden, to excavate the unprocessed frac sand and to deliver that material to its washing facilities. Source pays a fixed price per MT of material excavated and delivered to the washing facilities. Until this material is washed and dried it will not necessarily meet API specifications and not be a saleable product. Therefore, Source incurs excavation costs for materials which are handled but from which it does not ultimately generate sales (rejected materials). Source also incurs costs related to sand that is washed and stockpiled awaiting completion of the drying process. The ratio of rejected materials to the total amounts excavated has been and is expected to continue to be in line with Source's expectations, based on the core sampling Source has undertaken at the Sumner Facility and Blair Facility.

Labour costs at Source's processing facilities represent the most significant cost of converting frac sand to finished product. Source incurs utility costs in connection with the operation of its processing facilities, primarily natural gas and electricity. Source has entered a physical fixed price natural gas contract for a portion of its natural gas needs. The balance of Source's utility purchases are based on local market prices. Source has contracted a third party to transport the washed sand from the Sumner Facility to the Weyerhaeuser Facility, and to transport waste material back to the Sumner Facility. Source's processing facilities require periodic scheduled maintenance to ensure their efficient operation. Direct and indirect labour costs, utilities, transportation and maintenance costs associated with sand processing are capitalized as a component of inventory and are included in cost of sales when that inventory is ultimately sold.

To distribute sand from its processing facilities to its terminals or the customer's wellsite, Source purchases freight from CN and then, if applicable, incurs third party trucking costs to move the sand to the customer's wellsite. Source is charged fuel surcharges by the various transportation companies, leasing costs related to its railcars, labour and other terminal operating costs. Costs related to rail are capitalized as a component of inventory and are then included in the cost of sales when that inventory is sold. Costs related to directly moving sand or other transloaded products at Source's terminals are directly charged to cost of goods sold, while overhead costs of operating the terminals are recorded as operating costs of the business.

Occasionally, Source will purchase sand from third party producers. This may occur when there are third party transportation disruptions, when Source has other production constraints or when it identifies the opportunity to make purchases of sand in the marketplace from third parties. When Source purchases sand these costs are included in inventory until the sand is sold and then such costs are recognized in cost of goods sold.

Source incurs general and administrative expenses related to its corporate operations, including operating its corporate offices. Significant costs include salaries for the corporate staff, facility costs for the corporate offices, professional and advisory fees and information systems related costs for Source.

Depreciation

Depreciation primarily consists of depreciation on property plant and equipment and depreciation of capitalized stripping costs. Depreciation of the processing equipment used in the processing of frac sand to a final saleable product and depreciation of capitalized stripping costs are included in cost of goods sold. Depreciation of other equipment used in the business is recorded in a separate line item in the statements of operations and comprehensive income.

Depreciation expense of \$1.5 million in the second quarter of 2017 and \$2.8 million for the six months ended June 30, 2017 were comparable to the same periods in 2016.

Finance Expense

Finance expense is primarily composed of interest expense on: (a) the Notes; (b) two facilities in an aggregate principal amount of \$41,650,000 (collectively, the "Credit Facilities") which include a revolving credit facility with availability thereunder subject to the limit of the lesser of: (A) \$35,000,000 and (B) the borrowing base, to be used to finance day to day operations of Source Canada LP and its subsidiaries and for general working capital requirements, including financing receivables, inventory and capital expenditures that have been approved by the lenders, and (ii) a US\$5,000,000 standby letter of credit facility to be used to issue one or more standby letters of credit; (c) the preferred shares obligation; (d) the amount due to related parties; and (e) the Shareholder loans. These items are all further described in the notes to the interim condensed consolidated financial statements of Source for the period ended June 30, 2017, which were settled in conjunction with the completion of the IPO.

Finance expenses increased by \$4.5 million to \$9.4 million in the second quarter of 2017 as compared to 2016 due to \$1.6 million in legal and professional fees for the IPO and Reorganization being expensed and the recognition of additional accretion of \$3.2 million on the partial Note repayment that occurred in the quarter. This was partially offset by a reduction in interest costs due to the repayment of the Preferred Share obligation, the Shareholder loans, the Related Party loans and \$22.3 million of the Notes during the second quarter of 2017.

Other Expense and Income

Source recorded Stock Based Compensation in the second quarter of 2017 of \$3.9 million as Source settled its prior private company stock option plan at the time of the IPO recognizing an additional expense of \$0.7 million in the quarter. As part of the IPO Source granted 2.6 million stock options with an exercise price of \$10.50, which resulted in the recognition of an expense of \$3.2 million. As this was the initial grant of stock options done at the time of the IPO, one third of the options vested immediately, with the remaining two thirds vesting over the following two years, this resulted in a larger expense being recognized in the second quarter of 2017. Future grants, will vest on a more traditional basis consistent with market practice.

Other income of \$0.4 million was recorded in the second quarter of 2017, compared to other income of \$0.1 million in 2016. In the second quarter of 2017, Source completed a storage agreement with a customer, and recognized the deferred storage revenue. With the downturn in activity in the prior couple of years the customer did not transload as much proppant as they had previously contemplated. On a year to date basis other income is \$1.0 million which is consistent with the prior year period. The 2017, other income is substantially from expiration of storage agreements, while the prior year amount is due to recognizing a portion of a penalty charged to a customer that did not take its minimum sand requirements in 2015.

Source realized a foreign exchange gain of \$0.2 million in the second quarter of 2017, which was a \$0.8 million change from the \$0.6 million loss recognized in the second quarter of 2016. The 2017 gain was generated from a strengthening Canadian dollar and lower average U.S. dollar denominated net working capital balances in 2017 than 2016, as some of Source's customers who had changed from buying sand in U.S. dollars to Canadian dollars increased their purchases in the second quarter of 2017. For the six months ended June 30, 2017, there was a foreign exchange loss of \$0.5 million which was \$0.4 million lower than the prior year for the same reasons it was lower in the second quarter.

Adjusted EBITDA for the second quarter of 2017 increased by \$18.0 million to \$9.0 million, as the increase in sand sales both increased sales and help reduce production costs on a per unit basis. Wellsite solutions revenue improvements also helped second quarter performance. Operating and general and administrative costs were lower year over year due to having less desirable excess rail cars until their leases expired late in 2016. On a year to date basis Adjusted EBITDA is \$16.2 million an increase of \$20.0 million over the prior year six-month period.

Source recorded a tax recovery in the second quarter of \$0.6 million, compared to no provision in the second quarter of 2016. The reorganization of the corporate structure, as part of the IPO, changed the structure from being a series of partnerships to a structure with a corporation on top, this caused a more traditional tax provision to be recorded in the quarter. Year to date a tax recovery of \$1.0 million has been recorded.

Summary of Quarterly Results

\$000's, except MT and per unit amounts	2015		2016				2017	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sand Sales MT	251,740	171,624	260,117	133,636	157,210	281,472	420,011	414,286
Sand Revenue	45,299	23,283	40,947	17,066	19,109	35,840	51,630	50,555
Wellsite Solutions	2,038	1,782	858	6,982	4,499	8,922	10,535	16,629
Terminal Services	2,088	1,651	1,530	1,049	1,112	1,285	2,267	1,475
Sales	49,425	26,716	43,335	25,097	24,720	46,047	64,432	68,659
Cost of Sales	37,027	24,728	34,249	25,755	24,048	39,205	53,155	55,420
Cost of Sales Depreciation	1,551	2,181	2,360	1,989	2,078	1,612	2,558	2,810
Cost of Sales	38,578	26,909	36,609	27,744	26,126	40,817	55,713	58,230
Gross Margin	10,847	(193)	6,726	(2,647)	(1,406)	5,230	8,719	10,429
Operating and General and Admin Expenses	4,040	5,905	4,766	7,906	4,444	6,750	3,884	5,718
Depreciation	1,816	1,156	1,299	1,523	1,200	2,351	1,267	1,540
Income (loss) from operations	4,991	(7,254)	661	(12,076)	(7,050)	(3,871)	3,568	3,171
Other expense (income):								
Loss (gain) on asset disposal	(1)	(7)	-	1,460	1,410	(1,788)	-	(3)
Loss (gain) on impairment	-	-	-	-	-	1,852	-	-
Finance expense	3,676	3,885	3,500	4,902	3,984	7,105	9,479	9,409
Loss (gain) on derivative liability	-	-	-	-	-	910	(4,133)	(31)
Fair Value adjustment on shareholder loan	3,906	-	-	-	-	-	-	-
Stock based compensation expense	-	-	-	-	-	-	-	3,870
Other income	(53)	(1,380)	(1,028)	(55)	(310)	(3,466)	(532)	(432)
Management Fees	164	579	178	636	76	153	417	-
Foreign exchange loss/(gain)	(106)	300	309	569	118	1,063	681	(157)
Total other expense (income)	7,586	3,377	2,959	7,512	5,278	5,829	5,912	12,656
Income (loss) before income taxes	(2,595)	(10,631)	(2,298)	(19,588)	(12,328)	(9,700)	(2,344)	(9,485)
Income taxes	(1)	553	-	4	81	(597)	(339)	(649)
Net Income (loss)	(2,594)	(11,184)	(2,298)	(19,592)	(12,409)	(9,103)	(2,005)	(8,836)
Net Income (loss)	(2,594)	(11,184)	(2,298)	(19,592)	(12,409)	(9,103)	(2,005)	(8,836)
Interest	3,676	3,660	3,193	4,325	3,840	4,844	6,609	3,394
Income taxes	(1)	553	-	4	81	(597)	(339)	(649)
Depreciation	1,816	1,156	1,299	1,523	1,200	2,351	1,267	1,540
Cost of Sales Depreciation	1,551	2,181	2,360	1,989	2,078	1,612	2,558	2,810
EBITDA ⁽¹⁾	4,448	(3,634)	4,554	(11,751)	(5,210)	(893)	8,090	(1,741)
Add:								
Loss (gain) on asset disposal	(1)	(7)	-	1,460	1,410	(1,788)	-	(3)
Loss (gain) on impairment	-	-	-	-	-	1,852	-	-
Finance expense	-	225	307	577	144	2,261	2,870	6,015
Loss (gain) on derivative liability	-	-	-	-	-	910	(4,133)	(31)
Stock based compensation expense	-	-	-	-	-	-	-	3,870
Fair Value adjustment on Shareholder loan	3,906	-	-	-	-	-	-	-
Management Fees	164	579	178	636	76	153	417	-
Transaction and professional fees	-	746	264	-	662	-	-	849
Gain on settlement of deferred revenue	-	-	-	-	-	(3,328)	-	-
Adjusted EBITDA ⁽¹⁾	8,517	(2,091)	5,303	(9,078)	(2,918)	(833)	7,244	8,959
Sand Revenue Sales/MT	180	136	157	128	122	127	123	122
Gross Margin	10,847	(193)	6,726	(2,647)	(1,406)	5,230	8,719	10,429
Cost of Sales Depreciation	1,551	2,181	2,360	1,989	2,078	1,612	2,558	2,810
Adjusted Gross Margin ⁽¹⁾	12,398	1,988	9,086	(658)	672	6,842	11,277	13,239
Gross Margin/MT	43.09	(1.12)	25.86	(19.81)	(8.94)	18.58	20.76	25.17
Adjusted Gross Margin/MT ⁽¹⁾	49.25	11.58	34.93	(4.92)	4.27	24.31	26.85	31.96

Note:

⁽¹⁾ EBITDA, Adjusted EBITDA and Adjusted Gross Margin are not defined under IFRS see "Non-IFRS Measures" below

In the fourth quarter of 2016, when oil and gas commodity prices stabilized and began to rise, the larger, better financed E&P companies returned to work, and Source saw a 79% sequential increase in sales volumes from the third quarter of 2016 and a 64% increase in sales volumes from the fourth quarter of 2015. As North American sand sales volumes, have ramped up in the fourth quarter of 2016 and into the first and second quarters of 2017, spot sand pricing which was stable in the fourth quarter has begun to rise as the industry wide supply and demand have begun to better align. Sales in the fourth quarter of 2016 were \$35.8 million an increase of \$12.6 million over the same period of 2015. In the fourth quarter of 2016, Source sold 78 % of its sand sales volumes at the wellsite, compared to nil in 2015, which resulted in a dramatic increase in wellsite solution sales. The higher sales volumes in the fourth quarter of 2016 help drive down the cost of the delivered product, which resulted in improved Adjusted Gross Margin for the quarter.

In the fourth quarter of 2016, the Notes offering was completed. The proceeds from the offering were used to repay the previous credit facilities and a prepayment note with a customer, which increased finance expense in the fourth quarter of 2016 as the previous credit facilities deferred financing costs were expensed. Source also recognized a gain of \$3.3 million on the settlement of the prepayment note at that time.

The fourth quarter of 2015 saw sand sales volumes at 171,624 MT, representing a 39% decrease from the fourth quarter of 2014. The continued softening of oil and gas commodity prices caused the exploration and production companies to curtail their capital spending programs which has led to a significant decline in the amount of completion activity in the WCSB.

Source's business is seasonal in nature with the majority of activity being in the first, third and fourth quarters. The least activity is 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 as 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, Source's operating results may vary on a quarterly basis. In addition, many exploration and production areas in northern Canada are accessible only in the winter months when the ground is frozen.

As a general industry practice, frac sand processing facilities in Wisconsin are not operated during the winter months. However, Source's sand washing facility at the Sumner Facility is fully enclosed and heated making it capable of operating year around. Winter operations at the Sumner Facility are an important facet of Source's business, as the WCSB is seasonally busiest in the winter months. Regardless of its ability to wash sand in the winter, Source excavates 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 the drying operations throughout the year.

Liquidity and Capital Resources

Source operates in a working capital and capital expenditure intensive industry where capital is required to fund working capital growth and the continued development of the transload terminal network and processing facilities. To date free cash flow from operations, amounts available under the Notes, the Credit Facilities and equity offerings have been the primary sources of liquidity that allowed Source to meet its financial requirements to both grow and operate the business operations in the short and long term. Source is funding its 2017 capital plans through a combination of funds from operations and funds received on the IPO equity issuance and available credit facilities. Beyond 2017, Source intends to finance working capital and its capital expenditures through a combination of funds from operations, and additional debt and equity issuances.

Source spent \$7.2 million on capital expenditures in the second quarter of 2017 and \$10.0 million for the first six months of 2017. The expenditures were made to remove overburden at the mine sites, expenditures on the next Sahara unit, acquiring the Blair Facility option land and preliminary expenditures on the terminal expansions.

Source's capital management policy is to maintain a strong capital base that optimizes Source's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its stakeholders. Source's officers are responsible for managing its capital and do so through monthly management meetings and quarterly board meetings including regular reviews of financial information including budgets and forecasts. Source's board of directors is responsible for overseeing this process. Source considers its capital structure to include Source's equity, the Notes, and bank debt.

Source monitors its capital, based on its current working capital, available bank line, projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, Source prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by management and approved by the board of directors. The budget results are regularly reviewed and updated as required.

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

Source's share capital is not subject to external restrictions but the amount of the Credit Facilities is determined with reference to inventory and accounts receivable levels maintained.

Source's capital management policy has not changed during the six-month period ended June 30, 2017 or for the years ended December 31, 2016 and 2015.

Source intends to meet its future capital requirements primarily through cash flow from operations, the Credit Facilities and raising equity in the public markets in Canada. Source expects these sources will be sufficient to meet its capital needs. However, Source's ability to fund future operating expenses and capital expenditures and its ability to make scheduled payments of interest on the Notes and the Credit Facilities and to satisfy any of Source's other present or future debt obligations will depend on our future operating performance which will be affected by general economic, financial and other factors including the risks described in the following paragraphs, and those described under the heading "Risk Factors" in the Final Prospectus.

On December 8, 2016, the Note Issuers issued the Notes which bear interest at 10.5% per annum, and mature December 15, 2021. The Notes are secured by a fixed and floating charge over all the assets of the business except accounts receivable and inventory, on which the Notes carry a second charge. Each holder of Notes is entitled to a relevant right of 4% of the equity value of the Note Issuers upon an initial public offering and various liquidation or change of control events. There are prepayment options, where the Note Issuers may redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering at a redemption price of 110.5% of the principal amount. The Note Issuers may also redeem all or part of the Notes at any time prior to December 15, 2018 for 100% of the principal, accrued and unpaid interest, and the applicable premium as defined in the agreement. After December 15, 2018, the Notes may be redeemed in whole or in part at the applicable percentage (2018 — 107.875%, 2019 — 103.9375%, 2020 — 100%), plus accrued and unpaid interest. Such relevant rights and prepayment option have been classified as a derivative liability and are measured at fair value through profit or loss. On May 29, 2017, Source elected to settle the relevant right transaction through the issuance of 1,005,831 Common Shares to the holders of Notes. In connection with the closing of the IPO Source also exercised its right to repay a portion of the Notes and on June 5, 2017 it repaid \$22.3 million of principal of the Notes along with accrued interest and a make whole premium of 10.5%. The principal outstanding on the Notes is \$107.7 million at June 30, 2017.

At June 30, 2017, the fair value of the prepayment option was \$0.2 million (\$0.1 million - December 31, 2016). Changes in fair value of the derivative liabilities are recorded through the Consolidated Statements of Operations and Comprehensive Income (Loss). Source has recorded a fair value gain on the prepayment option of \$0.03 million as of June 30, 2017, (December 31, 2016 — \$nil). On a year to date basis a \$4.2 million gain on derivative liability has been recognized, as a \$4.2 million gain was recognized on the fair value of the relevant right transaction in the first quarter of 2017.

The Credit Facilities are secured by floating first lien charge on the accounts receivable and inventory of Source under a general business security agreement and a second lien charge on all other assets of the business. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories. As of June 30, 2017, \$nil was drawn under the Credit Facilities, however \$3.8 million was committed to supporting letters of credit under the facilities and \$31.2 million was available. The borrowing base is updated by the bank monthly. Letters of credits were issued for US\$7.9 million. To date no amounts have been drawn against these letters of credit. Source has used proceeds from the IPO to temporarily paydown this facility, as the capital expenditure program for 2017 ramps up, this facility will be redrawn as required.

Source is subject to externally imposed capital requirements for the Credit Facility, requiring Source Canada LP to maintain a springing fixed charge ratio of (a) 1.10:1 up to and including June 30, 2017, and then (b) 1.25:1 at all times thereafter to be measured when Source's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. As of June 30, 2017, the excess availability was greater than 20%. Source Canada LP is in compliance with all covenants of the Credit Facilities as of June 30, 2017.

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in U.S. dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on cost of manufacturing of inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at June 30, 2017 are \$13,518 (December 31, 2016 - \$1,693) and \$16,047 (December 31, 2016 - \$8,380) denominated in foreign currency respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) for the three and six months ended June 30, 2017 by \$24 and \$83 (\$121 and \$162 in 2016). As at June 30, 2017, the Company had no forward exchange rate contracts in place.

Cash and Net Working Capital

As of June 30, 2017, Source had \$10.2 million of cash on hand and had senior long term debt outstanding of \$93.1 million, as compared to \$124.4 million as of December 31, 2016. There was a cash flow deficit from operations of \$16.8 million for the first six months of 2017 compared to \$5.8 million in cash flow from operations in 2016 as the impact of a \$29.3 million increase in net working capital was partially offset by a \$10.2 million decrease in the net loss for the first six months of 2017 compared to the first six months of 2016. The cash flow deficit was funded by the proceeds from the IPO. Capital expenditures for the first six months of 2017 were \$10.0 million compared to \$4.2 million in the same period in 2016, excluding the purchase of the Blair Facility for \$59.9 million. The capital expenditures in both periods were funded by proceeds from the IPO.

Net working capital as of June 30, 2017, was \$59.1 million, as compared to \$6.2 million as of December 31, 2016. The increase was primarily driven by higher accounts receivable balances as Source had significantly higher sales in the second quarter of 2017 compared to the fourth quarter of 2016. This impact was partially offset by lower inventory levels at June 30, 2017 as Source drew down inventory levels in the second quarter. Source will typically draw down inventories on hand during the winter months as sand production costs are relatively higher during the cold winter months in Wisconsin and build inventories during the warmer summer months when production is easier.

Capital expenditures in the second quarter of 2017 were \$7.2 million, as compared to \$1.8 million in 2016. The 2017 capital expenditure program predominately related to overburden removal expenditures at the mine site, expenditures on the next Sahara unit and preliminary expenditures on the terminal expansions. The 2016 capital expenditure program was related to overburden removal and equipment and the production facilities in Wisconsin.

Deferred Revenue

Source has entered storage subscription agreements with some customers to provide them with guaranteed proppant storage at its facilities, which will all expire by August 2017. Under the terms of such agreements, customers pay a non-refundable subscription fee entitling them to a discount of \$2 per tonne from Source's normal sand distribution fees. The subscription fees have been deferred and are recognized as revenue as proppant is transloaded by the subscribers. In the second quarter of 2017 one of these storage agreements ended and Source recognized the remaining subscription fees of \$0.3 million. For the year Source has recognized \$0.8 million from expired storage agreements.

In 2015, one customer failed to meet the minimum sand purchase requirement outlined in their sale agreement, as a result, Source deferred \$0.9 million of revenue relating to this penalty, which was recognized in the first quarter of 2016.

Contractual Obligations

Source has various lease commitments regarding equipment, railcars, physical natural gas contract and office space. The leases expire between May 2017 and December 2025. Estimated annual lease commitment is as follows:

\$000's, except MT and per unit amounts

2017	7,114
2018	10,684
2019	7,944
2020	5,792
2021	5,504
Subsequent Years	8,913
	45,951

Source is a party to contracts with numerous customers. Source's customers are primarily exploration and development companies and pressure pumping companies operating in the WCSB. Source's goal is to create long-term relationships with its customers. Source has structured contracts with customers outlining volume commitments and in some cases fixed pricing, the terms of which vary from one to three years. This mitigates the impact of any nonpayment or non-performance by, or significant reduction in purchases by, any of these contracted customers. A significant number of Source's customers are 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 financial condition of Source.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Outstanding Security Data

The weighted average number of Common Shares outstanding for the three and six months ended June 30 is 46,317,564 and 35,143,661 (2016 – 23,845,603). The weighted average Common Shares number used for 2016 represents the Common Shares equivalent of the partnership units held at that time. Refer to Note 13 of the condensed consolidated financial statement for the period ended June 30, 2017 for further detail on the exchange of units for Common Shares.

	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Issued common shares outstanding, beginning of period	23,845,603	23,845,603	23,845,603	23,845,603
Effect of IPO	14,468,865	-	7,274,402	-
Effect of shareholder loans	3,113,571	-	1,565,386	-
Settlement of relevant transaction rights	364,752	-	183,384	-
Effect of conversion of preferred shares to Common Shares	4,524,773	-	2,274,886	-
Weighted average Common Shares, end of period	46,317,564	23,845,603	35,143,661	23,845,603

As at August 2, 2017 there are 50,316,715 Class A Common Shares outstanding and 1,300,154 Class B shares that are redeemable for Common Shares on a one to one ratio at the option of the holder. Source has 2,580,843 issued and outstanding stock options. See "Corporate Structure" in the Final Prospectus, which is available under the Company's SEDAR profile at www.sedar.com.

Transactions between Related Parties

In the second quarter of 2017 the Reorganization was completed and then the IPO was completed after which the Shareholder loans and the amount due to related party were settled as described above.

Proposed Transactions

There are no proposed transactions

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. For the quarter ended June 30, 2017, Source is filing abbreviated CEO and CFO certifications in respect of the Company's first interim period ending after becoming a reporting issuer. Given that Source became a reporting issuer in the second quarter of 2017, the Company is not required to make any representations regarding the maintenance and establishment of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") in place as at June 30, 2017. Management will certify the design of the Company's DC&P and ICFR as at September 30, 2017 and the effectiveness of DC&P and ICFR as at December 31, 2017. The evaluation of ICFR will be based on the 2013 COSO framework.

It should be noted that while the Company's officers believe that the Company's controls 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 June 30, 2017 consolidated interim 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 of directors 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 Final Prospectus, which is available under the Company's SEDAR profile at www.sedar.com.

Fair value of financial instruments

The fair values of cash, accounts receivable, overdraft, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the asset backed loan facility approximates the carrying values as they bear interest at market floating rates consistent with market rates for similar debt. Based on the closing market price as of June 30, 2017, the fair value of the Notes is \$118 million.

Recently Issued Accounting Standards Not Yet Applied

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

(i) IFRS 9 Financial Instruments

On January 1, 2018, the Company will be required to adopt IFRS 9 Financial Instruments, which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 also requires a single impairment method to be used, which replaces the multiple impairment methods within IAS 39. This method amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The Company is in the process of assessing the impact of IFRS 9 on its financial statements and expects that current policies regarding provisions on trade receivables will be affected

(ii) IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Company will be required to adopt IFRS 15 Revenue from Contracts with Customers. IFRS 15 was issued in May 2014 and will replace IAS 11 Construction Contracts, IAS 18, Revenue Recognition, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets

from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. The Company is in the process of assessing the impact of IFRS 15 on its financial statements.

(iii) **IFRS 16 Leases**

On January 1, 2019, the Company will be required to adopt IFRS 16 Leases. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use-asset' for most lease contracts. The standard permits a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use-asset and the lease liability, rather than full retrospective application. IFRS 16 must be applied for financial years commencing on or after January 1, 2019. Early adoption is permitted, but only in conjunction with IFRS 15. The Company is in the process of assessing the impact of IFRS 16 on its financial statements.

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

Source 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 and a provision for doubtful accounts is established based on specific situations and overall industry conditions.

Inventories

Source 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 the 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. This 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 amount recorded for decommissioning liabilities and accretion expense depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures, and the timing of those expenditures.

Income Taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of Source utilizing certain tax losses in future periods and tax rates applicable to those periods.

Stock-Based Compensation

The fair value of the restricted share units is estimated at the grant date 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 cash-generating units is based on management's judgment regarding geographical proximity, shared equipment, and mobility of equipment.

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, prior to impairments of non-financial assets and 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. The relevant transaction rights and the prepayment option included in the Notes represents a hybrid contract. The embedded derivatives are separated from the note payable and accounted for as derivative liabilities. The embedded derivatives are measured at fair value through profit or loss (FVTPL). The fair value of the derivatives is based on prices or valuation techniques that require inputs that are not based on observable market data.

Shareholder Loans

Shareholder loans have been recorded at fair value, which represents the amount of the loan plus applicable interest. One of the promissory note bears interest at 25% per annum which is paid in a combination of cash and in kind interest.

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), gross margin and other measures of financial performance as determined in accordance with IFRS as an indicator of performance, but Source believes these measures are useful to both management and investors in providing relative performance and measuring changes in respect of Source as well as measuring Source's financial performance in the context of the capital spending necessary to maintain and grow its assets.

Adjusted EBITDA represents, for the period presented, EBITDA as adjusted to add back or deduct, as applicable, the following expenses, costs, charges or benefits incurred in such period which in management's view are not indicative of the underlying business performance: (a) finance expense excluding interest expense; (b) Management Fee; (c) fair value adjustment of the Shareholder loan; (d) loss (gain) on asset disposal; (e) loss (gain) on impairment; (f) transaction and professional fees; (g) loss (gain) on derivative liability; and (h) gain on settlement of deferred revenue (i) stock based compensation.

EBITDA represents, for the period presented, net income (loss) plus: (a) income taxes; (b) interest expense; (c) cost of sales – depreciation; (d) depreciation; and (e) amortization, in each case to the extent deducted from net income in such period determined on a combined basis in accordance with IFRS.

Adjusted Gross Margin represents, for the period presented, gross margin plus costs of sales – depreciation.

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 EBITDA and Adjusted EBITDA to Net Income:

	Three months ended		Six months ended	
	June 30,		June 30,	
<i>(\$000's, except MT and per unit amounts)</i>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss)	(8,836)	(19,592)	(10,838)	(21,891)
Add:				
Tax expense	(649)	4	(989)	4
Interest expense	3,394	4,323	10,003	7,517
Cost of sales – depreciation	2,810	1,989	5,368	4,350
Depreciation	1,540	1,523	2,807	2,822
EBITDA	(1,741)	(11,753)	6,351	(7,198)
Add:				
Finance expense excluding interest expense	6,015	579	8,885	885
Stock based compensation expense	3,870	-	3,870	-
Management Fee ⁽¹⁾	-	636	417	814
Loss (gain) on asset disposal	(3)	1,460	(3)	1,460
Loss (gain) on derivative liability	(31)	-	(4,165)	-
Transaction and Professional Fees	849	-	849	264
Adjusted EBITDA	8,959	(9,078)	16,204	(3,775)

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three Months Ended		Six Months Ended	
	30-Jun		30-Jun	
<i>(\$000's, except MT and per unit amounts)</i>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Gross Margin	10,429	(2,647)	19,149	4,078
Cost of Sales — depreciation	2,810	1,989	5,368	4,350
Adjusted Gross Margin	13,239	(658)	24,517	8,428

History of Business

Source began operations in 1998, as a proppant transloading business and from 1998 to 2007, developed its geographic footprint by building proppant terminals in key oil and gas basins in Canada and the United States. In 2007, Source commenced developing mine and sand processing facilities at Chippewa Falls, Wisconsin, which before its completion, was sold to EOG Resources, Inc. In 2010, Source began developing its Northern White frac sand mine and related closed-loop wet processing plant located in east-central Barron County Wisconsin near the town of Sumner, Wisconsin (the “Sumner Facility”) and a dry processing plant, storage and loadout facility located in Weyerhaeuser, Wisconsin (the “Weyerhaeuser Facility”). In October 2013, TriWest Capital Partners IV fund (“TriWest IV”) invested in the Source business and became its majority unitholder. TriWest IV’s investment facilitated the completion of the Sumner Facility, the Weyerhaeuser Facility and Source’s unit train capable terminal located in Wembley, Alberta. Source commenced material frac sand sales after completion of the Weyerhaeuser Facility in June 2014. Source maintained its frac sand sales volumes through the 2015 and 2016 downturn in commodity prices, but did experience a significant decline in frac sand prices during this period. Recovery in frac sand pricing did not start to occur until the fourth quarter of 2016. In December of 2016, Source issued \$130 million principal amount of 10.5% Senior Secured First Lien Notes due December 15, 2021 (“the Notes”).

On April 13, 2017, Source completed the Reorganization and the Company completed an initial public offering (the “IPO”) of 16,666,667 of its common shares (“Common Shares”) at an offering price of \$10.50 per Common Share on the Toronto Stock Exchange (the “TSX”) for gross proceeds of approximately \$175 million. The Common Shares are listed on the TSX under the symbol “SHLE”. The Company further granted the IPO underwriters an over-allotment option, exercisable in whole or in part for a period of 30 days following the closing of the IPO, to purchase up to an

additional 2.5 million Common Shares at the IPO offering price, which was not exercised. The Company is authorized to issue an unlimited number of Common Shares, Class B Shares and preferred shares. As of the date of this MD&A, the Company has 49,310,881 Common Shares, 1,300,154 Class B Shares, 2,580,843 options and 51,426 deferred share units outstanding.

As the Reorganization was a related party transaction, the Company will use continuity of accounting, resulting in the prior year period being restated to the combined accounts of Source's combined financial statements with the Company. As a result of the Reorganization, the Company owns 100% of Source US LP and 96.26% of Source Canada LP and TriWest Capital Partners IV (US), L.P. indirectly owns 3.74% of Source Canada LP as a minority shareholder and holds all of the outstanding class B shares (the "Class B Shares") in the capital of the Company. The Class B Shares are voting shares that are redeemable into Common Shares at the option of the holder. See "Corporate Structure" in the Final Prospectus.

In conjunction with the IPO Source settled several balance sheet obligations including the preferred shares obligation, the Shareholder loan amount and the due to related parties amount. The preferred shares obligation amount was settled with approximately \$17.25 million of cash from the proceeds of the IPO and by issuing an aggregate of 5,212,081 Common Shares to the preferred shareholders. The Shareholder loan amount was settled through the issuance of 3,586,517 Common Shares to the Shareholder loan holders. The due to related parties amount was settled with approximately \$4.66 million of cash from the proceeds of the IPO.

On April 18, 2017, Source US LP completed the purchase of all of the outstanding membership interests of Sand Products Wisconsin, LLC for approximately US\$45 million. The transaction involved the purchase of the mineral rights to sand reserves at multiple sites, a sand mine and associated washing, drying and rail facilities and other related assets, and prepaid royalties, all located near the town of Blair, Wisconsin (collectively, the "Blair Facility").

On April 25, 2017, Source Canada LP and Source Energy Services Canada Holdings Ltd. (collectively, the "Notes Issuers") provided notice to the holders of the Notes that an aggregate principal amount of \$22,290,000 (the "Principal Amount") of the Notes outstanding would be redeemed for cash on June 6, 2017 (the "Redemption Date") upon payment of a redemption amount of 110.5000% of the Principal Amount, plus all accrued and unpaid interest thereon to the Redemption Date. The accrued interest to be paid per \$1,000 principal amount of Notes on the Redemption Date was \$51.78. Further, as a result of the completion of the IPO, on May 29, 2017, the Company issued an aggregate of 1,005,831 Common Shares to the holders of record on May 19, 2017 of the Notes in connection with the relevant transaction rights attached to the Notes.

All of Source's subsidiaries are 100% owned, except for Source Canada LP, which has a 3.74% non-controlling interest. As there is no specific guidance in IFRS, management has selected an accounting policy that is consistent with IAS 8. Management has chosen to apply the predecessor value method since inception for common control transactions. The predecessor value method involves accounting for the acquired assets and liabilities at existing carrying values rather than at fair value, which results in no goodwill being recorded. The prior year equity was revised to combine the common control entities as part of the common control transactions.

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", "forecasts", "intends", "anticipates", "believes", "plans", "seeks", "projects" 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. 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 regarding the price of proppants and sensitivity to changes in such prices; outlook for operations and sales volumes; expectations regarding the ratio of

rejected materials to the total amount excavated, expectations respecting future competitive conditions; industry activity levels; industry conditions pertaining to the frac sand industry; increased sales volumes of sand following the second quarter of 2017; increased activity levels and sand intensity levels in 2018; the ability of Source to meet its capital needs; well completion activity, the effectiveness of internal controls over Source's internal financial reporting; and Source's objectives, strategies and competitive strengths.

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

A number of factors, risks and uncertainties could cause results to differ materially from those anticipated and described herein including, among others: the effects of competition and pricing pressures; risks inherent in key customer dependence; effects of fluctuations in the price of proppants; risks related to indebtedness and liquidity, including Source's leverage, restrictive covenants in Source's debt instruments and Source's capital requirements; risks related to interest rate fluctuations and foreign exchange rate fluctuations; changes in general economic, financial, market and business conditions in the markets in which Source operates; changes in the technologies used to drill for and produce oil and natural gas; Source's ability to obtain, maintain and renew required permits, licenses and approvals from regulatory authorities; the stringent requirements of and potential changes to applicable legislation, regulations and standards; the ability of Source to comply with unexpected costs of government regulations; liabilities resulting from Source's operations; the results of litigation or regulatory proceedings that may be brought against Source; the ability of Source to successfully bid on new contracts and the loss of significant contracts; uninsured and underinsured losses; risks related to the transportation of Source's products, including potential rail line interruptions or a reduction in rail car availability; the geographic and customer concentration of Source; the 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, unfavourable, or a lack of access to capital markets; uncertainties inherent in estimating quantities of mineral resources; sand processing problems; and the use and suitability of Source's accounting estimates and judgments.

Although Source has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in its forward-looking statements, there may be other factors, including those described under the heading "Risk Factors" in the Final Prospectus, 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 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.