MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") dated November 13, 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 nine month periods ended September 30, 2017 (the "Interim Financial Statements"), 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. Unless otherwise stated, all amounts are expressed in Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 stated 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"), each of 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., Source Energy Services US II LP GP Ltd. and Berthold, such that those entities became subsidiaries of the Company. See "Corporate Structure" in the Final Prospectus.

About Source

Source is a fully integrated producer, supplier and distributer 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, processing facilities, rail assets, strategically located terminal network and "last mile" logistics operations. In addition, Source provides storage and logistics services for other bulk oil and gas well completion materials that are not produced by Source. 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 requirements for frac sand and other bulk completion materials.

Results Overview

Source had a strong performance in the third quarter of 2017 as western Canadian completion activity remained robust. Sand sales volumes increased by 225% compared to the third quarter of 2016 and by 23% compared to the second quarter of 2017. Sand sales year-to-date for 2017 were 144% higher than in the first nine months of 2016, and the demand outlook remains strong for the remainder of 2017 and into 2018. Wellsite solutions revenue increased by 288% compared to the third quarter of 2016 and was 261% higher than the first nine months of 2016. Adjusted Gross Margins for the third quarter of 2017 continued to strengthen and were $42.00 per metric tonne ("MT"), a 31% improvement over the Adjusted Gross Margins realized in the second quarter of 2017 and an 883% improvement over the third quarter of 2016. On a year-to-date basis, Adjusted Gross Margins are $34.17 per MT, which is more than double the Adjusted Gross Margins realized in the first nine months of 2016. Adjusted EBITDA for the third quarter of 2017 has improved by $17.3 million to $14.3 million compared to the same period in 2016. For the nine months ended September 30, 2017, Adjusted EBITDA is $30.5 million, which is $37.2 million higher than in the comparable period of 2016.

Subsequent Events

On November 7, 2017, Source completed an US$80.0 million asset purchase for certain assets and operations of Preferred Proppants, LLC (the "Acquisition"). Review of the Acquisition by Commissioner of Competition is underway. The Acquisition involved the purchase of, among other things, a Northern White proppant mine in Blair, Wisconsin, two frac sand terminals located in Chetwynd, and Fort Nelson, British Columbia and exploration rights to more than 3,600 acres of land in the Peace River Valley of Alberta. The purchase price allocation is preliminary as Source continues to determine the fair value of assets acquired and liabilities assumed at the acquisition date.

The Acquisition was partially funded through $93.8 million of gross proceeds from equity offerings that closed on November 7, 2017, resulting in the issuance of 11,235,000 common shares at a price of $8.35. The remainder of the

acquisition price was funded through a draw on the Credit Facilities. The equity is made up of a $28.8 million public bought deal equity financing, and a $65.0 million concurrent private placement equity financing, and will be subject to $5.7 million in estimated fees and transaction costs plus an additional $5.6 million in estimated fees, expenses and taxes related to the Acquisition and not directly attributable to the equity financing. The underwriters were granted an option by the Company to purchase up to an additional 450,000 common shares at the offering price of $8.35, exercisable from time to time, in whole or in part, for a period of 30 days from the closing of the offering. The underwriters exercised this option, in full, with the option closing date being the same as the Acquisition and gross proceeds, issuance of common shares, public bought deal equity financing and estimated fees and transactions costs above include the exercise of this option.

As of November 7, 2017, Source has increased its revolving limit under its credit facilities (the “Credit Facilities”) from $35 million to $70 million and has added The Bank of Nova Scotia as one of its lenders. Source drew $22.2 million under this expanded facility to fund a portion of the Acquisition.

Business Outlook

With continued strong economic results being realized by exploration and production (“E&P”) companies operating in the Montney, Duvernay and Deep Basin areas of the WCSB, Source expects well completion activities to continue to show significant improvement over 2016. Average Canadian well completion sand intensities continue to lag the average US well completion sand intensities, however, the Canadian average is rising as US 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 remainder 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 Nine Months ended September 30, 2017 and 2016

($000's, except MT and per unit amounts)	Three Months Ended September 30 2017	2016	Nine Months Ended September 30 2017	2016
Sand Volumes (MT) [1]	**510,446**	157,210	**1,344,743**	550,964
Sand Revenue	**62,232**	19,109	**164,417**	77,122
Wellsite Solutions	**17,439**	4,499	**44,603**	12,339
Terminal Services	**1,547**	1,112	**5,289**	3,691
Sales	**81,218**	24,720	**214,309**	93,152
Cost of Sales	**59,779**	24,048	**168,354**	84,052
Cost of Sales Depreciation	**2,582**	2,078	**7,950**	6,427
Cost of Sales	**62,361**	26,126	**176,304**	90,479
Gross Margin	**18,857**	(1,406)	**38,005**	2,673
Operating and General and Administrative Expenses	**6,680**	4,444	**16,282**	17,116
Depreciation	**1,671**	1,200	**4,479**	4,022
Income (loss) from operations	**10,506**	(7,050)	**17,244**	(18,465)
Other expense(income):				
Loss (gain) on asset disposal	**-**	1,410	**(3)**	2,870
Finance expense	**3,879**	3,984	**22,767**	12,386
Loss/(gain) on derivative liability	**1,267**	-	**(2,897)**	-
Stock based compensation expense	**984**	-	**4,854**	-
Other income	**(158)**	(310)	**(1,122)**	(1,393)
Management Fees	**-**	76	**417**	890
Foreign exchange loss/(gain) [2]	**583**	118	**1,107**	996
Total other expense (income)	**6,555**	5,278	**25,123**	15,749
Income (loss) before income taxes	**3,951**	(12,328)	**(7,879)**	(34,214)
Current Income Tax	**3,578**	-	**5,268**	4
Deferred income tax	**(2,636)**	81	**(5,315)**	81
Net Income (loss)	**3,009**	(12,409)	**(7,832)**	(34,299)
Adjusted EBITDA [3]	**14,334**	(2,918)	**30,537**	(6,693)
Sand Revenue Sales/MT	**121.92**	121.55	**122.27**	139.98

	September 30, 2017	December 31, 2016
Total Assets	**344,927**	219,406
Total non-current financial liabilities	**113,860**	239,549

Notes:

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

(2) The average Canadian to US dollar exchange rates for the three and nine months ended September 30, 2017 were $0.7982 and $0.7652, respectively (2016 – $0.7663 and $0.7560, respectively)

(3) 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 complete frac sand logistics and supply chain solutions to customers in-basin or at the wellsite. Source also generates revenue from related services including terminal services, which involve transloading services, and wellsite solutions, which include the provision of storage and logistics services from the terminal to 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. 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 third quarter of 2017 increased by $56.5 million or 229% to $81.2 million, when compared to the $24.7 million generated in the third quarter of 2016. The increase was driven by improvements in all areas of the business. Compared to the second quarter of 2017, Source had an 18% ($12.6 million) increase in sales due primarily to increased sand revenues from stronger volumes. The continued relative stability of oil and gas commodity prices and a continued premium on western Canadian natural gas liquids prices in 2017 has provided E&P 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 for the third quarter of 2017 increased by $11.7 million, compared to the second quarter of 2017, primarily due to a 23% increase in sand volumes (96,160 MT) in the third quarter, as average prices were largely unchanged. The positive impact of the removal of a major customer's price concession at the end of June was offset by the negative impact of a stronger Canadian dollar on US dollar denominated sales combined with the negative price impact of a 9,647 MT increase in mine gate sales of lower priced coarse and finer grades of sand. Compared to the second quarter of 2017, Gross Margin and Adjusted Gross Margin showed significant improvements of $11.77 per MT (47%) and $10.04 per MT (31%), respectively, as the negative impact of a stronger Canadian dollar on US dollar denominated revenues was more than offset by the positive impact of a stronger Canadian dollar on US dollar denominated production and transportation costs.

Source's sand sales increased by $43.1 million in the third quarter of 2017 compared to the third quarter of 2016 due to a 225% (353,236 MT) increase in sales volumes combined with a slight increase in price ($0.37/MT). Third quarter 2017 average sales price was impacted by a 69,673 MT increase in coarse and finer grade sales at lower mine gate pricing to ensure production efficiency was maintained. If the impact of these sales was removed from the sales mix, the average realized sand price in the quarter would have been $8.61 per MT higher than the price realized by Source in the third quarter of 2016. Prices during the third quarter of 2017 were also negatively impacted by a 4.0% increase in the strength of the Canadian dollar quarter over quarter, as approximately 78% of sand sales were in US dollars. Sales volumes continued to increase in the third quarter of 2017 compared to the third quarter of 2016 due to a significant increase in completion activity levels, particularly by customers in the Montney, Duvernay and Deep Basin regions of the WCSB. The trend of increasing sand intensity levels in completion programs in western Canada remains a key contributor to the increased sales volumes in 2017. In 2016, low commodity prices led to decreased sand sales volumes. Average Canadian well completion sand intensities continue to lag the average US well completion sand intensities. However, the Canadian average continues to rise as US style completions are being gradually adopted by Canadian E&P companies. As North American sand sales volume is expected to increase in the fourth quarter of 2017, sand spot pricing is also expected to rise.

For the first nine months of 2017, Source sold 512,308 MT's more sand than it sold in all of 2016 and its sand sales volumes were 144% higher than in the first nine months of 2016. Improved completion activity levels and increasing well intensities were the principal drivers of the increase. Average sand pricing for the first nine months of 2017 was $122.27, which was 13% lower than the average sand price in the first nine months of 2016, due to the mix of product sales by location, increased sales of coarser and fine grade sand at lower prices, price concessions given in late 2016 that extended through to the end of the second quarter of 2017 and a 1% increase in the strength of the Canadian dollar.

E&P companies in the first nine months of 2017 continued to manage their well completion costs, and 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' wellsites. Wellsite revenue increased by $12.9 million in the third quarter of 2017 compared to the third quarter of 2016, due to a 267% increase in sand sales occurring at the wellsite and a 774% 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 these customers succeed with their completion programs. Wellsite revenue increased by $0.8 million in the third quarter of 2017 over the second quarter of 2017, as Source had a 56% increase in Sahara revenues in the third quarter of 2017, partially offset by a 9% decrease in trucking revenues. While there was an increase in trucked volumes hauled in the third quarter of 2017, there was an offsetting reduction in distance hauled as compared to the second quarter of 2017. On a year-to-date basis, Source has had a $32.3 million increase in wellsite revenue from a 146% increase in volumes trucked and a 487% 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 40% in the third quarter of 2017 compared to the third quarter of 2016, as the increase in industry activity translated into a 28% increase in transloading services for other proppant products and a 47% 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 $1.6 million or 44% for the same reasons that they are up in the quarter.

Cost of Sales

	Three Months Ended September 30		Nine Months Ended September 30	
($000's, except MT and per unit amounts)	**2017**	2016	**2017**	2016
Direct Materials	**28,569**	14,134	**90,822**	52,773
People Costs	**8,160**	2,527	**19,083**	7,918
Equipment Costs	**5,587**	1,388	**10,751**	4,742
Transportation Costs	**15,605**	4,902	**42,845**	14,779
Facility Costs	**1,858**	1,097	**4,853**	3,840
Cost of Sales	**59,779**	24,048	**168,354**	84,052

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 $35.7 million or 149% to $59.8 million in the third quarter of 2017 as compared to the same period in 2016, while sales volumes increased by 225%. The increase in cost of sales is due to increased production costs associated with higher sales volumes and the increased use of third party trucking firms to support the "last mile" solution for Source's customers, partially offset by the positive impact of a strengthening of the Canadian dollar on US dollar denominated components of cost of sales. Sand production costs per unit declined by 23% in the third quarter of 2017, compared to the third quarter of 2016, as production rose, and the fixed cost elements of production were spread over more units combined with the positive impact of a stronger Canadian dollar. Year-to-date cost of sales was $168.4 million, which was $84.3 million higher than the prior year period for the same reasons as the third quarter was higher. Source has incurred $4.3 million of incremental costs to acquire third party sand to meet contractual commitments for the nine months ended September 30, 2017, of which only $0.1 million was incurred in the third quarter of 2017. The Blair Facility became fully operational in the second quarter of 2017 and significantly reduced the need to purchase third party sand in the third quarter of 2017 and in the foreseeable future. Yields from the mines were consistent with expectations for both the third quarter and on a year-to-date basis. Significant components of cost of sales were mainly US dollar denominated costs including sand processing, rail freight, and rail car leases and therefore subject to exchange rate fluctuations. In the third quarter of 2017, the average Canadian/US dollar exchange rate strengthened by 4.0% as compared to the third 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 $1.5 million year-to-date over the prior 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 second quarter 2017 acquisition and operation of the Blair Facility.

Gross Margin

	Three Months Ended September 30		Nine Months Ended September 30	
($000's, except MT and per unit amounts)	**2017**	2016	**2017**	2016
Gross Margin	**18,857**	(1,406)	**38,005**	2,673
Cost of Sales — depreciation	**2,582**	2,078	**7,950**	6,427
Adjusted Gross Margin [(1)]	**21,439**	672	**45,955**	9,100
Gross Margin %	**23.2%**	(5.7%)	**17.7%**	2.9%
Gross Margin/MT	**$36.94**	($8.94)	**$28.26**	$4.85
Adjusted Gross Margin % [(1)]	**26.4%**	2.7%	**21.4%**	9.8%
Adjusted Gross Margin/MT [(1)]	**$42.00**	$4.27	**$34.17**	$16.52

Note:
[(1)] Adjusted Gross Margin is not defined under IFRS, see "Non-IFRS Measures" below

Adjusted Gross Margin increased by $20.8 million or $37.73 per MT in the third quarter of 2017 compared to $0.7 million in the third quarter of 2016. The Adjusted Gross Margin percentage also improved significantly year over year due to the higher sales volumes and improved production costs as discussed above. Sequentially from the second quarter of 2017, Adjusted Gross Margin increased by $8.2 million or $10.04 per MT (31.4%) in the third quarter of 2017 due to a 23% increase in sales volumes combined with price concessions expiring at the end of June 2017 and a 7%

increase in the strength of the Canadian dollar. On a year-to-date basis, the Adjusted Gross Margin has increased by $36.9 million, to $46.0 million primarily due to higher sales volumes, improved production costs, the expiration of contract pricing concessions and a 1% increase in the strength of the Canadian dollar.

Gross Margin of $18.9 million or 23.2% in the third quarter of 2017 increased by $20.3 million from the third 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 Expense

	Three Months Ended September 30		**Nine Months Ended September 30**	
($000's, except MT and per unit amounts)	2017	2016	2017	2016
People	**3,909**	1,994	**9,776**	6,364
Equipment	**724**	1,306	**1,845**	4,087
Facility	**716**	806	**2,175**	2,117
Selling and Administrative	**1,331**	338	**2,487**	4,548
Operating and General and Administrative Expense	**6,680**	4,444	**16,283**	17,116

Operating and general and administrative expenses for the three months ended September 30, 2017 were $6.7 million, an increase of $2.2 million from the third quarter of 2016. 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 inclusion of a bonus accrual estimate in 2017 when there was no bonus accrual in 2016. Equipment costs of $0.7 million in the third quarter of 2017 were $0.6 million lower than in the third quarter of 2016, due to having excess rail car costs in the third quarter of 2016. These excess rail car leases expired by the end of 2016 and have been removed from the rail fleet and in 2016 any excess fleet costs were captured in operating expenses. These rail cars were replaced with newer, more functional cars at lower lease rates which are now being fully utilized and are recorded in cost of goods sold. The rail car fleet currently includes 1,821 cars at September 30, 2017. Facility costs of $0.7 million were slightly lower during the third quarter of 2017. Selling and administrative costs of $1.3 million were $1.0 million higher in the third quarter of 2017 than in the same period of 2016 due to the inclusion of an estimated allowance for doubtful accounts on higher sales volumes. On a year-to-date basis operating and general and administrative costs were $0.8 million lower than in the same period in 2016, due to lower excess rail car costs, equipment repairs and maintenance, and bad debt expense as compared to 2016, partially offset by increased people costs as described above.

Expenses

The principal expenses involved in the production of frac sand are excavation, labour, utilities, transportation and maintenance costs. Source contracts with third parties to remove the overburden, excavate the unprocessed frac sand and for the delivery of 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 American Petroleum Institute specifications and will 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 the Blair Facility.

Labour costs at Source's processing facilities represent the most significant cost of converting raw materials to finished product. Source incurs utility costs in connection with the operation of its processing facilities, primarily natural gas and electricity. Source has entered into 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 efficient operations. 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 to its customer's wellsites, Source purchases freight from Canadian National Railway Company and then, if applicable, incurs third party trucking costs to move the sand to its customer's wellsites. Source is charged fuel surcharges by the 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 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 Source identifies the opportunity to

make purchases of sand in the marketplace from third parties. When Source purchases third party 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 for Source include salaries for the corporate staff, facility costs for the corporate offices, professional and advisory fees and information systems related costs.

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 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 as a separate line item in the statement of operations and comprehensive income.

Depreciation expense of $1.7 million in the third quarter of 2017 and $4.5 million for the nine months ended September 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) 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 Interim Financial Statements, which the items in (c), (d) and (e) were settled in conjunction with the completion of the IPO.

Finance expenses were relatively unchanged at $3.9 million in the third quarter of 2017 as compared to the same period in 2016. Finance expense for the year-to-date increased by $10.4 million due to $1.6 million in legal and professional fees for the IPO and Reorganization, combined with the recognition of additional accretion of $3.2 million on the partial Note repayment in the second quarter of 2017. This was partially offset by a reduction in interest costs due to repayment of the preferred share obligation, the shareholder loans, the related party loans and $22.3 million of the Notes also during the second quarter of 2017.

Other Expense and Income

Source recorded $1.0 million in stock based compensation in the third quarter of 2017 as a result of granting deferred stock units ("DSUs"), restricted stock units ("RSUs") and performance stock units ("PSUs"), combined with accrued expense related to the stock options granted in the second quarter of 2017. All share based payments were granted in relation to the IPO in the second quarter of 2017 and were done based on the IPO equity price of $10.50. The initial grant of stock options done at the time of the IPO was the first grant of this kind and as such, one-third of the options vested immediately, with the remaining two-thirds vesting over the following two years, resulting 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. Grants for the DSUs, RSUs and PSUs vest in a more traditional method with the first vesting date being one year after the initial grant.

Other income of $0.2 million was recorded in the third quarter of 2017, compared to other income of $0.3 million in the third quarter of 2016, related primarily to the recognition of deferred storage revenue. On a year-to-date basis, other income was $1.1 million, which is consistent with the prior year period.

Source realized a foreign exchange loss of $0.6 million in the third quarter of 2017, which was $0.4 million higher than the $0.1 million loss recognized in the third quarter of 2016. The 2017 loss was generated from impact on significantly increased US dollar denominated net working capital balances partially offset by a strengthening Canadian dollar. For the nine months ended September 30, 2017, Source had a foreign exchange loss of $1.1 million, which was $0.1 million higher than the prior year for the same reasons as in the third quarter.

Adjusted EBITDA for the third quarter of 2017 increased by $17.3 million to $14.3 million as compared to the same period in the prior year, as the increase in sand sales both increased sales and helped reduce production costs on a per unit basis. Wellsite solutions revenue improvements also helped third 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 was $30.5 million, an increase of $37.2 million over the prior year nine-month period.

Source recorded tax expense in the third quarter of 2017 of $0.9 million, compared to no provision in the third quarter of 2016. The Reorganization changed the structure from being a series of partnerships to a structure with a corporation

at the top, which caused a more traditional tax provision to be recorded in the quarter. Year-to-date taxes of $nil million has been recorded.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2015	2016				2017		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sand Sales MT	*171,624*	*260,117*	*133,636*	*157,210*	*281,472*	*420,011*	*414,286*	*510,446*
Sand Revenue	23,283	40,947	17,066	19,109	35,840	51,630	50,555	62,232
Wellsite Solutions	1,782	858	6,982	4,499	8,922	10,535	16,629	17,439
Terminal Services	1,651	1,530	1,049	1,112	1,285	2,267	1,475	1,547
Sales	26,716	43,335	25,097	24,720	46,047	64,432	68,659	81,218
Cost of Sales	24,728	34,249	25,755	24,048	39,205	53,155	55,420	59,779
Cost of Sales Depreciation	2,181	2,360	1,989	2,078	1,612	2,558	2,810	2,582
Cost of Sales	26,909	36,609	27,744	26,126	40,817	5,713	58,230	62,361
Gross Margin	(193)	6,726	(2,647)	(1,406)	5,230	8,719	10,429	18,857
Operating and General and Admin Expenses	5,905	4,766	7,906	4,444	6,750	3,884	5,718	6,680
Depreciation	1,156	1,299	1,523	1,200	2,351	1,267	1,540	1,671
Income (loss) from operations	(7,254)	661	(12,076)	(7,050)	(3,871)	3,568	3,171	10,506
Other expense (income):								
Loss (gain) on asset disposal	(7)	-	1,460	1,410	(1,788)	-	(3)	-
Loss (gain) on impairment	-	-	-	-	1,852	-	-	-
Finance expense	3,885	3,500	4,902	3,984	7,105	9,479	9,409	3,879
Loss (gain) on derivative liability	-	-	-	-	910	(4,133)	(31)	1,267
Fair Value adjustment on shareholder loan	-	-	-	-	-	-	-	-
Stock based compensation expense	-	-	-	-	-	-	3,870	984
Other income	(1,380)	(1,028)	(55)	(310)	(3,466)	(532)	(432)	(158)
Management Fees	579	178	636	76	153	417	-	-
Foreign exchange loss/(gain)	300	309	569	118	1,063	681	(157)	583
Total other expense (income)	3,377	2,959	7,512	5,278	5,829	5,912	12,656	6,555
Income (loss) before income taxes	(10,631)	(2,298)	(19,588)	(12,328)	(9,700)	(2,344)	(9,485)	3,951
Income taxes	553	–	4	81	(597)	(339)	(649)	942
Net Income (loss)	(11,184)	(2,298)	(19,592)	(12,409)	(9,103)	(2,005)	(8,836)	3,009
Net Income (loss) Per Share ($/Share)	(0.47)	(0.10)	(0.79)	(0.52)	(0.38)	(0.08)	(0.24)	0.08
Diluted Net Income (loss) Per Share ($/Share)	(0.47)	(0.10)	(0.79)	(0.52)	(0.38)	(0.08)	(0.24)	0.06
Net Income (loss)	(11,184)	(2,298)	(19,592)	(12,409)	(9,103)	(2,005)	(8,836)	3,009
Interest	3,660	3,193	4,325	3,840	4,844	6,609	3,394	2,987
Income taxes	553	–	4	81	(597)	(339)	(649)	942
Depreciation	1,156	1,299	1,523	1,200	2,351	1,267	1,540	1,671
Cost of Sales Depreciation	2,181	2,360	1,989	2,078	1,612	2,558	2,810	2,582
EBITDA [(1)]	(3,634)	4,554	(11,751)	(5,210)	(893)	8,090	(1,741)	11,191
Add:								
Loss (gain) on asset disposal	(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	892
Loss (gain) on derivative liability	-	-	-	-	910	(4,133)	(31)	1,267
Stock based compensation expense	-	-	-	-	-	-	3,870	984
Fair Value adjustment on Shareholder loan	-	-	-	-	-	-	-	-
Management Fees	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)]	(2,091)	5,303	(9,078)	(2,918)	(833)	7,244	8,959	14,334
Sand Revenue Sales/MT	136	157	128	122	127	123	122	122
Gross Margin	(193)	6,726	(2,647)	(1,406)	5,230	8,719	10,429	18,857
Cost of Sales Depreciation	2,181	2,360	1,989	2,078	1,612	2,558	2,810	2,582
Adjusted Gross Margin [(1)]	1,988	9,086	(658)	672	6,842	11,277	13,239	21,439
Gross Margin/MT	(1.12)	25.86	(19.81)	(8.94)	18.58	20.76	25.17	36.94
Adjusted Gross Margin/MT [(1)]	11.58	34.93	(4.92)	4.27	24.31	26.85	31.96	42.00

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

In 2017, as oil and gas commodity prices continued to stabilize and began to rise, the larger, better financed E&P companies increased activity levels, resulting in Source achieving a 23% increase in sales volumes from the second quarter of 2017 and a 144% increase in sales volumes for the nine months ended September 30, 2017 compared to the same periods in 2016. As North American sand sales demand increased in 2017, industry-wide supply and demand have begun to better align. Sales in the nine months ended September 30, 2017 were $164.4 million, an increase of $87.3 million over the same period in 2016. For the nine months ended September 30, 2017, Source sold 794,764 MT of its sand sales volumes at the wellsite, compared to 322,562 MT in 2016, which resulted in a $32.2 million increase in wellsite solution sales. The higher sand sales volumes for the nine months ended September 30, 2017 helped decrease the cost of the delivered product, which, when combined with the end of price concessions and a stronger Canadian dollar, resulted in improved Adjusted Gross Margin for 2017.

The Notes offering was completed in the fourth quarter of 2016. The proceeds from the Notes 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 in 2015 caused the E&P companies to curtail their capital spending programs which 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 of the year. 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 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, 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 round. 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 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 allow Source to meet its financial requirements to grow and operate its 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 from 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.

Capital Expenditures	**Three Months Ended September 30**		**Nine Months Ended September 30**	
($000's, except MT and per unit amounts)	**2017**	2016	**2017**	2016
Terminal Expansion	**4,383**	32	**4,666**	487
Wellsite Solutions	**2,391**	-	**2,943**	131
Production Expansion	**3,219**	461	**9,608**	2,280
Overburden Removal	**4,118**	154	**6,414**	1,583
Other	**1,821**	32	**2,338**	423
Capital Expenditures	**15,932**	679	**25,969**	4,904

Source's capital expenditures break down into three main categories: overburden removal, capital expenditures on existing facilities to make improvements and maintain operations, and growth capital expenditures where new capacity is built to grow production or distribution. Capital expenditures for the three months ended September 30, 2017 were $15.9 million, an increase of $15.3 million from the third quarter of 2016. The increased capital expenditures were primarily driven by increased overburden removal costs associated with increased production in the quarter, terminal expansion spend associated with the new Fox Creek terminal, wellsite solutions spend associated with new Sahara sand storage units and production expansion spend associated with facility option land purchases. Capital expenditures for the nine months ended September 30, 2017 were $26.0 million, an increase of $21.1 million from the same period in 2016. The increased capital expenditures were primarily driven by the same reasons that they are up in the quarter

plus increased Blair Facility spend associated with Blair Facility option land purchases in the second quarter of 2017. As part of the IPO process Source laid out a growth capital expenditure plan of $28.7 million. Additionally, Source will incur overburden expenditures and maintenance expenditures. Source is funding the 2017 growth capital expenditures using proceeds raised from the IPO, while the overburden and maintenance capital expenditures will be funded through a combination of operating cash flow and the Credit Facilities. Source's capital investment program has not changed since the IPO other than in respect of the deferral of the planned terminal in Taylor, British Columbia and the related capital expenditures as the Acquisition has closed. Source does not have any specific capital commitments it must fulfill in 2017.

As previously discussed, Source entered into the Acquisition, which was funded through a combination of equity raised and a draw on the Credit Facilities (see "Subsequent Events").

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, such as 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 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 current inventory and accounts receivable.

Source's capital management policy has not changed during the nine-month period ended September 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 by 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, 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 Source's 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 on 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 corresponding trust indenture. 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 the 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 the principal of the Notes along with accrued interest and a make-whole premium of 10.5%. At September 30, 2017, the principal outstanding on the Notes is $107.7 million.

At September 30, 2017, the fair value of the Notes prepayment option and embedded derivative in the customer contract that includes foreign exchange rate collars (see "Fair Value of Financial Instruments") was $1.3 million ($0.1 million - December 31, 2016). Changes in fair values of the derivative liabilities are recorded through the consolidated statements of operations and comprehensive income (loss). Source has recorded a fair value loss on the Notes prepayment option plus exchange rate collars embedded derivative of $1.3 million for the three months ended September 30, 2017 (three months ended September 30, 2016 - $nil). On a year-to-date basis a $2.9 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 a 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 September 30, 2017, $18.3 million was drawn under the Credit Facilities and an additional $6.4 million was committed to supporting letters of credit under the facilities with $10.3 million available. The borrowing base is updated by the bank monthly. To date, no amounts have been drawn against these letters of credit.

Source is subject to externally imposed capital requirements for the Credit Facilities, 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 September 30, 2017, the excess availability was greater than 20%. Source Canada LP is in compliance with all covenants of the Credit Facilities as of September 30, 2017. On November 7, 2017 Source agreed to an amendment which expands the Credit Facilities up to $70 million on the same terms and conditions as the existing facility and the borrowing base was determined to be $64.7 million under this amendment (see "Subsequent Events").

Foreign Currency Risk

Source is exposed to currency price risk on sales denominated in US dollars to the extent that the receipt of payment of the US denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on cost of manufacturing 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, 2017 are $31,559 (December 31, 2016 - $1,693) and $7,568 (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 nine months ended September 30, 2017 by $170 and $479 ($126 and $400 in 2016). As at September 30, 2017, the Company had no forward exchange rate contracts in place.

Cash and Net Working Capital

As of September 30, 2017, Source had $nil cash on hand and had senior long term debt outstanding of $107.3 million, as compared to $124.4 million as of December 31, 2016. For the three months ended September 30, 2017, Source had a cash flow deficit from operations of $2.6 million compared to a deficit of $2.5 million for the same period in 2016, as the impact of a $13.5 million increase in net working capital was offset by a $15.4 million decrease in net loss for the quarter. There was a cash flow deficit from operations of $19.3 million for the first nine months of 2017 compared to $3.3 million in cash flow from operations in 2016, as the impact of a $54.3 million increase in net working capital was partially offset by a $26.5 million decrease in net loss for the first nine months of 2017. The cash flow deficit was funded by the proceeds from the IPO and draws on the Credit Facilities. Capital expenditures for the first nine months of 2017 were $26.0 million compared to $4.9 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 September 30, 2017, was $61.9 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 third quarter of 2017 compared to the fourth quarter of 2016. This impact was partially offset by lower inventory levels at September 30, 2017. 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.

Deferred Revenue

Source has entered storage subscription agreements with some customers to provide them with guaranteed proppant storage at its facilities. 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 third quarter of 2017 Source recognized subscription fees of $0.2 million. Year-to-date, Source has recognized $1.1 million from storage agreements.

In 2015, one customer failed to meet the minimum sand purchase requirement outlined in their sale agreement and, 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. Source's planned cash outflows relating to financial liabilities are outlined in the table below:

($000's, except MT and per unit amounts)	Total	2017	2018	2019	2020	2021 and thereafter
Capital loan and finance lease	1,569	309	707	404	149	-
Lease commitments	54,817	3,659	15,179	10,697	7,327	17,955
Notes payable	155,303	2,851	11,310	11,310	11,310	118,522

Source is a party to contracts with numerous customers. Source's customers consist primarily of E&P companies and pressure pumping companies operating in the WCSB. Source has structured contracts with customers outlining volume commitments and in some cases fixed pricing, the terms of which vary from one to three years. This mitigates the impact of any non-payment 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 on the financial condition of Source.

Off-Balance Sheet Arrangements

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

Outstanding Security Data

The weighted average number of Common Shares outstanding for the three and nine months ended September 30, 2017 is 50,316,712 and 40,256,919, respectively (three and nine months ended September 30, 2016 – 23,845,603). The weighted average Common Shares number used in 2016 represents the Common Shares equivalent to the partnership units held at that time. Refer to Note 14 of the Interim Financial Statements for further details on the exchange of partnership units for Common Shares.

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Issued common shares outstanding, beginning of period	**50,316,712**	**23,845,603**	**23,845,603**	**23,845,603**
Effect of IPO	-	-	10,439,561	-
Effect of shareholder loans	-	-	3,264,710	-
Settlement of relevant transaction rights	-	-	2,246,500	-
Effect of conversion of preferred shares to Common Shares	-	-	460,545	-
Weighted average Common Shares, end of period	**50,316,712**	**23,845,603**	**40,256,919**	**23,845,603**

As at November 13, 2017, Source has 61,551,712 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.

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.

Source did not have any related party transactions in the third quarter of 2017.

Proposed Transactions

Source does not have any proposed transactions at this time.

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. This certificate for interim filings requires the Chief Executive Officer and the Chief Financial Officer to certify the design of Source's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at September 30, 2017. There were no material weaknesses in the design of the DC&P and the ICFR at

September 30, 2017, and no changes in ICFR during the period beginning on July 1, 2017 and ended on September 30, 2017 that have materially affected, or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Interim Financial Statements. Source employs risk management strategies and polices 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.

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 September 30, 2017, the fair value of the Notes is $119 million.

During the three months ended September 30, 2017, Source had a customer contract that included foreign exchange rate collars. Under the terms of the contract, pricing would be adjusted if the daily US dollar to Canadian dollar closing exchange rate was below $1.25 or exceeded $1.40. The embedded derivative is separated from the contract and accounted for as a derivative liability and is measured at fair value through profit or loss. The fair value of the derivative is based on valuation techniques that are not based on observable market data.

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.

IFRS 9 Financial Instruments

On January 1, 2018, the Company will be required to adopt IFRS 9 Financial Instruments ("IFRS 9"), which is the result of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). 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 has assessed the impact of IFRS 9 on its financial statements and will be amending its 'allowance for doubtful accounts' policy to reflect adoption of this standard as of January 1, 2018. Adoption of this new policy is not expected to have a material impact on the Company's financial statements, given the nature of Source's customers and its historically modest credit losses.

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"). 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 Leases and financial instruments and other contractual rights or obligations within the scope of IFRS 9, 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. Based on the work performed to date the Company does not expect any material change to the timing or amounts of revenue recognized but continues to assess its revenue streams to determine the impact that the adoption of the standard will have on financial statements disclosure.

IFRS 16 Leases

On January 1, 2019, the Company will be required to adopt IFRS 16 Leases ("IFRS 16"). 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, however, given the significant use of leased rail cars and equipment, the Company expects the standard to have a material impact 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 options to purchase common shares 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. The DSUs, RSUs and PSUs are expected to be settled for cash payments and accordingly are considered a liability settled award for accounting purposes.

Cash-Generating Units

The determination of cash-generating units is based on management's judgment regarding geographic 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. The fair value of the derivatives is based on prices or valuation techniques that require inputs that are not based on observable market data. The Company has a customer contract that includes foreign exchange rate collars. Under the terms of the contract, pricing will be adjusted if the daily US dollar to Canadian dollar closing exchange rate is below $1.25 or exceeds $1.40. The embedded derivative is separated from the contract and accounted for as a derivative liability and is measured at fair value through profit or loss. The fair value of the derivative is based on valuation techniques that are not based on observable market data.

Possible Failure to Realize Anticipated Benefits of the Acquisition

Achieving the benefits of the Acquisition depends in part on successfully consolidating functions, integrating operations, procedures and personnel in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth opportunities and synergies from integrating the Purchased Assets into its existing portfolio of properties. Furthermore, the Commissioner of Competition (the "Commissioner") has the authority under the Competition Act (Canada) to review and challenge any merger that, in his view, will or is likely to result in a substantial lessening or prevention of competition in any relevant market in Canada, before or within one year of closing. Although the Acquisition is not a notifiable transaction under the Competition Act (Canada), Source has been informed by the Competition Bureau that it is reviewing the Acquisition. While there can be no certainty as to the outcome of this review, the Commissioner, following his review, could make an application to the Competition Tribunal challenging the Acquisition. If such challenge was successful, possible outcomes include, but are not limited to, an order of the Competition Tribunal requiring divestitures following closing of the Acquisition, in which case Source may not fully realize the anticipated benefits of the Acquisition. The Commissioner could also determine, following his review, that no further action is required.

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. However, Source believes that these non-IFRS 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 earnings generated to fund capital investments and meet financial obligations. More specifically, Adjusted EBITDA and Adjusted Gross Margin are considered key measures as they reflect the ability of Source to generate earnings necessary to meet its capital investments and financial obligations.

Adjusted EBITDA represents earnings generated to fund capital investments and meet financial obligations. It 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; (h) gain on settlement of deferred revenue; and (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 September 30		Nine months ended September 30	
($000's, except MT and per unit amounts)	**2017**	2016	**2017**	2016
Net income (loss)	**3,009**	**(12,409)**	**(7,832)**	**(34,299)**
Add:				
Tax expense	**942**	81	**(47)**	85
Interest expense	**2,987**	3,840	**12,990**	11,358
Cost of sales – depreciation	**2,582**	2,078	**7,950**	6,427
Depreciation	**1,671**	1,200	**4,479**	4,022
EBITDA	**11,191**	(5,210)	**17,540**	(12,407)

Add:				
Finance expense excluding interest expense	**892**	144	**9,777**	1,028
Stock based compensation expense	**984**	-	**4,854**	-
Management Fee(1)	**-**	76	**417**	890
Loss (gain) on asset disposal	**-**	1,410	**(3)**	2,870
Loss (gain) on derivative liability	**1,267**	-	**(2,897)**	-
Transaction and Professional Fees	**-**	662	**849**	926
Adjusted EBITDA	**14,334**	(2,918)	**30,537**	(6,693)

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three Months Ended September 30		Nine Months Ended September 30	
($000's, except MT and per unit amounts)	**2017**	2016	**2017**	2016
Gross Margin	**18,857**	(1,406)	**38,005**	2,673
Cost of Sales — depreciation	**2,582**	2,078	**7,950**	6,427
Adjusted Gross Margin	**21,439**	672	**45,955**	9,100

History of the 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 began 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 the Reorganization was a related party transaction, the Company has used 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 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 110.5% 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 held by TriWest Capital Partners IV (US), L.P. As there is no specific guidance in IFRS, management has selected an accounting policy that is consistent with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. 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; expectations regarding increased demand for and sales volumes of sand for the remainder of 2017 and into 2018; increased activity levels and sand intensity levels in 2018; the ability of Source to meet its capital needs; increased drilling and well completion activity in 2017; the continued increase of sand sales volumes and sand spot pricing in the fourth quarter of 2017; increased Canadian well completion sand intensities; 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; risks the Commissioner of Competitions with authority under the Competition Act (Canada) may successfully challenge the Acquisition which may cause Source to not fully realize anticipated benefits of the Acquisition; 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.