SOURCE
ENERGY
SERVICES

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") dated May 2, 2018 of the operating and financial results of Source Energy Services Ltd. ("Source" or, the "Company") as at and for the three months ended March 31, 2018 compared with the corresponding periods in the prior year. The MD&A is provided to assist readers in understanding the Company's financial performance and position during the periods presented and significant trends that may impact the future performance of Source.

This discussion should be read in conjunction with each of Source's unaudited condensed consolidated interim financial statements for the three-month period ended March 31, 2018 and audited consolidated financial statements for the year ended December 31, 2017, together with the accompanying notes (the "Financial Statements"). The Financial Statements and other information relating to Source, including the Annual Information Form ("AIF"), is available under the Company's SEDAR profile at www.sedar.com. The Financial Statements and interim statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, all amounts are expressed in Canadian dollars.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. "EBITDA" and "Adjusted EBITDA" are used by management as a representation of earnings generated to fund capital investments and meet financial obligations, "Adjusted Gross Margin" is used by management as a comparable margin with peers and "Normalized Adjusted Gross Margin" is used by management to represent margins on sand volumes sold into the Western Canadian Sedimentary Basin (the "WCSB"). See "Non-IFRS Measures" for further information regarding the following non-IFRS measures used in this MD&A: "EBITDA", "Adjusted EBITDA", "Adjusted Gross Margin" and "Normalized Adjusted Gross Margin".

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

About Source

Source is a fully integrated producer, supplier and distributer of high quality Northern White frac sand. Source provides its customers with a full end-to-end solution supported by its Wisconsin mines and processing facilities, its unit train capable rail assets, its Western Canadian terminal network and its "last mile" logistics capabilities. In addition to its industry leading frac sand transload terminal network and in-basin frac sand storage capabilities, Source also provides storage and logistics services for other bulk oil and gas well completion materials that aren't 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.

Record First Quarter 2018 Highlights

Source achieved the following first quarter of 2018 results:

- Net Income of $3.7 million or $0.06 per share;
- Record Adjusted EBITDA[(1)] of $20.5 million;
- Gross Margin of $24.3 million and Adjusted Gross Margin[(1)] of $26.5 million;
- Normalized Adjusted Gross Margin[(1)] per MT of $45.98;
- Record sand sales volumes of 642,773 MT; and
- Delivered 91% of sand sales volumes into the WCSB.

Notes:

(1) Adjusted EBITDA, Adjusted Gross Margin and Normalized Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS, see "Non-IFRS Measures" below.

Results Overview

($000's, except MT and per unit amounts)	Three Months Ended March 31 **2018**	2017
Sand Volumes (MT)[(1)]	**642,773**	420,011
Sand Revenue	**86,884**	51,630
Wellsite Solutions	**17,270**	10,535
Terminal Services	**1,221**	2,267
Sales	**105,375**	64,432
Cost of Sales	**78,905**	53,155
Cost of Sales – Depreciation and Depletion	**2,138**	2,558
Cost of Sales	**81,043**	55,713
Gross Margin	**24,332**	8,719

($000's, except MT and per unit amounts)	Three Months Ended March 31 **2018**	2017
Operating and General and Administrative Expenses	**8,007**	3,884
Depreciation	**2,619**	1,267
Income from operations	**13,706**	3,568
Other expense(income):		
Loss on asset disposal	**2,396**	-
Finance expense	**4,757**	9,479
Loss (gain) on derivative liability	**376**	(4,133)
Stock based compensation expense	**905**	-
Other income	**(199)**	(532)
Management Fees	**-**	417
Foreign exchange loss(2)	**2**	681
Total other expense	**8,237**	5,912
Income (loss) before income taxes	**5,469**	(2,344)
Current income tax expense (recovery)	**932**	-
Deferred income tax expense (recovery)	**824**	(339)
Net Income (Loss)	**3,713**	(2,005)
Net Income (Loss) per share ($/share)	**0.06**	(0.08)
Diluted Net Income (Loss) per share ($/share)	**0.06**	(0.08)
Adjusted EBITDA(3)	**20,544**	7,244
Sand Revenue Sales/MT	**135.17**	122.93

	March 31, 2018	December 31, 2017
Total Assets	**515,938**	467,957
Total non-current financial liabilities	**163,109**	112,361

Notes:
(1) One metric tonne ("MT") is approximately equal to 1.102 short tons.
(2) The average Canadian to US dollar exchange rate for the three months ended March 31, 2018 was $0.7907, (2017 - $0.7554).
(3) Adjusted EBITDA is not defined under IFRS. See "Non-IFRS Measures" below.

During the first quarter of 2018 Source, and the rest of the industry, experienced a significant slowdown in Canadian National Railway Company ("CN") rail service which affected Source's ability to meet strong customer demand. Despite the rail service slowdown Source had record sand volumes and financial performance in the first quarter of 2018.

For the first quarter of 2018, Adjusted EBITDA was $20.5 million, which was $13.3 million higher than the $7.2 million of Adjusted EBITDA in the same period in 2017 and Net Income was $3.7 million, which was $5.7 million higher than the $2.0 million Loss in the same period in 2017.

Sand volumes in the first quarter of 2018 increased by 222,762 MT, or 53%, compared to the volume of sand sold in the same period in 2017. Source's sand revenue increased in the first quarter of 2018 by $35.3 million, or 68%, compared to the first quarter of 2017. This increase in revenue was attributable to the increase in sand sales volumes as well as a 10% increase ($12.24 per MT) in average sand price. In the first quarter of 2018, Source's sand revenue increased by $22.9 million, or 36%, when compared to the fourth quarter of 2017, primarily due to a 15% increase in sand volumes (85,410 MT) and an 18% increase ($20.37 per MT) in the average sales price. The increase in the average price was primarily due to an improved sales mix, as well as a decrease in the number of mine gate sales in the first quarter of 2018.

During the first quarter of 2018, revenue from wellsite solutions increased by $6.7 million, compared with the first quarter of 2017. Wellsite solutions revenue also increased by $7.0 million in the first quarter of 2018, compared with the fourth quarter of 2017. These increases in revenue were due to the higher utilization of an increased number of Sahara units as well as increased trucking levels associated with Source's increased sand sales volumes.

In the first quarter of 2018, Gross Margin and Adjusted Gross Margin increased by $15.6 million and $15.2 million, or $17.10 per MT and $14.33 per MT, respectively, when compared to the first quarter of 2017 due to improved sand volumes and an increase in average sand prices. As shown in the table below, the Normalized Adjusted Gross Margin in the first quarter of 2018 reached $45.98 per MT. Gross Margin and Adjusted Gross Margin also increased in the first quarter of 2018 sequentially from the fourth quarter of 2017 by $10.7 million and $8.9 million, or $13.42 per MT and $9.57 per MT, respectively, due to a combination of increased sand volumes and an improved sales mix from decreased mine gate sales.

($000's, except MT and per unit amounts)	Three Months Ended March 31 2018	2017
Gross Margin	**$24,332**	$8,719
Cost of Sales – depreciation and depletion	**2,138**	2,558
Adjusted Gross Margin(1)	**26,470**	11,277
Gross Margin/MT	**$37.85**	$20.76
Adjusted Gross Margin/MT(1)	**$41.18**	$26.85
Sales Mix Impact of Mine Gate Sales/MT	**$1.90**	$1.00
Impact of Preferred Acquisition Inventory Acquired at Fair Value/MT	**$2.90**	-
Normalized Adjusted Gross Margin/MT(1)	**$45.98**	$27.85
Percentage of Mine Gate Sand Volumes	**9%**	7%
Percentage of Terminal and Wellsite Sand Volumes	**91%**	93%

Notes:
(1) Adjusted Gross Margin and Normalized Adjusted Gross Margin (including on a per MT basis) are not defined under IFRS, see "Non-IFRS Measures" below.

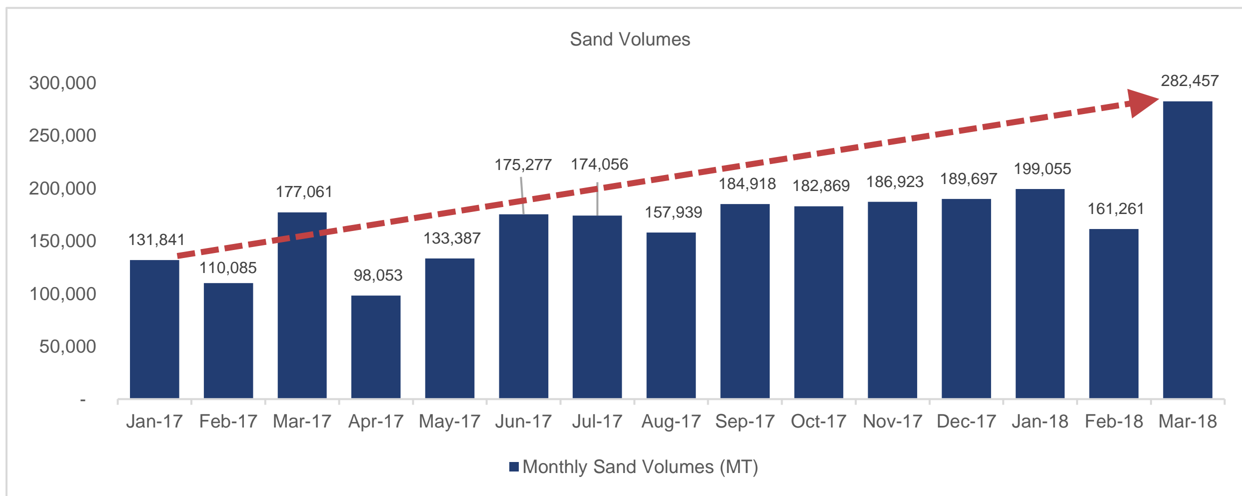
Business Outlook

With activity levels in the liquids rich Montney and Duvernay areas of the WCSB remaining strong, Source expects well completion activities and frac sand demand in 2018 to continue to be robust. With tail winds provided by strong commodity prices, we're seeing a number of exploration and production ("E&P") companies move into manufacturing mode in 2018. As a part of this shift in focus, these companies are looking to increase their direct purchases of frac sand and related completion services. As a result, Source expects to see continued growth in 2018.

Review of Operations

Sales

Total sales for the three months ended March 31, 2018 increased by $40.9 million, or 64%, to $105.4 million, compared with $64.4 million generated in the three months ended March 31, 2017. The increase was primarily driven by a 53% increase in sand volumes and a $12.25 per MT average sand price increase combined with increased wellsite solutions sales associated with the higher sand volumes. Total sales for the first quarter of 2018 were $30.2 million, or 40%, higher than the fourth quarter of 2017, primarily due to a 15% increase in sand volumes, despite a weather-related slowdown in CN rail service that affected Source's ability to meet strong customer demand. Increased total sales were also positively impacted by a $20.37 per MT average sand price increase, due to an improved sales mix from reduced mine gate sales volumes, combined with increased wellsite solutions sales associated with the higher sand volumes.



Source's sand revenue for the three months ended March 31, 2018 increased by $35.3 million, or 68%, compared to the three months ended March 31, 2017, primarily due to a 53% increase in sand volumes (222,762 MT) combined with a 10% increase, or $12.25 per MT, in average sand price. Sand volumes in the first quarter of 2018 were negatively impacted by weather-related slowdown in CN rail service across all industries that affected Source's ability to meet strong customer demand. CN rail service for unit trains was impacted to a lesser extent than service for manifest volumes, which affected Source's ability to get sand to terminals that were not equipped for unit train service. Manifest service disruptions continue to be an issue for Source and volumes are being managed to a large extent from unit train

capable terminals. Despite the weather-related slowdown in rail activity Source achieved record sand volumes in the first quarter of 2018 highlighted by a monthly sand volume record in January that was bettered by 42% in March. Sand volumes increased as a result of a significant increase in well completion activity and sand intensity levels, particularly by customers in the Montney and Duvernay regions of the WCSB. The trend of increasing sand intensity levels in completion programs in western Canada in the first quarter of 2018, combined with low commodity prices in the first quarter of 2017, were key contributors to the increased sand volumes in the first quarter of 2018 compared with the first quarter of 2017. Though the average sand intensity in the WCSB lags the average sand intensity in US basins, the Canadian average sand intensity is rising as US style completions are being adopted by Canadian E&P companies. Average sand price in the first quarter of 2018 was $12.25 per MT higher than the first quarter of 2017 primarily due to higher commodity prices, and the absence of price concessions given in the first quarter of 2017, partially offset by a strengthening of the Canadian dollar. During the first quarter of 2018 approximately 74% of sand revenue was denominated in US dollars, which reduced the average price by approximately $6.00 per MT due to the Canadian dollar strengthening by 4.5%, when compared to the first quarter of 2017. Mine gate sales of coarse and fine sand at lower average prices accounted for 9% of sand volumes in the first quarter of 2018, compared with 7% of sand volumes in the first quarter of 2017, an increase of 28,001 MT of mine gate sales, resulting in a decrease in average sand price of approximately $1.30 per MT as compared with the first quarter of 2017.

Source's sand revenue for the first quarter of 2018 increased by $22.9 million, or 36%, compared to the fourth quarter of 2017, due to a 15% increase in sand volumes (85,410 MT) combined with an 18% increase ($20.37 per MT) in average sand price. Increased sand volumes were primarily due to increased activity in the WCSB as E&P companies kicked off their 2018 capital spend programs following the year-end slowdown in oilfield activity that significantly affected the WCSB in December 2017. Mine gate sales, which were undertaken to minimize the impact of the year-end slowdown in oilfield activity in the WCSB in December 2017, accounted for only 9% of sand volumes in the first quarter of 2018 compared with 30% of sand volumes in the fourth quarter of 2017. The positive sales mix price impact of the 112,957 MT decrease in mine gate sales volumes increased the average realized sand price by approximately $15.50 per MT in the first quarter of 2018. The remaining $4.87 per MT increase in average sand price was a result of increased contract and spot prices as the Canadian dollar was relatively unchanged in the first quarter of 2018 compared to the fourth quarter of 2017.

Wellsite solutions revenue is comprised of revenue from the "last mile" logistics, (i.e. the terminal to the wellsite), and wellsite service offerings including Sahara units. These services benefit customers as it helps them manage their overall trucking costs and sand supply reliability, which in turn helps them succeed with their completion programs. Wellsite solutions revenue increased by $6.7 million in the first quarter of 2018, compared with the first quarter of 2017, due to a 60% increase in trucking revenue and an 82% increase in Sahara revenue. These increases were primarily due to the 53% increase in sand volumes with 91% of sand volumes going to the terminal or well site in the WCSB compared with 93% in the first quarter of 2017. A third Sahara unit was added to the fleet near the end of 2017 which also positively contributed to wellsite solutions revenue, Sahara utilization was 87% in the first quarter of 2018 compared with 76% utilization in the first quarter of 2017. Wellsite solutions revenue increased by $7.0 million in the first quarter of 2018, compared with the fourth quarter of 2017, primarily due to a 138% increase in trucking revenue and improved Sahara utilization, due to a 15% increase in sand volumes with 91% of sand volumes sold at the terminal or wellsite in the WCSB compared with 70% in the fourth quarter of 2017. Increased wellsite solutions revenue was partially offset by a decrease in revenues associated with ancillary logistics flow through revenues for services such as conveyor rentals in the first quarter of 2018.

Source also provides terminal services for certain well-completion products that aren't produced by Source. These products primarily consist of hydrochloric acid and resin coated proppants. Terminal services revenue generally follows completion activity trends in the WCSB. In the first quarter of 2018, compared with the first quarter of 2017, terminal services revenue decreased by $1.0 million, or 46%, due to a 55% decrease in revenue from transloading services for resin coated proppant and a 35% decrease in hydrochloric acid transloading revenue. In the first quarter of 2018, compared with the fourth quarter of 2017, terminal services revenue increased by $0.3 million, or 37%, due to a 36% increase in revenue from transloading services for resin coated proppant combined with a 37% increase in hydrochloric acid transloading revenue.

Cost of Sales

($000's, except MT and per unit amounts)	**Three Months Ended March 31** **2018**	2017
Direct Materials	**44,029**	31,773
People Costs	**8,081**	4,875
Equipment Costs	**6,530**	2,521
Transportation Costs	**17,849**	12,514
Facility Costs	**2,416**	1,472
Cost of Sales	**78,905**	53,155
Cost of Sales - depreciation and depletion	**2,138**	2,558

Cost of sales increased by $25.8 million, or 48%, to $78.9 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, while sales volumes increased by 53%. The increase in cost of sales is primarily due to increased 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 4.5% strengthening of the Canadian dollar on US dollar denominated components of cost of sales. Significant components of cost of sales were mainly US dollar denominated costs including sand processing, rail freight, and rail car leases and are therefore subject to exchange rate fluctuations. The Blair Facility became fully operational in the second quarter of 2017, and combined with the Preston Facility acquired in the fourth quarter of 2017, significantly reduced the need to purchase third party sand. Sand production costs per unit declined by 3%, or $3.80 per MT, in the three months ended March 31, 2018, compared to the same period in 2017, 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. As part of the Preferred Acquisition all assets acquired, including inventory, were acquired at fair market value which negatively impacted cost of sales as the fair value of inventory acquired at both the mine and terminal were greater than Source's internal costs to produce would have been. The fair value of inventory acquired is estimated to have negatively impacted cost of sales by $1.9 million, or approximately $2.90 per MT, in the first quarter of 2018. All inventory acquired in the Preferred Acquisition has been fully processed and sold by March 31, 2018. In the first quarter of 2017 Source incurred $2.8 million of incremental costs to acquire third party sand to meet contractual commitments during the first quarter of 2017, compared with $0.1 million of incremental costs to acquire third party sand in the first quarter of 2018. The rail car fleet grew to 2,611 cars at March 31, 2018, and is now right sized to serve the business for 2018 activity levels.

Cost of sales increased by $21.3 million, or 37%, in the first quarter of 2018 compared to the fourth quarter of 2017, while sales volumes increased 15%. The increase in cost of sales is primarily due to the increased costs associated with higher sales volumes combined with increased cost of sales associated with third party trucking and rail freight costs for the increased percentage of sand sales at the terminal or wellsite in the WCSB from 70% in the fourth quarter of 2017 to 91% in the first quarter of 2018. Sand sales at the terminal or wellsite in the WCSB are sold at a higher average price with a corresponding increase in cost of sales. In the first quarter of 2018 an additional 198,366 MT was sold into the WCSB than in the fourth quarter of 2017 resulting in an increase in cost of sales of approximately $13.60 per MT. The Canadian dollar was relatively unchanged in the first quarter of 2018, when compared to the fourth quarter of 2017, resulting in a minimal impact on cost of sales and similarly the cost of sales impact associated with inventory acquired from the Preferred Acquisition was relatively unchanged over the same period.

Cost of sales depreciation and depletion decreased by $0.4 million for the first quarter of 2018 compared with the first quarter of 2017, primarily due to cold weather and a decrease in mining production in the first quarter of 2018. Cost of sales depreciation and depletion decreased by $1.9 million for the first quarter of 2018 compared with the fourth quarter of 2017 due to higher unit of production costs associated with the increased mining in the fourth quarter of 2017.

Gross Margin

	Three Months Ended March 31	
($000's, except MT and per unit amounts)	**2018**	2017
Gross Margin	**24,332**	8,719
Cost of Sales — depreciation and depletion	**2,138**	2,558
Adjusted Gross Margin[(1)]	**26,470**	11,277
Gross Margin %	**23.1%**	13.5%
Gross Margin/MT	**$37.85**	$20.76
Adjusted Gross Margin %[(1)]	**25.1%**	17.5%
Adjusted Gross Margin/MT[(1)]	**$41.18**	$26.85
Normalized Adjusted Gross Margin/MT[(1)]	**$45.98**	$27.85

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

Adjusted Gross Margin increased by $15.2 million, or $14.33 per MT, in the first quarter of 2018 compared to the first quarter of 2017. Adjusted Gross Margin percentage also improved 7.6%, to 25.1%, due to higher sales volumes, higher average sand prices and improved sand production costs per MT as discussed above. Adjusted Gross Margin increased $8.9 million, or $9.57 per MT, in the first quarter of 2018 compared with the fourth quarter of 2017, primarily due to the increased sand volumes and higher average sand price resulting from a greater percentage of sand volumes being delivered to the WCSB as discussed above.

Gross Margin of $24.3 million, or 23.1%, for the first quarter of 2018 increased $15.6 million, or $17.10 per MT, from the first quarter of 2017, for the same reasons the Adjusted Gross Margin improved. Gross margins were also impacted by a decrease in cost of sales – depreciation and depletion. Gross Margin increased $10.7 million, or $13.42 per MT, from the fourth quarter of 2017, for the same reasons the Adjusted Gross Margin improved combined with a decrease in cost of sales – depreciation and depletion as discussed above.

Normalized Adjusted Gross Margin, which is Adjusted Gross Margin normalized for the removal of sales mix impact from mine gate sales and Preferred Acquisition inventory adjustments, increased $18.13 per MT to $45.98 per MT in the first quarter of 2018 compared with $27.85 per MT in the same period in 2017, primarily due to improved sand contract prices in the first quarter of 2018. Normalized Adjusted Gross Margin decreased $1.78 per MT from the $47.76 per MT in the fourth quarter of 2017 primarily due to timing of increased rail freight surcharges and recovery through customer contracts more than offsetting customer contract price increases.

Operating and General and Administrative Expense

	Three Months Ended March 31	
($000's, except MT and per unit amounts)	**2018**	2017
People	**4,203**	2,212
Equipment	**391**	579
Facility	**1,283**	652
Selling and Administrative	**2,130**	441
Operating and General and Administrative Expense	**8,007**	3,884
Depreciation	**2,619**	1,267

Operating and general and administrative expenses for the first quarter of 2018 were $8.0 million, an increase of $4.1 million from the same period in 2017. Costs associated with people increased $2.0 million due to the growth of the business during 2017, including the acquisition of two mines and two terminals, resulting in the number of employees more than doubling. Equipment costs decreased $0.2 million due an onerous lease expense in 2017. Facility costs were $0.6 million higher due to the increase in size and scope of operations. Selling and administrative costs increased $1.7 million due to increased costs associated with the increase in size and scope of the operations, such as insurance expense and professional fees, combined with the increased costs associated with becoming a public company in April 2017. Operating and general and administrative expenses for the first quarter of 2018 were largely unchanged from the fourth quarter of 2017 at $8.0 million.

Depreciation

Depreciation expense of $2.6 million in the first quarter of 2018 was an increase of $1.4 million from the first quarter of 2017 due to the increase in size and scope of the business resulting in an 94% increase in property, plant and equipment balances. Depreciation expense increased $0.5 million in the first quarter of 2018, compared with the fourth quarter of 2017, primarily due to the Preferred Acquisition in November 2017 and the first full quarter of associated depreciation.

Finance Expense

Finance expense is primarily composed of interest expense on: (a) the Notes; (b) the $70 million asset backed loan facilities ("Credit Facilities"), which include (i) a revolving credit facility with availability thereunder subject to the limit of the lesser of: (A) $70 million and (B) the borrowing base, to be used to finance day-to-day operations of Source 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 million 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 Financial Statements and items (c), (d) and (e) were settled in conjunction with the completion of the Company's initial public offering ("IPO").

Finance expenses decreased by $4.7 million to $4.8 million in the first quarter of 2018, compared with the same period in 2017 due primarily to a $2.8 million decrease in interest expense resulting from 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 combined with a $2.0 million decrease in accretion expense associated with the make whole penalty on the early $22.3 million partial redemption of the Notes, partially offset by a $0.1 million increase in finance expense associated with public company fees.

Other Expense and Income

During the first quarter of 2018 Source incurred a loss on asset disposal of $2.4 million compared with $nil in the first quarter of 2017. The loss on asset disposal was associated with the disposal of land and other assets in Texas deemed non-core to Source's operations and plans going forward.

Source recorded $0.9 million in stock based compensation for the first quarter of 2018 associated with the deferred stock units ("DSUs"), restricted stock units ("RSUs"), performance stock units ("PSUs") and accrued expense related to the stock options. The initial grant of stock options at the time of the IPO was the first grant, and one-third of the options vested immediately, with the remaining two-thirds vesting in 2018 and 2019 respectively, resulting in a larger expense being recognized in the second quarter of 2017. Future grants of Options will vest, and grants of RSUs and PSUs vest, in equal thirds over a three-year period, with the first vesting date being one year after the initial grant.

DSUs vest and are expensed over the earlier of three years or when a director or other participant ceases in their role and are payable only when a director or participant leaves the company.

Other income of $0.2 million was recorded in the first quarter of 2018, compared to other income of $0.5 million in the first quarter of 2017. Decreased other income is due to the absence of deferred storage income in the first quarter of 2018. Compared with the fourth quarter of 2017 other income was relatively unchanged and consists primarily of rental income from subleases.

Source realized a foreign exchange loss of $nil in the first quarter of 2018, compared with a $0.7 million loss in the first quarter of 2017. Foreign exchange loss or gain fluctuates with settlement of US dollar denominated accounts receivables and payables and changes in the corresponding Canadian dollar exchange rates.

Source recorded a tax expense in the first quarter of 2018 of $1.8 million, compared to a recovery $0.3 million in the first quarter of 2017. The Reorganization changed Source's organizational structure from a series of partnerships to a corporate structure, which caused a more traditional tax provision to be recorded starting in April 2017.

Summary of Quarterly Results

($000's, except MT and per unit amounts)	2016			2017				2018
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sand Sales MT	*133,636*	*157,210*	*281,472*	*420,011*	*414,286*	*510,446*	*557,363*	*642,773*
Sand Revenue	17,066	19,109	35,840	51,630	50,555	62,232	63,986	86,884
Wellsite Solutions	6,982	4,499	8,922	10,535	16,629	17,439	10,308	17,270
Terminal Services	1,049	1,112	1,285	2,267	1,475	1,547	894	1,221
Sales	25,097	24,720	46,047	64,432	68,659	81,218	75,188	105,375
Cost of Sales	25,755	24,048	39,205	53,155	55,420	59,779	57,572	78,905
Cost of Sales Depreciation	1,989	2,078	1,612	2,558	2,810	2,582	3,998	2,138
Cost of Sales	27,744	26,126	40,817	55,713	58,230	62,361	61,570	81,043
Gross Margin	(2,647)	(1,406)	5,230	8,719	10,429	18,857	13,618	24,332
Operating and General and Admin Expenses	7,906	4,444	6,750	3,884	5,718	6,680	8,227	8,007
Depreciation	1,523	1,200	2,351	1,267	1,540	1,671	2,081	2,619
Income (loss) from operations	(12,076)	(7,050)	(3,871)	3,568	3,171	10,506	3,310	13,706
Other expense (income):								
Loss (gain) on asset disposal	1,460	1,410	(1,788)	-	(3)	-	(3)	2,396
Loss (gain) on impairment	-	-	1,852	-	-	-	-	-
Finance expense	4,902	3,984	7,105	9,479	9,409	3,879	5,575	4,757
Loss (gain) on derivative liability	-	-	910	(4,133)	(31)	1,267	1,316	376
Stock based compensation expense	-	-	-	-	3,870	984	1,770	905
Other income	(55)	(310)	(3,466)	(532)	(432)	(158)	(144)	(199)
Management Fees	636	76	153	417	-	-	-	-
Foreign exchange loss/(gain)	569	118	1,063	681	(157)	583	(1,971)	2
Total other expense (income)	7,512	5,278	5,829	5,912	12,656	6,555	6,543	8,237
Income (loss) before income taxes	(19,588)	(12,328)	(9,700)	(2,344)	(9,485)	3,951	(3,233)	5,469
Income taxes expense (recovery)	4	81	(597)	(339)	(649)	942	(2,131)	1,756
Net Income (loss)	(19,592)	(12,409)	(9,103)	(2,005)	(8,836)	3,009	(1,102)	3,713
Net Income (loss) Per Share ($/Share)	(0.79)	(0.52)	(0.38)	(0.08)	(0.24)	0.08	(0.02)	0.06
Diluted Net Income (loss) Per Share ($/Share)	(0.79)	(0.52)	(0.38)	(0.08)	(0.24)	0.06	(0.02)	0.06
Net Income (loss)	(19,592)	(12,409)	(9,103)	(2,005)	(8,836)	3,009	(1,102)	3,713
Interest	4,325	3,840	4,844	6,609	3,394	2,987	3,631	3,767
Income taxes	4	81	(597)	(339)	(649)	942	(2,131)	1,756
Depreciation	1,523	1,200	2,351	1,267	1,540	1,671	2,081	2,619
Cost of Sales Depreciation	1,989	2,078	1,612	2,558	2,810	2,582	3,998	2,138
EBITDA[(1)]	(11,751)	(5,210)	(893)	8,090	(1,741)	11,191	6,477	13,993
Add:								
Loss (gain) on asset disposal	1,460	1,410	(1,788)	-	(3)	-	(3)	2,396
Loss (gain) on impairment	-	-	1,852	-	-	-	-	-
Finance expense	577	144	2,261	2,870	6,015	892	1,944	990
Loss (gain) on derivative liability	-	-	910	(4,133)	(31)	1,267	1,316	376

($000's, except MT and per unit amounts)	2016			2017				2018
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Share based compensation expense	-	-	-	-	3,870	984	1,770	905
Management Fees	636	76	153	417	-	-	-	-
Transaction and professional fees	-	662	-	-	849	-	-	-
Preferred Acquisition inventory acquired at fair value	-	-	-	-	-	-	1,568	1,884
Gain on settlement of deferred revenue	-	-	(3,328)	-	-	-	-	-
Adjusted EBITDA[(1)]	(9,078)	(2,918)	(833)	7,244	8,959	14,334	13,072	20,544
Sand Revenue Sales/MT	128	122	127	123	122	122	115	135
Gross Margin	(2,647)	(1,406)	5,230	8,719	10,429	18,857	13,618	24,332
Cost of Sales Depreciation	1,989	2,078	1,612	2,558	2,810	2,582	3,998	2,138
Adjusted Gross Margin[(1)]	(658)	672	6,842	11,277	13,239	21,439	17,616	26,470
Gross Margin/MT	(19.81)	(8.94)	18.58	20.76	25.17	36.94	24.43	37.85
Adjusted Gross Margin/MT[(1)]	(4.92)	4.27	24.31	26.85	31.96	42.00	31.61	41.18

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

In 2018, with continued strong economic results being realized by E&P companies operating in the WCSB, Source achieved a 15% increase in sand volumes from the fourth quarter of 2017 and a 53% increase in sand volumes compared to the first quarter of 2017. Increased 2018 sand volumes were directly related to an increase in WCSB sand demand and sand intensity. Sales for first quarter of 2018 were $105.4 million, an increase of $40.9 million over the same period in 2017 and an increase of $30.2 million from the fourth quarter of 2017 due primarily to the increased sand volumes combined with a higher percentage of sand volumes delivered to the WCSB contributing to higher average sand prices and margins. Wellsite solutions revenue for the first quarter of 2018 was $17.3 million, an increase of $6.7 million from the same period in 2017 and an increase of $7.0 million from the fourth quarter of 2017. Increased wellsite solutions revenue is primarily due to increased trucking and Sahara revenue associated with increased sand volumes delivered to the WCSB.

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 prepay a 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 prepaid note at that time.

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, some 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 washing 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 aspect 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 drying operations throughout the year. Source's Blair Facility and Preston Facility washing plants are not enclosed and therefore are not operated during the winter months, but the dry plants are operated year-round.

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 its transload terminal network and processing facilities. To date, cash flows provided by operating activities, 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 funded its 2017 capital requirements through a combination of cash flows provided by operating activities and funds received from equity issuance and available credit facilities. In 2018, Source intends to finance working capital and its capital expenditures through a combination of cash flows provided by operating activities and amounts available under the existing Credit Facilities, plus additional debt and equity issuances as required. The availability of any additional future funding will depend on, among other things, operating performance and the current state of the equity and debt capital markets.

Capital Expenditures	Three Months Ended March 31	
($000's, except MT and per unit amounts)	**2018**	2017
Terminal Expansion	**6,268**	343
Wellsite Solutions	**2,794**	-
Production Expansion	**2,110**	791
Overburden Removal	**1,261**	1,693
Other	**38**	14
Capital Expenditures	**12,471**	2,841

Source's capital expenditures fall into three main categories: overburden removal, capital expenditures at existing terminals and mine facilities to make improvements and maintain operations, and growth capital expenditures for new capacity to grow production or distribution. Capital expenditures for the first quarter of 2018 were $12.5 million, an increase of $9.6 million from the first quarter of 2017. The increased capital expenditures were primarily driven by terminal expansion associated with the completions of the new Fox Creek terminal and expansion of the existing Wembley terminal, wellsite solutions expenditures associated with new Sahara units and production expansion associated with new processing equipment and operating efficiency improvements at its mines. Capital expenditures for the first quarter of 2018 were $12.1 million lower than the fourth quarter of 2017 primarily due to decreased terminal expansion, as both the Fox Creek and Wembley terminals were completed, and decreased production expansion, as the fourth quarter of 2017 included additional land purchases for future mining, partially offset by increased wellsite solutions expenditures associated with new Sahara units. Source intends to grow its Sahara fleet to eight units by the end of 2018 and explore the potential of expanding Sahara into the US markets.

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 considers its capital structure to include Source's equity, the Notes and bank debt and manages its capital structure through various means including monthly management meetings and quarterly board meetings including regular reviews of financial information, such as budgets and forecasts. Source monitors its capital based on its then current working capital, available bank line, projected cash flows provided by operating activities and anticipated capital expenditures. Source management prepares annual capital expenditure and operating budgets, which are approved by the Board, and are regularly reviewed and updated as necessary.

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 regional and 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 period ended March 31, 2018 or for the year ended December 31, 2017.

Source intends to meet its future capital requirements primarily through cash flows provided by operating activities, the Credit Facilities and by raising additional debt and equity issuances as required. 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 under the heading "Risk Factors" in the AIF.

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 was 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 plus accrued and unpaid interest and the applicable premium as defined in the corresponding trust indenture. After December 15, 2018, the principal amount of 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. Prepayment option has been classified as a derivative liability and is measured at fair value through profit or loss. On May 29, 2017, Source elected to settle the relevant rights through the issuance of 1,005,831 Common Shares to the holders of the Notes with net proceeds from the IPO. 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 amount of the Notes

along with accrued interest and a make-whole premium of 10.5%. At March 31, 2018, the principal outstanding on the Notes was $107.7 million.

At March 31, 2018, the fair value of the Notes prepayment option and an embedded derivative in a customer contract that includes foreign exchange rate collars (see "Fair Value of Financial Instruments" below) was $3.1 million ($2.8 million - December 31, 2017). Changes in fair values of 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 $0.4 million for the first quarter of 2018 (first quarter of 2017 – gain of $4.1 million).

The Company's $70 million Credit Facilities are secured by a floating first lien charge on the accounts receivable and inventory of Source under a general 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. Effective February 13, 2018 the maturity was extended to December 8, 2019. As of March 31, 2018, $54.5 million was drawn under the Credit Facilities and an additional $9.9 million was committed to supporting letters of credit under the facilities with $5.5 million available. The borrowing base is updated by the bank weekly. Source is subject to externally imposed capital requirements for the Credit Facilities, requiring Source Canada LP to maintain a springing fixed charge ratio of 1.25:1 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 March 31, 2018, the excess availability was less than 20% and Source's fixed charge ratio as defined in the Credit Facilities was 3.8. Source Canada LP was in compliance with all covenants of the Credit Facilities as of March 31, 2018.

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 March 31, 2018 are $44.0 million (December 31, 2017 - $34.1 million) and $20.7 million (December 31, 2017 - $18.9 million) denominated in foreign currency, respectively. The net effect of each 1% change in foreign exchange would have an impact on net income of $0.1 million for the three months ended March 31, 2018 (March 31, 2017 - $nil). As at March 31, 2018, the Company had no forward exchange rate contracts in place.

Cash and Net Working Capital

As of March 31, 2018, Source had $nil cash on hand and had senior long-term debt outstanding of $147.4 million, as compared to $129.3 million as of December 31, 2017. For the first quarter of 2018, Source had cash flows used in operating activities of $1.6 million compared to cash flows used in operating activities of $3.5 million for the same period in 2017, primarily due to the impact of a $32.5 million increase in total current assets less total current liabilities (the "Net Working Capital") partially offset with a $5.7 million increase in net income for the quarter. Capital expenditures for the three months ended March 31, 2018 were $12.5 million compared to $2.8 million in the same period in 2017. Capital expenditures in both periods were funded through a combination of cash flows provided in operating activities and amounts available under the Credit Facilities.

Net Working Capital as of March 31, 2018 was $85.6 million, as compared to $35.1 million as of December 31, 2017. The increase was primarily due to higher accounts receivable balances as Source had significantly higher sales in the three months ended March 31, 2018 compared to three months ended December 31, 2017, combined with a decrease in current liabilities due to the successful maturity extension of the Credit Facilities and the subsequent reclassification to long-term debt during the first quarter of 2018.

Deferred Revenue

Source entered into an agreement with one of its customers, effective January 1, 2018, where Source received $14.8 million ($11.5 million US dollars) as a prepayment for future purchases of proppant. In consideration of the prepayment, the price per MT to the customer was reduced for each MT of sand sold to the customer. The cash price per MT is also reduced for each MT of sand sold or pumped by the customer. During the first quarter of 2018 $2.3 million of this obligation was satisfied with a balance of $12.6 million remaining.

Contractual Obligations

Source has various lease commitments regarding equipment, railcars, a physical natural gas contract and office space. The leases expire between April 2018 and September 2026. The financial liabilities on Source's Consolidated Statement of Financial Position consist of the Notes, Credit Facilities and capital loan and finance leases. Source's planned cash outflows relating to lease commitments and financial liabilities are outlined in the table below:

($000's, except MT and per unit amounts)	Total	2018	2019	2020	2021	2022	2023 and thereafter
Finance leases	2,261	717	505	325	188	526	-
Lease commitments	99,989	24,003	22,032	14,814	12,455	11,232	15,453
Credit Facilities[(1)]	50,010	-	50,010	-	-	-	-
The Notes	152,454	11,310	11,310	11,310	118,524	-	-

Notes:

(1) Interest payments on such balances have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Effective February 13, 2018, Source extended the maturity date to December 8, 2019. Based on March 31, 2018 balances and interest rates, and assuming amounts stay outstanding until maturity, estimated total interest expense would be $3.8 million.

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. Source's customers are also serviced on a spot basis where volume thresholds are not set and orders are serviced on an as-available basis at prevailing market prices.

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

Off-Balance Sheet Arrangements

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

Outstanding Shares

The weighted average number of Common Shares outstanding for the three months ended March 31, 2018 was 61,551,712, respectively (three months ended March 31, 2017 – 23,845,618, being the equivalent number of Common Shares based on the number of issued and outstanding limited partnership units at that time).

	Three months ended March 31	
	2018	2017
Common Shares outstanding, beginning of period	**61,551,712**	**23,845,618**
Common Shares outstanding, end of period	**61,551,712**	**23,845,618**

As at May 2, 2018, Source had issued and outstanding (i) 61,551,712 Common Shares; (ii) 1,300,154 Class B shares, each redeemable for a Common Share on a one-to-one ratio at the option of the holder; and (iii) 2,580,843 stock options. See "Corporate Structure" in the AIF.

Transactions between Related Parties

During the first quarter of 2018, Source continued ongoing work with a company that is partially owned by a close member of the CEO's family. During the first quarter of 2018 this company billed Source $2.0 million of which $0.6 million was included in accounts payable at March 31, 2018.

Proposed Transactions

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

Controls and Procedures

The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The certificate for 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 March 31, 2018. There were no material weaknesses in the design of the DC&P and the ICFR at March 31, 2018, and no changes in ICFR during the period beginning on January 1, 2018 and ended on March 31, 2018 that have materially affected, or are reasonably likely to materially affect Source's ICFR. The control framework used to design the Company's ICFR is the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. While the Company's certifying officers believe that the Company's DC&P and ICFR provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Financial Instruments and Other Instruments

Risk Management Overview

Source's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. Further quantitative disclosures are included in the 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 AIF.

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 Credit Facilities approximate the carrying value as they bear interest at market floating rates consistent with market rates for similar debt. Based on the closing market price as of March 31, 2018, the fair value of the Notes is $116.9 million.

During the third quarter of 2017, Source entered into 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, 2019, with earlier application permitted.

IFRS 16 Leases

On January 1, 2019, the Company will 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. The Company is in the process of assessing the impact of IFRS 16, however, given the significant use of leased rail cars and heavy equipment the Company expects the standard will 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 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 and Depletion

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.

Mineral resources are depleted using the unit-of-production method based on indicated and inferred reserves. Depletion is recorded on a per tonne basis as the reserves are mined.

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 stock 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. In 2017 and during the first quarter of 2018 DSUs, RSUs and PSUs were expected to be settled for cash payments and accordingly were considered a liability settled award for accounting purposes. At the 2017 Annual General Meeting, set for May 3, 2018, a proposal will be put forth for shareholder approval that going forward RSUs and PSUs may be settled in Common Shares or cash.

Cash-Generating Units

The determination of cash-generating units is based on management's judgment regarding geographic proximity, shared equipment, and mobility of equipment. Management has determined that the Company's operations represent one cash-generating unit.

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. In respect of the Notes, 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.

Fair Value of Assets and Liabilities Acquired in a Business Combination

Values are allocated to assets and liabilities acquired based on their estimated fair values at the date of acquisition. Determining the fair value of assets and liabilities acquired, as well as intangible assets that relate to such items is ultimately based on management's assessment of the value of the assets and liabilities acquired and, to the extent available, third party information and assessments. Any excess of the cost of the acquisition over the net fair value of the identifiable assets acquired is recognized as goodwill.

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. 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, Adjusted Gross Margin and Normalized 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 per MT, Adjusted Gross Margin per MT and Normalized Adjusted Gross Margin per MT are calculated by taking the Non-IFRS Measures and dividing by sand volumes for period stated.

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) Preferred Acquisition inventory acquired at fair value; (h) loss (gain) on derivative liability; (i) gain on settlement of deferred revenue; and (j) 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 a margin more comparable to our peers. It represents, for the period presented, Gross Margin plus costs of sales – depreciation and depletion.

Normalized Adjusted Gross Margin represents margins on Company's sand volumes sold into the WCSB which are representative of the Company's core business and fully integrated business model, for the period presented, Adjusted Gross Margin plus sales mix impact of mine gate sales and the impact of Preferred Acquisition inventory being recorded at fair value. As reconciled to the IFRS measure Gross Margin in the Results Overview section of the MD&A above.

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 March 31	
($000's, except MT and per unit amounts)	**2018**	2017
Net income (loss)	**3,713**	(2,005)
Add:		
Tax expense	**1,756**	(339)
Interest expense	**3,767**	6,609
Cost of sales – depreciation and depletion	**2,138**	2,558
Depreciation	**2,619**	1,267
EBITDA	**13,993**	8,090
Add:		
Finance expense excluding interest expense	**990**	2,870
Stock based compensation expense	**905**	-
Management Fee	**-**	417
Loss on asset disposal	**2,396**	-
Loss (gain) on derivative liability	**376**	(4,133)
Preferred Acquisition inventory acquired at fair value	**1,884**	-
Adjusted EBITDA	**20,544**	7,244

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three Months Ended March 31	
($000's, except MT and per unit amounts)	**2018**	2017
Gross Margin	**24,332**	8,719
Cost of Sales — depreciation and depletion	**2,138**	2,558
Adjusted Gross Margin	**26,470**	11,277

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 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 in 2018; increased activity levels and sand intensity levels in 2018; the ability of and manner by which Source expects to meet its capital needs; increased drilling and well completion activity in 2018; the continued increase of sand sales volumes and sand spot pricing in 2018; increased sand intensities for Canadian well completions; 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 Preferred Acquisition which may cause Source to not fully realize anticipated benefits of the Preferred 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 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.