MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") dated May 15, 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 combined financial statements and related notes for the three-month period ended March 31, 2017 and the management's discussion and analysis and Source's audited combined annual financial statements and related notes as at and for the year ended December 31, 2016 which are found in Source's long form final prospectus dated April 6, 2017 (the "Final Prospectus"), each of which are available under the Company's SEDAR profile at www.sedar.com. All amounts are expressed in thousands of Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except where otherwise noted.

Certain financial measures referred to in this MD&A are not prescribed by IFRS. See "Non-IFRS Measures" for information regarding the following non-IFRS measures used in this MD&A: "EBITDA", "Adjusted EBITDA" and "Adjusted Gross Margin". This MD&A contains "forward-looking statements" or "forward-looking information" within the meaning of applicable Canadian and United States securities laws (collectively, "forward-looking statements") based on Source's current expectations and projections. For information on the material factors and assumptions underlying such forward-looking statements, refer to "Forward-Looking Statements" included at the end of this MD&A. Additional information about Source is available under the Company's SEDAR profile at www.sedar.com, including the Final Prospectus.

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

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

Overview

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 assets, processing facilities, unit train capable rail assets, strategically located terminal network and "last mile" logistics capabilities. Source's full service approach allows customers to rely on its logistics capabilities to increase reliability of supply and to ensure the timely delivery of their growing frac sand requirements. In addition to its transload terminal network and in-basin storage capabilities, Source has also developed Sahara, a proprietary wellsite mobile sand storage and handling system.

History of Business

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

Subsequent Events

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. As of the date of this MD&A, the over-allotment option had not been exercised and has expired. The Company is authorized to issue an unlimited number of Common Shares, Class B Shares (as defined herein) and preferred shares. As of the date of this MD&A, the Company has 49,310,881 Common Shares, 1,300,154 Class B Shares, 4,387,434 options and 51,426 deferred share units outstanding.

As the Reorganization was a related party transaction, the Company will use continuity of accounting, resulting in the prior year period being restated to the combined accounts of Source's combined financial statements with the Company. As a result of the Reorganization, the Company owns 100% of Source US LP and 97.3% of Source Canada LP and TriWest Capital Partners IV (US), L.P. indirectly owns 2.7% of Source Canada LP as a minority shareholder and holds all of the outstanding class B shares (the "Class B Shares") in the capital of the Company. The Class B Shares are voting shares that are redeemable into Common Shares at the option of the holder. See "Corporate Structure" in the Final Prospectus.

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

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

On April 25, 2017, Source Canada LP and Source Energy Services Canada Holdings Ltd. (collectively, the "Notes Issuers") provided notice to the holders of the Notes that an aggregate principal amount of $22,290,000 (the "Principal Amount") of the Notes outstanding will be redeemed for cash on June 6, 2017 (the "Redemption Date") upon payment of a redemption amount of 110.5000% of the Principal Amount, plus all accrued and unpaid interest thereon to the Redemption Date. The accrued interest to be paid per $1,000 principal amount of Notes on the Redemption Date is approximately $51.78. Further, as a result of the completion of the IPO, on May 29, 2017, the Company will issue 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.

Review of Operations for the three months ended March 31, 2017 and 2016

($000's, except MT and per unit amounts)	Three Months Ended March 31 2017	2016
Sand Volumes (MT)	**420,011**	260,118
Sand Revenue	**51,630**	40,947
Wellsite Solutions	**10,535**	858
Terminal Services	**2,267**	1,530
Sales	**64,432**	43,335
Cost of Sales	**53,155**	34,429
Cost of Sales Depreciation	**2,558**	2,360
Cost of Sales	**55,713**	36,789
Gross Margin	**8,719**	6,726
Operating and General and Administrative Expenses	**3,884**	4,766
Depreciation	**1,267**	1,299
Income (loss) from operations	**3,568**	661
Other expense(income):		
Finance expense	**9,479**	3,500
Loss/(gain) on derivative liability	**(4,133)**	–
Other income	**(532)**	(1,028)
Management Fees	**417**	178
Foreign exchange loss/(gain)	**681**	309
Total other expense (income)	**5,912**	2,959
Income (loss) before income taxes	**(2,344)**	(2,298)
Income taxes	**(339)**	–
Net Income (loss)	**(2,005)**	(2,298)
Adjusted EBITDA	**7,244**	5,303
Sand Revenue Sales/MT	**122.93**	157.41

	March 31, 2017	December 31, 2016
Total Assets	**236,606**	219,406
Total non-current financial liabilities	**252,793**	239,549

Sales

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

As a general industry practice, frac sand processing facilities in Wisconsin are not operated during the winter months. However, Source's sand washing facility at the Sumner Facility is fully enclosed and heated making it capable of operating year around. Winter operations at the Sumner Facility are an important facet of Source's business, as the WCSB is seasonally busiest in the winter months. Regardless of its ability to wash sand in the winter, Source excavates and washes more sand than current delivery requirements during the warmer months when Source's processing facilities are more efficient. The excess sand is placed in stockpiles that feed the drying operations throughout the year.

Overall sales for the first quarter of 2017 increased by $21.1 million or 49% to $64.4 million, when compared to the $43.3 million generated in the first quarter of 2016. Sequentially from the fourth quarter of 2016, Source also saw a 40% ($18.4 million) increase in sales. The stabilization of oil and gas commodity price environment in the fourth quarter of 2016 and into the first quarter of 2017 has provided exploration and development companies confidence to increase their drilling and completion programs in 2017, which is evidenced by a substantial increase in completion activity compared to the first quarter of 2016. As North American sand sales volumes ramped up in the fourth quarter of 2016 and into the first quarter of 2017, sand spot pricing is beginning to rise.

Source's sand sales increased by $10.7 million in the first quarter of 2017 compared to the first quarter of 2016, as a 61% (159,893 metric tonnes ("MT")) increase in sales volumes was partially offset by the impact of a 22% ($34.49/MT) price decrease compared to the first quarter of 2016. Sales volumes ramped up dramatically in the first quarter of 2017 compared to the first quarter of 2016 due to the increased completion activity levels and the continued trend of increasing sand intensity levels in completion programs. Sand volumes for the first quarter of 2017 were impacted by a slow start following the Christmas holiday season and an extreme cold snap in February which reduced completion activities for a couple of weeks. While these delays reduced sales volumes in the quarter the volumes are expected to be made up later in the year as exploration and production ("E&P") companies work through their completion programs for the year. Canadian well completion sand intensities on average continue to lag the 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. Sand pricing in the first quarter of 2017 decreased compared to the first quarter of 2016, due to the mix of product sales by location, increased sales of coarser sand at lower prices as well as price concessions given in late 2016, that extend through the end of the second quarter of 2017.

Compared to the fourth quarter of 2016, sand sales increased by $15.8 million as a 49% increase in sand volumes (138,539 MT) was partially offset by a 3% decline in average prices ($4.40/MT). Increased activity levels throughout the first quarter drove volumes higher, compared to the fourth quarter of 2016 where the quarter was impacted by the Christmas break and a slowdown in well completion activities. Average sales prices in the first quarter of 2017 saw a modest decline sequentially as Source undertook some coarse grade sales at lower pricing to ensure production efficiency was maintained. If the impact of these coarse sales was removed from the sales mix, the average realized sand price in the quarter would have been $2.02/MT higher than the price realized by Source in the fourth quarter of 2016. During the first quarter of 2017, Source saw 57% of its sand sales occur in US dollars, compared to 84% in the first quarter of 2016, which was impacted by a 3.6% increase in the strength of the Canadian dollar quarter over quarter.

E&P companies in 2017 continued to work to manage their well completion costs, and continued to use Source to help manage their "last mile" logistics costs from the terminal to the wellsite by placing Source's personnel and its Sahara unit on customers' wellsites. Wellsite revenue increased by $9.7 million in the first quarter of 2017 compared to the first quarter of 2016 as 58% of sand sales occurred at the wellsite compared to none in the first quarter of 2016. Source also helped manage overall trucking costs and sand supply reliability for its customers, which in turn helped them succeed with their completion programs. Sequentially wellsite revenue increased $1.6 million over the fourth quarter of 2016 as Source trucked more volume to the wellsite in the first quarter of 2017. Even though on a total volume basis Source sold more sand at the wellsite in the first quarter of 2017 than in the fourth quarter of 2016, on a mix basis Source sold approximately 56% of its volumes at the wellsite in the first quarter of 2017 compared to 78% in the fourth quarter of 2016 as its pressure pumping customers purchased more sand at the terminals in the first quarter of 2017.

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 $0.7 million or 48%, in the first quarter of 2017 compared to the first quarter of 2016, as the increase in industry activity translated into a 21% increase in transloading services for other proppant products and a 106% increase in hydrochloric acid transloading revenue. Terminal services sales generally follow completion trends in the WCSB.

Expenses

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

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

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

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

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

Cost of Sales

	Three Months Ended March 31	
($000's, except MT and per unit amounts)	**2017**	2016
Direct Materials	**31,773**	26,639
People Costs	**4,875**	2,862
Equipment Costs	**2,521**	1,492
Transportation Costs	**12,514**	2,036
Facility Costs	**1,472**	1,220
Cost of Sales	**53,155**	34,249

Cost of sales, which is composed of sand processing costs, rail freight, rail car lease, terminal operation costs, third party trucking costs, and wellsite operations costs, increased by $18.9 million or 55% to $53.2 million in the first quarter of 2017 as compared to 2016, while volumes increased 61%. The increase in cost of sales is primarily due to the increased use of third party trucking firms to support the "last mile" solution for Source's customers and increased production costs due to higher sales volumes. Sand production costs per unit in the first quarter of 2017 declined by 22% from the first quarter of 2016 as production rose, and the fixed cost elements of production were spread over more units. Sand production costs however, were higher than expected as Source incurred $2.8 million of incremental costs to acquire third party sand to meet customer requirements in the quarter until the previously announced Blair Facility acquisition is brought on line during the second quarter of 2017. Significant components of cost of sales are mainly U.S. dollar denominated costs including sand processing, rail freight, and rail car leases and therefore subject to fluctuations of the Canadian dollar compared to the U.S. dollar. In the first quarter of 2017, the average U.S./Canadian dollar exchange rate strengthened by 3.6% as compared to the first quarter of 2016, which led to increases in the Canadian dollar equivalent cost of sales.

Costs associated with sand processing equipment and overburden stripping costs are capitalized as the cost is incurred and depreciated on a unit of production basis. Cost of sales — depreciation increased by $0.2 million year over year, primarily due to taking depreciation on 2016 capital additions, which was mainly due to fourth quarter of 2016 capital additions.

Gross Margin

($000's, except MT and per unit amounts)	Three Months Ended March 31 2017	2016
Gross Margin	**8,719**	6,726
Cost of Sales — depreciation	**2,558**	2,360
Adjusted Gross Margin	**11,277**	9,086
Gross Margin %	**13.5%**	15.5%
Gross Margin/MT	**$20.76**	$25.86
Adjusted Gross Margin %	**17.5%**	21.0%
Adjusted Gross Margin/MT	**$26.85**	$34.93

Adjusted Gross Margin was $11.3 million or 17.5% for the first quarter of 2017 compared to $9.1 million or 21% in the first quarter of 2016. The Adjusted Gross Margin percentage declined year over year due to the incremental cost incurred to acquire the third-party sand, later in the quarter to meet customer needs, and the impact of the low margin sand sales on coarser grade sand. The Adjusted Gross Margin was also impacted by the increase in low margin wellsite solutions services year over year. Sequentially from the fourth quarter of 2016 Adjusted Gross Margin increased by $4.4 million or $2.54/MT as higher production volumes allowed Source to land product in the basin 7% cheaper in the first quarter of 2017.

Gross margin of $8.7 million or 13.5% in 2017 increased by $2 million quarter over quarter but on a percentage basis declined by 2% for the same reasons the adjusted gross margin declined. Gross margins were also impacted by an increase in cost of sales – depreciation.

Operating and General and Administrative Expenses

($000's, except MT and per unit amounts)	Three Months Ended March 31 2017	2016
Operating and General and Administrative Expenses		
People	**2,212**	2,368
Equipment	**579**	1,351
Facility	**652**	626
Selling and Administrative	**441**	421
	3,884	4,766

Operating and general and administrative expenses for the three months ended March 31, 2017 were $3.9 million, a decrease of $0.9 million from the prior year quarter. Costs associated with Source's people declined year over year due to not replacing administrative staff that left Source during the last three quarters of 2016. Equipment costs of $0.5 million in the first quarter of 2017 were $0.8 million lower than in the first quarter of 2016, due to excess rail car costs and higher equipment repairs and maintenance in the first quarter of 2016. These excess rail car leases expired by the end of 2016 and have been removed from the rail fleet. These rail cars are being replaced with newer, more functional cars at lower lease rates. During the first quarter of 2017 the rail car fleet increased from 923 cars at December 31, 2016 to 1,280 rail cars at March 31, 2017. Rail car lease costs that are not considered excess fleet are recorded as part of cost of sales. Excess fleet costs are captured in operating expenses. Facility costs at $0.7 million were comparable to 2016 levels. Selling and administrative costs at $0.4 million were also comparable to 2016 levels.

Depreciation

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

Depreciation expense of $1.3 million in the first quarter of 2017 was comparable to the first quarter of 2016.

Finance Expense
Finance expense is primarily composed of interest expense on: (a) the Notes; (b) two facilities in an aggregate principal amount of $41,650,000 (collectively, the "Credit Facilities") which include a revolving credit facility with availability thereunder subject to the limit of the lesser of: (A) $35,000,000 and (B) the borrowing base, to be used to finance day to day operations of Source Canada LP and its subsidiaries and for general working capital requirements, including financing receivables, inventory and capital expenditures that have been approved by the lenders, and (ii) a US$5,000,000 standby letter of credit facility to be used to issue one or more standby letters of credit; (c) the preferred shares obligation; (d) the amount due to related parties; and (e) the Shareholder loans. These items are all further described in the notes to the interim condensed combined financial statements of Source for the period ended March 31, 2017.

Finance expenses increased by $6 million to $9.5 million in the first quarter of 2017 as compared to 2016 due to the higher interest rate cost on the Notes issued in December 2016. The proceeds from such offering were used to repay the previous credit facilities. Finance expense was also impacted by $2 million due to the recognition of the discounted prepayment penalty owing on the Principal Amount of the Notes that will be repaid from the IPO proceeds on the Redemption Date.

Other Expense and Income
In December 2016, the offering of Notes was completed. Embedded in these Notes were two derivative instruments. The first instrument includes relevant rights which entitles debt holders to 4% of the equity value of Source on a combined basis upon an initial public offering or various liquidation or change of control events. There are also prepayment options entitling Source to redeem the Notes in part or in whole prior to their maturity. Such relevant rights and the prepayment options have been classified as derivative liabilities and are measured at fair value through profit and loss. As of December 31, 2016, Source had recorded a derivative liability of $14.8 million for the relevant rights and $0.1 million for the prepayment options. At March 31, 2017, the fair value of the relevant rights was determined using the final settlement value ($10.6 million) from the IPO; resulting in a gain of $4.2 million being recognized for the quarter, which was partially offset by a loss on the prepayment option of $0.1 million.

Other income of $0.5 million was recorded in 2017, compared to other income of $1 million in 2016. In the first quarter of 2017, Source completed a storage agreement with a customer, and recognized the deferred storage revenue. With the downturn in activity in the prior couple of years the customer did not transload as much proppant as they had previously contemplated. In the first quarter of 2016, Source recognized a portion of a penalty charged to a customer that did not take its minimum sand requirements in 2015.

Source realized a foreign exchange loss of $0.7 million in 2017, which was a $0.4 million change from the $0.3 million loss recognized in the first quarter of 2016. The 2017 loss was generated from a weakening Canadian dollar and lower average U.S. dollar denominated net working capital balances in 2017 than 2016, as some of Source's customers who had changed from buying sand in U.S. dollars to Canadian dollars increased their purchases in the first quarter of 2017.

Adjusted EBITDA for 2017 increased by $1.9 million to $7.2 million, as the increase in sand sales volumes both increased Sales and help reduce production costs on a per unit basis. 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.

Business Outlook
With the relative stabilization of the commodity prices in late 2016 and into 2017, E&P companies have gone back to drilling and completing wells. While Canadian well completion sand intensities on average continue to lag the US well completion sand intensities; the Canadian average continues to rise 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 producers continue with their previously announced capital plans, significant improvement in sand sales compared to 2016 are expected to continue through the balance of 2017. Source also expects that activity levels and sand intensity levels will continue to rise in 2018 leading to further improvements in 2018.

Summary of Quarterly Results

The following quarterly results have been calculated by aggregating management's internal monthly financial data and other than the results for the first quarter of 2017 and 2016, and the third and fourth quarters of 2016 and 2015 have not been reviewed or audited by Source's auditors. Although Source believes such aggregations are accurate undue reliance should not be placed thereon.

$000's, except MT and per unit amounts	2015			2016				2017
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sand Sales MT	*156,037*	*251,740*	*171,624*	*260,117*	*133,636*	*157,210*	*281,472*	*420,011*
Sand Revenue	26,222	45,299	23,283	40,947	17,066	19,109	35,840	51,630
Wellsite Solutions	1,112	2,038	1,782	858	6,982	4,499	8,922	10,535
Terminal Services	1,052	2,088	1,651	1,530	1,049	1,112	1,285	2,267
Sales	28,386	49,425	26,716	43,335	25,097	24,720	46,047	64,432
Cost of Sales	22,494	37,027	24,728	34,249	25,755	24,048	39,205	53,155
Cost of Sales Depreciation	1,782	1,551	2,181	2,360	1,989	2,078	1,612	2,558
Cost of Sales	24,275	38,578	26,909	36,609	27,744	26,126	40,817	55,713
Gross Margin	4,111	10,847	(193)	6,726	(2,647)	(1,406)	5,230	8,719
Operating and General and Admin Expenses	4,055	4,040	5,905	4,766	7,906	4,444	6,750	3,884
Depreciation	1,305	1,816	1,156	1,299	1,523	1,200	2,351	1,267
Income (loss) from operations	(1,249)	4,991	(7,254)	661	(12,076)	(7,050)	(3,871)	3,568
Other expense (income):								
Loss (gain) on asset disposal	27	(1)	(7)	–	1,460	1,410	(1,788)	–
Loss (gain) on impairment	–	–	–	–	–	–	1,852	–
Finance expense	2,272	3,676	3,885	3,500	4,902	3,984	7,105	9,479
Loss (gain) on derivative liability	–	–	–	–	–	–	910	(4,133)
Fair Value adjustment on shareholder loan	–	3,906	–	–	–	–	–	–
Other income	(217)	(53)	(1,380)	(1,028)	(55)	(310)	(3,466)	(532)
Management Fees	592	164	579	178	636	76	153	417
Foreign exchange loss/(gain)	11	(106)	300	309	569	118	1,063	681
Total other expense (income)	2,685	7,586	3,377	2,959	7,512	5,278	5,829	5,912
Income (loss) before income taxes	(3,934)	(2,595)	(10,631)	(2,298)	(19,588)	(12,328)	(9,700)	(2,344)
Income taxes	23	(1)	553	–	4	81	(597)	(339)
Net Income (loss)	(3,957)	(2,594)	(11,184)	(2,298)	(19,592)	(12,409)	(9,103)	(2,005)
Net Income (loss)	(3,957)	(2,594)	(11,184)	(2,298)	(19,592)	(12,409)	(9,103)	(2,005)
Interest	2,256	3,676	3,660	3,193	4,325	3,840	4,844	6,609
Income taxes	23	(1)	553	–	4	81	(597)	(339)
Depreciation	1,305	1,816	1,156	1,299	1,523	1,200	2,351	1,267
Cost of Sales Depreciation	1,782	1,551	2,181	2,360	1,989	2,078	1,612	2,558
EBITDA	1,409	4,448	(3,634)	4,554	(11,751)	(5,210)	(893)	8,090
Add:								
Loss (gain) on asset disposal	27	(1)	(7)	–	1,460	1,410	(1,788)	–
Loss (gain) on impairment	–	–	–	–	–	–	1,852	–
Finance expense	16	–	225	307	577	144	2,261	2,870
Loss (gain) on derivative liability	–	–	–	–	–	–	910	(4,133)
Fair Value adjustment on Shareholder loan	–	3,906	–	–	–	–	–	–
Management Fees	592	164	579	178	636	76	153	417
Transaction and professional fees	–	–	746	264	–	662	–	–
Gain on settlement of deferred revenue	–	–	–	–	–	–	(3,328)	–
Adjusted EBITDA	2,044	8,517	(2,091)	5,303	(9,078)	(2,918)	(833)	7,244
Sand Revenue Sales/MT	168	180	136	157	128	122	127	123
Gross Margin	4,111	10,847	(193)	6,726	(2,647)	(1,406)	5,230	8,719
Cost of Sales Depreciation	1,782	1,551	2,181	2,360	1,989	2,078	1,612	2,558
Adjusted Gross Margin	5,893	12,398	1,988	9,086	(658)	672	6,842	11,277
Gross Margin/MT	26.35	43.09	(1.12)	25.86	(19.81)	(8.94)	18.58	20.76
Adjusted Gross Margin/MT	37.76	49.25	11.58	34.93	(4.92)	4.27	24.31	26.85

In the fourth quarter of 2016, when oil and gas commodity prices stabilized and began to rise, the larger, better financed exploration and development companies returned to work, and Source saw a 79% sequential increase in sales volumes from the third quarter of 2016 and an 64% increase in sales volumes from the fourth quarter of 2015. As North American sand sales volumes, have ramped up in the fourth quarter of 2016 and into the first quarter of 2017, spot sand pricing which was stable in the fourth quarter has begun to rise as the industry wide supply and demand have begun to better align. Sales in the fourth quarter of 2016 were $35.8 million an increase of $12.6 million over the same period of 2015. In the fourth quarter of 2016, Source sold 78 % of its sand sales volumes at the wellsite, compared to 0% in 2015, which resulted in a dramatic increase in wellsite solution sales. The higher sales volumes in the fourth quarter of 2016 help drive down the cost of the delivered product, which resulted in improved Adjusted Gross Margin for the quarter.

In the fourth quarter of 2016, the offering of the Notes was completed. The proceeds from such offering were used to repay the previous credit facilities and a prepayment note with a customer. As explained in the section above entitled "Finance Expense" this 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.

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

Source's business is seasonal in nature with the majority of activity being in the first, third and fourth quarters. The least activity is in the second quarter, due to spring break-up. Spring break-up occurs for a period of approximately eight weeks between March and June as the frost comes out of the roads in Western Canada as hauling weight restrictions are put in place. The severity of the winter snowfalls and the amount of moisture received during this period impact the length of spring break up. As a result, Source's operating results may vary on a quarterly basis. In addition, many exploration and production areas in northern Canada are accessible only in the winter months when the ground is frozen.

Liquidity and Capital Resources

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

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

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

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

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

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

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

On December 8, 2016, the Note Issuers issued the Notes which bear interest at 10.5% per annum, and mature December 15, 2021. The Notes are secured by a fixed and floating charge over all the assets of the business except accounts receivable and inventory, on which the Notes carry a second charge. Each holder of Notes is entitled to a relevant right of 4% of the equity value of the Note Issuers upon an initial public offering and various liquidation or change of control events. There are prepayment options, where the Note Issuers may redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering at a redemption price of 110.5% of the principal amount. The Note Issuers may also redeem all or part of the Notes at any time prior to December 15, 2018 for 100% of the principal, accrued and unpaid interest, and the applicable premium as defined in the agreement. After December 15, 2018, the Notes may be redeemed in whole or in part at the applicable percentage (2018 — 107.875%, 2019 — 103.9375%, 2020 — 100%), plus accrued and unpaid interest. Such relevant rights and prepayment option have been classified as a derivative liability and are measured at fair value through profit or loss. At March 31, 2017, the fair value of the relevant rights was determined to be $10.6 million ($14.8 million – December 31, 2016) for the rights and $0.2 million ($0.1 million - December 31, 2016) for the prepayment option. Changes in fair value of the derivative liabilities are recorded through the Combined Statements of Operations and Comprehensive Income (Loss). Source has recorded a fair value gain on the relevant rights and the prepayment option of $4.1 million as of March 31, 2017 (2016 — $0).

The Credit Facilities are secured by floating first lien charge on the accounts receivable and inventory of Source under a general business security agreement and a second lien charge on all other assets of the business. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories. As of March 31, 2017, $20.9 million was drawn under the Credit Facilities, and $14.1 million was available. The borrowing base is updated by the bank monthly. Letters of credits were issued for US$5.9 million. To date no amounts have been drawn against these letters of credit.

Source is subject to externally imposed capital requirements for the Credit Facility, requiring Source Canada LP to maintain a springing fixed charge ratio of (a) 1.10:1 up to and including June 30, 2017, and then (b) 1.25:1 at all times thereafter to be measured when Source's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. As of March 31, 2017, the excess availability was greater than 20%. Source Canada LP is in compliance with all covenants of the Credit Facilities as of March 31, 2017.

Foreign Currency Risk
Source is exposed to currency price risk on sales denominated in U.S. dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on cost of manufacturing of inventory for sale to the extent that the payment of those costs are foreign denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at March 31, 2017 are $13,037 (December 31, 2016 - $1,693) and $14,481 (December 31, 2016 - $8,380) denominated in foreign currency

respectively. The net effect of each 1% change in foreign exchange would impact net income for the three months ended March 31, 2017 by $25 ($179 in 2016). As at March 31, 2017, Source had no forward exchange rate contracts in place.

Cash and Net Working Capital

As of March 31, 2017, Source had no cash on hand and had senior long term debt outstanding of $134.6 million, as compared to $124.4 million as of December 31, 2016. There was a cash flow deficit from operations of $3.4 million for the first three months of 2017 compared to $5.4 million in cash flow from operations in 2016 as the impact of an $9.2 million increase in net working capital was partially offset by a $0.3 million increase in net income in 2017. The cash flow deficit was funded by additional senior debt borrowings. Capital expenditures for the first quarter of 2017 were $2.8 million compared to $2.4 million in the same period in 2016. The capital expenditures in both periods were funded by additional draws on the Credit Facilities.

Net working capital as of March 31, 2017 was $18.2 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 first quarter of 2017 compared to the fourth quarter of 2016. This impact was partially offset by lower inventory levels at March 31, 2017 as Source drew down inventory levels in the first quarter. Source will typically draw down inventories on hand during the winter months as sand production costs are relatively higher during the cold winter months in Wisconsin.

Capital expenditures in the first quarter of 2017 were $2.8 million, as compared to $2.3 million in 2016. The 2017 capital expenditure program predominately related to overburden removal expenditures at the mine site. The 2016 capital expenditure program was related to overburden removal and equipment and the production facilities in Wisconsin.

Deferred Revenue

Source has entered storage subscription agreements with some customers to provide them with guaranteed proppant storage at its facilities, which will all expire by August 2017. Under the terms of such agreements, customers pay a non-refundable subscription fee entitling them to a discount of $2 per tonne from Source's normal sand distribution fees. The subscription fees have been deferred and are recognized as revenue as proppant is transloaded by the subscribers. In the first quarter of 2017 one of these storage agreements ended and Source recognized the remaining subscription fees of $0.5 million.

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

Contractual Obligations

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

$000's, except MT and per unit amounts	
2017	8,451
2018	9,047
2019	7,079
2020	5,648
2021	5,582
Subsequent Years	9,204
	45,011

Source is a party to contracts with numerous customers. Source's customers are primarily exploration and development companies and pressure pumping companies operating in the WCSB. Source's goal is to create long-term relationships with its customers. Source has structured contracts with customers outlining volume commitments and in some cases fixed pricing, the terms of which vary from one to three years. This mitigates the impact of any nonpayment or non-performance by, or significant reduction in purchases by, any of these contracted customers. A significant number of Source's customers are serviced on a spot basis where volume thresholds are not set and orders are serviced on an as-available basis at prevailing market prices.

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

Off-Balance Sheet Arrangements
There are no off-balance sheet arrangements.

Outstanding Security Data
Source's partners' equity is described in note 12 of the condensed combined interim financial statements of Source for the period ended March 31, 2017.

Transactions between Related Parties
There were no material related party transactions in the first quarter of 2017. Subsequent to March 31, 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, see "Subsequent Events".

Proposed Transactions
There are no proposed transactions

Controls and Procedures
The Company is required to comply with National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. The Company is not required to make any certifications regarding the disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") in place as at March 31, 2017. Management will certify the design of the Company's DC&P and ICFR as at June 30, 2017 and the effectiveness of DC&P and ICFR as at December 31, 2017. The evaluation of ICFR will be based on the 2013 COSO framework.

It should be noted that while the Company's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the control system will prevent all errors or fraud.

Financial Instruments and Other Instruments

Risk management overview
Source's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. Further quantitative disclosures are included in the March 31, 2017 combined condensed 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, which is available under the Company's SEDAR profile at www.sedar.com.

Fair value of financial instruments
The fair values of cash, accounts receivable, overdraft, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments. The fair value of the asset backed loan facility approximates the carrying values as they bear interest at market floating rates consistent with market rates for similar debt. Based on the closing market price as of March 31, 2017, the fair value of the Notes is $143 million.

Recently Issued Accounting Standards Not Yet Applied
Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

(i) IFRS 9 Financial Instruments

On January 1, 2018, Source will be required to adopt IFRS 9 Financial Instruments, which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Source is in the process of assessing the impact of IFRS 9 on its financial statements.

(ii) IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, Source will be required to adopt IFRS 15 Revenue from Contracts with Customers. IFRS 15 was issued in May 2014 and will replace IAS 11 Construction Contracts, IAS 18, Revenue Recognition, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 and financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. Source is in the process of assessing the impact of IFRS 15 on its financial statements.

(iii) IFRS 16 Leases

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

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

Allowance for Doubtful Accounts
Source performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, the customer's financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based on specific situations and overall industry conditions.

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

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

Decommissioning Liabilities

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

Income Taxes

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

Stock-Based Compensation

The fair value of the restricted share units is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected unit life, estimated forfeitures, and estimated volatility of Source.

Cash-Generating Units

The determination of cash-generating units is based on management's judgment regarding geographical proximity, shared equipment, and mobility of equipment.

Impairment of Non-Financial Assets

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows, prior to impairments of non-financial assets and are reviewed for possible reversal at each reporting date.

Embedded Derivatives

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

Shareholder Loans

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

NON-IFRS MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. These financial measures do not have standardized meanings prescribed by IFRS and Source's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), gross margin and other measures of financial performance as determined in accordance with IFRS as an indicator of performance, but Source believes these measures are useful to both management and investors in providing relative performance and measuring changes in respect of Source as well as measuring Source's financial performance in the context of the capital spending necessary to maintain and grow its assets.

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

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 March 31,	
($000's, except MT and per unit amounts)	2017	2016
Net income (loss)	(2,005)	(2,298)
Add:		
Deferred tax	(339)	–
Interest expense	6,609	3,193
Cost of sales – depreciation	2,558	2,360
Depreciation	1,267	1,299
EBITDA	8,090	4,554
Add:		
Finance expense excluding interest expense	2,870	307
Management Fee[(1)]	417	178
Loss (gain) on derivative liability	(4,133)	–
Transaction and Professional Fees	–	264
Adjusted EBITDA	7,244	5,303

Note:
The Management fees were paid to certain shareholders prior to the IPO for services they provided. Once the IPO was completed these fees are no longer payable.

Reconciliation of Gross Margin to Gross Margin

	Three Months Ended March 31	
($000's, except MT and per unit amounts)	**2017**	2016
Gross Margin	**8,719**	6,726
Cost of Sales — depreciation	**2,558**	2,360
Adjusted Gross Margin	**11,277**	9,086

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; increased sales volumes of sand following the first quarter of 2017; the ability of Source to meet its capital needs; the issuance of Common Shares in connection with certain obligations attributed to the Notes, core samplings, the effectiveness of internal controls over Source's internal financial reporting; and Source's objectives, strategies and competitive strengths.

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

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

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

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

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