



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017**

UNAUDITED

SOURCE ENERGY SERVICES LTD.
Condensed Consolidated Interim Statement of Financial Position – Unaudited

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

	Note	September 30, 2018	December 31, 2017
Assets			
Current assets			
Cash		\$ 4,616	\$ —
Accounts receivable	4(c)	71,927	54,114
Prepaid expenses		6,121	5,455
Inventories	6	57,956	48,984
Total current assets		140,620	108,553
Deferred income tax	9	6,460	8,009
Mineral resources	7	31,363	31,506
Property, plant and equipment	8	346,733	319,889
Total Assets		\$ 525,176	\$ 467,957
Liabilities and Equity			
Current liabilities			
Accounts payable and accruals	4(d)	\$ 49,993	\$ 38,765
Contract liabilities	15	6,125	278
Derivative liability	4(b)	326	671
Current portion of long-term debt	10	618	33,692
Total current liabilities		57,062	73,406
Long-term debt	10	147,502	95,570
Derivative liability	4(b),10	632	2,128
Decommissioning provision	11	15,721	14,663
Total long-term liabilities		163,855	112,361
Total liabilities		\$ 220,917	\$ 185,767
Shareholders' Equity			
Shareholders' equity	12	\$ 400,812	\$ 400,812
Contributed Surplus		7,233	5,432
Accumulated Deficit		(103,640)	(115,212)
Cumulative translation adjustment		(32)	(8,358)
Shareholders' equity		304,373	282,674
Non-controlling interests	12	(114)	(484)
Total Equity		\$ 304,259	\$ 282,190
Total Liabilities and Equity		\$ 525,176	\$ 467,957

See accompanying notes to the condensed consolidated interim financial statements.

Commitments and contingencies (Note 17)

SOURCE ENERGY SERVICES LTD.
Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss) – Unaudited

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

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Sales					
Sand revenue	15	\$ 99,804	\$ 62,232	\$ 296,970	\$ 164,417
Wellsite solutions	15	21,937	17,439	59,965	44,603
Terminal services	15	1,633	1,547	4,028	5,289
Total sales		123,374	81,218	360,963	214,309
Cost of sales	16	\$ 99,518	\$ 59,779	\$ 278,629	\$ 168,354
Cost of sales - depreciation and depletion		7,189	2,582	16,899	7,950
Gross margin		\$ 16,667	\$ 18,857	\$ 65,435	\$ 38,005
Operating and general & administrative expense	16	\$ 7,219	\$ 6,680	\$ 22,868	\$ 16,282
Depreciation		3,356	1,671	8,927	4,479
Income from operations		\$ 6,092	\$ 10,506	\$ 33,640	\$ 17,244
Other expense (income):					
Loss (gain) on asset disposal		\$ 2,598	\$ —	\$ 4,986	\$ (3)
Share based compensation expense	13	567	984	2,775	4,854
Finance expense	18	5,320	3,879	15,127	22,767
Loss (gain) on derivative liability	4(b), 10	(460)	1,267	(1,871)	(2,897)
Other income		(142)	(158)	(390)	(1,122)
Management fees		—	—	—	417
Foreign exchange (gain) loss		(134)	583	(464)	1,107
Total other expense		7,749	6,555	20,163	25,123
Income (loss) before income taxes		\$ (1,657)	\$ 3,951	\$ 13,477	\$ (7,879)
Income taxes					
Current tax expense (recovery)	9	\$ —	\$ 3,578	\$ —	\$ 5,268
Deferred tax expense (recovery)	9	(687)	(2,636)	1,535	(5,315)
Total income taxes		(687)	942	1,535	(47)
Net income (loss)		\$ (970)	\$ 3,009	\$ 11,942	\$ (7,832)
Net income (loss) attributable to shareholders		(959)	3,178	11,572	(7,429)
Net income (loss) attributable to non-controlling interests		(11)	(169)	370	(403)
Total net income (loss)		\$ (970)	\$ 3,009	\$ 11,942	\$ (7,832)
Other comprehensive income (loss)					
Foreign currency translation adjustment (subject to recycling)		(5,086)	6,359	8,326	11,984
Consolidated comprehensive income (loss)		\$ 4,116	\$ (3,350)	\$ 3,616	\$ (19,816)
Income (loss) per share (in dollars)					
Basic	14	\$ (0.02)	\$ 0.08	\$ 0.19	\$ (0.18)
Diluted	14	\$ (0.02)	\$ 0.06	\$ 0.18	\$ (0.18)

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Condensed Consolidated Interim Statements of Changes in Equity – Unaudited

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

	Note	Common share capital		Partner's Equity	Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
		Number of Shares	\$						
Balance at December 31, 2017		62,852	\$ 400,812	\$ —	\$ 5,432	\$ (8,358)	\$ (115,212)	(484)	\$282,190
Unrealized foreign exchange income (loss)						8,326			8,326
Share based compensation expense	13				1,801				1,801
Net income (loss)							11,572	370	11,942
Balance at September 30, 2018		62,852	\$ 400,812	\$ —	\$ 7,233	\$ (32)	\$ (103,640)	(114)	\$304,259

	Number of Units	Partners Units		Partner's Equity	Contributed Surplus	Cumulative Translation Adjustment	Accumulated Deficit	Non-controlling interests	Total Equity
		\$	\$						
Balance at December 31, 2016	96,880	\$ —	\$ 41,941	\$ —	\$ 5,601	\$ (106,761)	\$ —	\$ (59,219)	
Issuance of \$10 share capital in SESL upon incorporation	1								—
Exchange of partnership units for SESL shares	(71,787)	41,941	(41,941)						—
Non-controlling interests							64	(64)	—
Common shares issued upon closing of IPO	16,667	175,000							175,000
Share capital issuance costs		(9,545)							(9,545)
Common shares issued on settlement of EEPP	53	554							554
Common shares issued on repayment of shareholder loans	3,587	37,658							37,658
Common shares issued on repayment of preferred share obligation	5,212	54,727							54,727
Issued on settlement of Relevant Transaction Rights	1,006	10,563							10,563
Unrealized foreign exchange loss						(11,984)			(11,984)
Share based compensation expense					3,928				3,928
Net loss							(7,429)	(403)	(7,832)
Balance at September 30, 2017	51,619	\$ 310,898	\$ —	\$ 3,928	\$ (6,383)	\$ (114,126)	\$ (467)	\$193,850	

See accompanying notes to the condensed consolidated interim financial statements

SOURCE ENERGY SERVICES LTD.
Condensed Consolidated Interim Statements of Cash Flows – Unaudited

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

	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Cash Flows Provided by (Used in) Operating Activities					
Net income (loss)		\$ (970)	\$ 3,009	\$ 11,942	\$ (7,832)
Adjusted for the following:					
provided by (used in) operating activities:					
Depreciation and depletion		10,545	4,253	25,826	12,429
Share based compensation	13	567	984	2,775	4,854
Loss (gain) on sale of assets		2,598	—	4,986	(3)
Finance expense	18	5,320	3,879	15,127	22,767
Gain on settlement of deferred revenue		—	—	—	(703)
Deferred income taxes		(687)	(2,636)	1,535	(5,315)
Unrealized gain on derivative liability		(460)	1,267	(1,871)	(2,897)
Proceeds on contract liabilities, net of satisfaction of performance obligations		(3,392)	(457)	5,847	(457)
Payments for share based compensation		(371)	—	(371)	—
Payment on foreign exchange collars		—	—	(87)	—
Payments made for decommissioning liability		(407)	(774)	(1,312)	(2,441)
Net changes in non-cash working capital	5	20,078	(12,107)	(15,184)	(39,741)
Cash flows provided by (used by) operating activities		\$ 32,821	\$ (2,582)	\$ 49,213	\$ (19,339)
Investing Activities					
Purchase of Sand Products Wisconsin, LLC		\$ —	\$ —	\$ —	\$ (59,914)
Purchase of property, plant and equipment		(15,352)	(15,932)	(48,879)	(25,969)
Proceeds on disposal of property, plant and equipment		1,990	—	2,362	3
Net changes in non-cash working capital	5	(374)	(5,007)	(5,500)	(1,956)
Cash flows used in investing activities		\$ (13,736)	\$ (20,939)	\$ (52,017)	\$ (87,836)
Financing Activities					
Proceeds on IPO, net of commissions		\$ —	\$ —	\$ —	\$ 165,375
Proceeds on (repayment of) long-term debt		(13,790)	13,568	(34,291)	(2,954)
Proceeds on (repayment of) senior secured notes		—	—	50,378	(22,290)
Payments made to preferred shareholders		—	—	—	(17,250)
Amount paid for EEPP		—	—	—	(409)
Payment of Sand Royalty loan		—	—	—	(4,670)
Repayment of finance lease obligations		(330)	—	(922)	—
Financing expense paid		(349)	(277)	(7,745)	(10,627)
Cash flows provided by financing activities		\$ (14,469)	\$ 13,291	\$ 7,420	\$ 107,175
Increase (decrease) in cash		\$ 4,616	\$ (10,230)	\$ 4,616	\$ —
Cash and cash equivalents, beginning of period		—	10,230	—	—
Cash and cash equivalents, end of period		\$ 4,616	\$ —	\$ 4,616	\$ —

See accompanying notes to the condensed consolidated interim financial statements.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

1. GENERAL DESCRIPTION OF BUSINESS

Source Energy Services Ltd. ("Source" or the "Company") is a fully integrated producer, supplier, and distributor of high quality Northern White frac sand primarily to the Western Canadian Sedimentary Basin (the "WCSB"). Source provides its customers with a full end-to-end solution through its Wisconsin mine assets, processing facilities, unit train capable rail assets, strategically located terminal network and "last mile" logistics capabilities. Source's full-service approach allows customers to rely on its logistics capabilities to increase reliability of supply and to ensure the timely delivery of their growing frac sand requirements. In addition to its transload terminal network and in-basin storage capabilities, Source has also developed Sahara, a proprietary wellsite mobile sand storage and handling system. The Company's head and principal office is located at 500, 438 – 11th Avenue SE, Calgary, Alberta, T2G 0Y4.

On April 13, 2017, the Company completed an initial public offering ("IPO") and issued 16,666,667 common shares for proceeds of \$175,000 and began trading on the Toronto Stock Exchange, under the symbol "SHLE". In connection with the IPO, the existing SES Canada LP and SES US LP partnership units were exchanged for units of SESL common stock, refer to Note 12 for further detail.

2. BASIS OF PRESENTATION

Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as at and for the period ended September 30, 2018, and do not include all the information required for full annual financial statements. As such, they should be read in conjunction with the December 31, 2017 annual consolidated audited financial statements. These financial statements are available on SEDAR.

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.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors as at October 31, 2018.

IFRS 16 Leases

On January 1, 2019, the Company will be required to adopt IFRS 16 *Leases*. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use-asset' for most lease contracts. The standard permits a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use-asset and the lease liability, rather than full retrospective application. The Company is in the process of assessing the impact of IFRS 16, however, given the significant use of leased rail cars and equipment, the Company expects the standard to have a material impact on its financial statements. The Company expects to use the Modified Retrospective approach for evaluating all leases where comparative data will not be restated, and the cumulative effect will be recognized at January 1, 2019 in opening equity. Under the Modified Retrospective approach, the Company may also, on a lease-by-lease basis, not recognize leases whose term ends within 12 months of the initial application, as well as not recognize leases whose assets are considered to be a low dollar value.

Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. These estimates are further described in the Company's December 31, 2017 financial statements which can be found on SEDAR.

Significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Source Energy Services consolidated financial statements as at and for the year ended December 31, 2017, except for the below:

Revenue recognition

On January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers* which replaced IAS 11 *Construction Contracts*, IAS 18, *Revenue Recognition*, IFRIC 13 *Customer Loyalty Programmes*, 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*. In accordance with the transition provisions in IFRS 15, the Company has adopted the modified retrospective approach and used the practical expedient for the effects of a significant financing component. Under the new guidance, the Company now applies the universal five-step model (with limited exceptions – including leases within the scope of IAS 17, and financial instruments and other contractual rights or obligations that are within the scope of IFRS 9) to all its revenue transactions. The Company's revenue, which

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

is comprised principally of sand sales and other services, is generally subject to contractual arrangements, which specify price and general terms and conditions. Under the new standard, the Company has not experienced a material impact in the timing of recognition or measurement of revenue, as revenue has consistently been recognized when each performance obligation is satisfied.

The Company recognizes sand sales when the contractual obligations are satisfied (typically when control of the product is transferred). The Company also considers if it has retained any material involvement in the sand being sold and if the revenue and costs related to the sale can be measured reliably. Revenue for third party sand and chemical distribution is recognized based on contractual arrangements or when services have been completed. Revenue for wellsite solutions is recognized when services are provided.

Revenue for rental of storage facilities is outside of the scope of IFRS 15 and is recorded under IAS 17 *Leases*. The revenue is recognized on a monthly basis.

Financial assets

On January 1, 2018, the Company adopted IFRS 9 Financial Instruments, which replaced IAS 39 "Financial Instruments: Recognition and Measurement". The Company's trade receivables are subject to the expected credit loss model under IFRS 9. The Company applies the simplified approach of providing for expected credit losses, which requires the use of the lifetime expected loss provision for trade receivables. The adoption of IFRS 9 did not result in a significant change to the Company's consolidated financial statements.

The Company classifies and measures Financial Assets as follows:

Classification

The Company classifies its financial assets in the following measurement categories:

- i. those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- ii. those to be measured at amortized cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. The Company reclassifies debt investments and financial assets when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining their fair value. Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Company classifies its financial assets:

- i. Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.
- ii. Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as a separate line item in profit or loss.
- iii. Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

3. SEASONALITY OF OPERATIONS

The Company's business is seasonal in nature with the majority of activity normally being in the first, third and fourth quarters. The least activity is usually in the second quarter, due to spring break-up. Spring break-up occurs for a period of approximately eight weeks between March and June as the frost comes out of the roads in Western Canada and hauling weight restrictions are put in place. The severity of the winter snowfalls and the amount of moisture received during this period impact the length of spring break up. As a result, the Company's operating results may vary on a quarterly basis. There are other factors that will impact the Company's activities quarter to quarter including commodity prices and exploration and production companies completion activity levels.

4. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

(a) Risk management overview

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. Further quantitative disclosures are included throughout these consolidated financial statements. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

The fair values of cash, accounts receivable, 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 ("ABL") facility approximates the carrying values as it bears interest at market floating rates consistent with market rates for similar debt. Based on the closing market price at September 30, 2018, the fair value of the senior secured notes are \$114,173 and \$53,000 (\$106 dollars per \$100 dollars).

The Company analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1:** Values based on unadjusted quoted prices in active markets for identical assets or liabilities, accessible at the measurement date.
- Level 2:** Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3:** Values based on prices or valuation techniques that require inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is classified as Level 3 if one or more of its unobservable inputs may significantly affect the measurement of its fair value. Appropriate inputs are chosen so that they are consistent with market evidence or management judgment. Due to the unobservable nature of the inputs, there may be uncertainty about the value of Level 3 financial instruments.

September 30, 2018	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
Financial liabilities at Fair value through profit and loss:				
Derivative Liability	\$ 958	\$ —	\$ 476	\$ 482
Financial liabilities at amortized cost:				
\$107.71M of Senior Secured First Lien Notes	\$ 95,805	\$ 114,173	\$ —	\$ —
\$50M of Senior Secured First Lien Notes	\$ 50,347	\$ 53,000	\$ —	\$ —
Finance lease obligations – current	\$ 618	\$ —	\$ 618	\$ —
Finance lease obligations – long-term	\$ 1,147	\$ —	\$ 1,147	\$ —

December 31, 2017	Carrying amount	Fair Value		
		Level 1	Level 2	Level 3
Financial liabilities at Fair value through profit and loss:				
Derivative Liability	\$ 2,799	\$ —	\$ 327	\$ 2,472
Financial liabilities at amortized cost:				
\$107.71M of Senior Secured First Lien Notes	\$ 93,727	\$ 119,020	\$ —	\$ —
Finance lease obligations – current	\$ 957	\$ —	\$ 957	\$ —
Finance lease obligations – long-term	\$ 726	\$ —	\$ 726	\$ —

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Substantially all of the Company's accounts receivable are due from purchasers of proppants and logistics services and are subject to normal industry credit risk.

The Company's revenues are generally derived from a group of large and reputable oilfield exploration and production companies and oilfield services customers. Orders for proppants are subject to the Company's credit and collection programs. The five largest customers account for 92% of the revenue for the three months ended September 30, 2018, with the three largest making up 86% of revenue (Three months ended September 30, 2017, five customers accounted for 87%, three customers accounted for 78%). The five largest customers account for 86% of the revenue for the nine months ended September 30, 2018, with the three largest making up 77% of revenue (nine months ended September 30, 2017, five customers accounted for 86%, three customers accounted for 77%). Two of those customers respectively (two for the nine months ended September 30, 2017) account for 10% or more of total revenue individually in the nine months ended September 30, 2018.

Significant changes in industry conditions will increase the risk of not collecting receivables. Management believes the risk is materially mitigated by the size and reputation of the companies to which they extend credit. As at September 30, 2018 and December 31, 2017, the Company's Trade Receivables, net of loss allowances were comprised of the following:

As at	September 30, 2018	December 31, 2017
Not yet due	\$ 34,249	\$ 26,244
0-30 days	30,508	18,360
31 – 60 days	5,582	5,643
61 – 90 days	261	401
91+ days	1,327	3,466
Total Trade Receivables	\$ 71,927	\$ 54,114

The Company's maximum exposure to credit risk is the fair value of accounts receivable on the balance sheet. The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on the lifetime expected loss provision. The Company uses an allowance matrix to estimate the credit losses of trade receivables from customers. The matrix considers historical default rates as well as the days past due.

No loss allowance was recorded on transition as the amount was immaterial. As shown by the matrix below, a loss allowance of \$129 was recorded as at September 30, 2018.

September 30, 2018	Total	Not yet due	0-30 days	31-60 days	61-90 days	91+ days
Gross carrying amount	\$ 72,056	\$ 34,378	\$ 30,508	\$ 5,582	\$ 261	\$ 1,327
Expected loss rate		0.10%	0.20%	0.25%	1.00%	1.25%
Loss allowance	\$ 129	\$ 34	\$ 61	\$ 14	\$ 3	\$ 17

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity risk includes preparing operating and capital budgets and forecasts and monitoring performance against the budgets and forecasts. The Company may seek additional financing based on the results of these processes. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations, foreign currency fluctuations, and the global economic conditions.

The financial liabilities on the consolidated balance sheet consist of accounts payable and accrued liabilities, long-term debt, shareholder loans, senior secured notes and amounts due to related parties. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements.

The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as future debt and equity financings. The Company also has a credit facility to facilitate the management of liquidity risk.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

The Company's contractual cash outflows relating to financial liabilities are outlined in the table below:

As at September 30, 2018	Total	2018	2019	2020	2021	2022	2023 and thereafter
Accounts payable and accruals	\$ 49,993	\$ 49,993	\$ —	\$ —	\$ —	\$ —	\$ —
Finance Leases ^(b)	\$ 2,030	\$ 256	\$ 583	\$ 380	\$ 266	\$ 420	\$ 125
Credit Facilities ^(a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Notes Payable ^(b)	\$ 214,944	\$ 8,280	\$ 16,560	\$ 16,560	\$ 173,544	\$ —	\$ —

Notes:

(a) The timing and amount of interest payments on such balances will fluctuate depending on balances outstanding and applicable interest rates.

(b) Includes interest for future periods.

(e) Market risk

Market risk is the risk that changes in market prices, foreign exchange rates and interest rates will affect the Company's net earnings or the value of financial instruments and are largely outside the control of the Company. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Primary market risks are as follows:

Foreign currency risk

The Company is exposed to currency price risk on sales denominated in 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 and are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities at September 30, 2018 are \$43,344 (December 31, 2017 - \$34,136) and \$25,737 (December 31, 2017 - \$18,937) denominated in foreign currency respectively. The net effect of each 1% change in foreign exchange would impact net income (loss) for the three months ended September 30, 2018 by \$66 (\$170 in 2017) and \$521 for the nine months ended September 30, 2018 (\$479 in 2017).

The Company has a customer contract, expiring March 31, 2020, 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. The inputs used for the valuation are the notional value of the contract, the US dollar discount curve obtained from Bloomberg, and the US dollar to Canadian dollar foreign exchange forward curve, the US dollar to Canadian dollar foreign exchange volatility matrix and US dollar to Canadian dollar spot rate obtained from Thomson Reuters. The fair value of the derivative liability as at September 30, 2018 is \$482.

During the second quarter of 2018, the Company entered into the following foreign exchange rate collars to help mitigate the risk associated with the embedded derivative contained in the above customer contract. The fair value of the derivative is based on the US dollar to Canadian dollar foreign exchange forward curve.

Notional amount of Contract (per month)	Exchange rate floor	Notional amount of Contract (per month)	Exchange rate ceiling	Contract expiry
USD \$1,500	1.25	USD \$3,000	1.36	April 30, 2020
USD \$1,500	1.25	USD \$3,000	1.40	April 30, 2020

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility. The Company is exposed to interest rate price risk on the long-term debt that bear interest at floating rates. The net effect of each 1% change in market interest rates would impact the related interest expense (income) for the Company's floating rate borrowings by \$- at September 30, 2018 and \$338 at December 31, 2017. The Company had no interest rate swaps or financial contracts in place as at or during the periods ended September 30, 2018 and December 31, 2017.

(f) Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain shareholder and creditor confidence and to provide a platform to create value for its common shareholders. The Company's management is responsible for managing the Company's capital and does so through regular reviews of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. The Company considers its capital structure to include equity, senior secured notes, and its credit facility.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

The Company monitors 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, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company's management and approved by the Company's Board of Directors.

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

The Company's share capital is not subject to external restrictions; however, the amount of the bank operating facility available for use is determined by levels of accounts receivable and inventory.

The Company is subject to externally imposed capital requirements for the asset backed loan facility, requiring the Company 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. The fixed charge coverage ratio is defined as the ratio of (i) Earnings before interest, tax, depreciation and amortization for the twelve calendar months ending at such fiscal quarter end less unfinanced capital expenditures, cash taxes and distributions to (ii) the interest expense paid in cash plus the amount of debt which has a scheduled due date or is otherwise required to be repaid or paid for the twelve calendar months ending at such fiscal quarter end. As of September 30, 2018, the excess availability was greater than 20%.

The Company's capital management policy has not changed during the periods ended September 30, 2018 or December 31, 2017.

5. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Accounts receivable	\$ 19,814	\$ (16,395)	\$ (17,521)	\$ (53,086)
Prepaid expenses and deposits	709	4,530	(502)	(292)
Inventory	2,556	(4,753)	(7,840)	(1,105)
Accounts payable and accrued liabilities	(3,001)	4,511	10,679	14,742
Changes in non-cash working capital	\$ 20,078	\$ (12,107)	\$ (15,184)	\$ (39,741)

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Accounts payable and accrued liabilities	\$ (374)	\$ (5,007)	\$ (5,500)	\$ (1,956)
Changes in non-cash working capital	\$ (374)	\$ (5,007)	\$ (5,500)	\$ (1,956)

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

	Senior Secured Notes	Additional Senior Secured Notes	Asset backed loan facility	Finance lease obligations
As at December 31, 2017	\$ 93,727	\$ —	\$ 32,735	\$ 1,683
<i>Cash changes:</i>				
Proceeds	—	—	112,409	—
Proceeds, net of transaction costs and premium	—	50,378	—	—
Repayments	—	—	(146,710)	(922)
<i>Non-cash and other changes:</i>				
Accretion	2,078	(31)	328	—
Finance lease additions	—	—	—	964
Unrealized foreign exchange (gain) loss	—	—	1,027	39
Financing costs incurred	—	—	(334)	—
As at September 30, 2018	\$ 95,805	\$ 50,347	\$ (545)	\$ 1,764

6. INVENTORIES

Inventory consists of three main classifications

As at,	September 30, 2018	December 31, 2017
Unprocessed sand and work in progress	\$ 33,601	\$ 29,093
Sand available for shipment	20,434	16,258
Spare parts and supplies	3,921	3,633
Total inventories	\$ 57,956	\$ 48,984

Spare parts and supplies are for routine facilities maintenance. Included in the inventory balance is the depreciation expense related to sand producing properties of \$5,552 for the nine months ended September 30, 2018 (December 31, 2017 - \$3,729). The total amount of inventory expensed through cost of sales during the three and nine months ended September 30, 2018 was \$78,656 and \$217,764 (three and nine months ended September 30, 2017 - \$43,904 and \$125,107). No inventory write-downs or reversals of prior write-downs were recorded during the nine months ended September 30, 2018 or September 30, 2017.

7. MINERAL RESOURCES

	September 30, 2018	December 31, 2017
Balance, Beginning of period	\$ 31,506	\$ —
Mineral resources acquired	—	32,224
Depletion	(1,160)	(114)
Exchange differences	1,017	(604)
Balance, End of Period	\$ 31,363	\$ 31,506

Mineral resources were acquired as part of the asset purchase for certain assets and operations of Preferred Proppants, LLC. Depletion is based on the units of production method.

SOURCE ENERGY SERVICES LTD.**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited**

Three and nine months ended September 30, 2018

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

8. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Equipment & Vehicles	Other	Construction in Progress	Total
Cost					
Balance as at December 31, 2016	\$ 113,870	\$ 80,584	\$ 5,166	\$ 16,792	\$ 216,412
Assets acquired	80,518	59,390	286	33,933	174,127
Disposals	—	(130)	—	(41)	(171)
Exchange Differences	(8,279)	(5,487)	(198)	(655)	(14,619)
Balance as at December 31, 2017	\$ 186,109	\$ 134,357	\$ 5,254	\$ 50,029	\$ 375,749
Assets acquired	2,122	1,379	177	44,526	48,204
Disposals	(4,696)	(2,963)	(70)	(1,520)	(9,249)
Completed Construction in Progress	9,700	29,639	179	(39,518)	—
Transfers	—	(9)	—	—	(9)
Exchange Differences	4,923	3,354	92	283	8,652
Balance as at September 30, 2018	\$ 198,158	\$ 165,757	\$ 5,632	\$ 53,800	\$ 423,347

Accumulated Depreciation

Balance as at December 31, 2016	\$ (17,598)	\$ (21,764)	\$ (3,560)	\$ —	\$ (42,922)
Depreciation	(6,762)	(7,887)	(512)	—	(15,161)
Disposals	—	76	—	—	76
Exchange Differences	931	1,031	185	—	2,147
Balance as at December 31, 2017	\$ (23,429)	\$ (28,544)	\$ (3,887)	\$ —	\$ (55,860)
Depreciation	(8,097)	(12,807)	(373)	—	(21,277)
Disposals	325	1,204	30	—	1,559
Transfers	—	9	—	—	9
Exchange Differences	(462)	(498)	(85)	—	(1,045)
Balance as at September 30, 2018	\$ (31,663)	\$ (40,636)	\$ (4,315)	\$ —	\$ (76,614)

Carrying Amounts

December 31, 2017	\$ 162,680	\$ 105,813	\$ 1,367	\$ 50,029	\$ 319,889
September 30, 2018	\$ 166,495	\$ 125,121	\$ 1,317	\$ 53,800	\$ 346,733

Assets under construction represent facilities that are being built at period end. Assets under construction are not amortized until the asset is deemed to be ready for use. Once deemed ready for use, the assets under construction will be allocated to their corresponding capital asset group and commence depreciating.

As there was an impairment indicator present at September 30, 2018 the Company performed both a discounted cash flow impairment analysis over five years, using a discount rate tied to its borrowings and estimated future earnings, as well as a review of comparable market multiples, and concluded that there was no impairment (December 31, 2017 - nil), based on specifically identifiable assets.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

9. INCOME TAXES

The only taxable entity of the Company prior to April 13, 2017 was Source Energy Services Canada Holdings Ltd. ("SES Holdings"). Upon the April 13, 2017 IPO, additional entities within the Company's structure were taxable entities.

Income tax expense for the Company is calculated by using the combined federal and provincial and state statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of that difference is as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Earnings (Loss) Before Income Taxes	\$ (1,657)	\$ 3,951	\$ 13,477	\$ (7,879)
Statutory Income Tax Rate	27.00%	27.00%	27.00%	27.00%
Expected Income Taxes	(447)	1,067	3,639	(2,127)
<i>Increase (Decrease) in taxes from:</i>				
Non-deductible expenses	150	189	445	283
Share based compensation	57	631	480	1,061
Unrealized foreign exchange and derivatives	(254)	(124)	9	(24)
Unrecognized deferred tax assets	(103)	(1,577)	(2,879)	(267)
Rate differential on foreign activities	78	756	238	709
Other	(168)	—	(397)	318
Total Income Tax Expense (Recovery)	\$ (687)	\$ 942	\$ 1,535	\$ (47)
Current income tax expense	—	3,578	—	5,268
Deferred income tax expense	(687)	(2,636)	1,535	(5,315)
Total Income Tax Expense (Recovery)	\$ (687)	\$ 942	\$ 1,535	\$ (47)

Significant components of the deferred income tax assets are as follows.

	September 30, 2018	December 31, 2017
Difference between tax and reported amounts for depreciable assets	\$ (13,027)	\$ (13,722)
Finance fees	3,886	4,654
Foreign exchange on Loans	4,357	2,425
Tax loss carryforwards recognized	3,997	8,019
Decommissioning provision	3,765	3,247
Mine development costs	976	—
Accretion	—	1,437
Other	2,506	1,949
Deferred Income Tax Asset	\$ 6,460	\$ 8,009

The movement in deferred tax balances during the period are as follows

	September 30, 2018	December 31, 2017
Opening deferred tax asset (liability)	\$ 8,009	\$ 597
Recognized in Other comprehensive income	—	54
Recognized in Equity	—	5,070
Recognized in Profit or Loss	(1,535)	2,179
Currency translation	(14)	109
Closing deferred tax asset (liability)	\$ 6,460	\$ 8,009

The Company has Canadian and US non-capital losses as at September 30, 2018 of \$12,533 (September 30, 2017 - \$4,310) and \$2,152 (September 30, 2017 - \$nil) respectively. Canadian and U.S. losses expire beginning in 2037.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

10. LONG-TERM DEBT

As at	September 30, 2018	December 31, 2017
\$107.71M of Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	\$ 95,805	\$ 93,727
\$50M of Senior Secured First Lien Notes, due on December 15, 2021, bearing interest at 10.5% per annum	50,347	—
Asset Backed Loan facility (the "ABL") due December 2020. Interest is based on floating rates dependent upon the amount of the facility used.	—	33,271
Unamortized debt issuance costs for the ABL	(545)	(536)
Finance Lease obligations related to equipment, bearing interest at rates ranging from 4.25% to 12% per annum, with final payments due between November 2018 and January 2023.	1,765	1,683
Other long-term debt	748	1,117
	\$ 148,120	\$ 129,262
Less: current portion	(618)	(33,692)
	\$ 147,502	\$ 95,570

On December 8, 2016, the Company issued a \$130,000 Senior Secured First Lien Notes (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 of the assets of the business except Accounts Receivable and Inventory, which the Notes have a second charge on. Each original debt holder was entitled to a relevant right of 4% of the equity value of the Company upon various liquidation or change of control events. The IPO on April 13, 2017 represented a change in control event. The Company elected to settle the rights through share-based payments. On May 29, 2017, 1,005,831 shares were issued at the IPO offering price of \$10.50 per share to the registered Noteholders. This issuance extinguished the relevant right derivative liability.

On May 31, 2018, Source issued an additional \$50,000 in new senior secured first lien notes with identical interest and repayment terms to the original senior secured first lien notes. The Notes are secured by a fixed and floating charge over all of the assets of the business except Accounts Receivable and Inventory, which the Notes have a second charge on. The new notes were issued at a premium price of \$105.75 per \$100 to reflect the market premium the original notes were trading at.

There are prepayment options, where the Company may redeem 35% of the aggregate principal amounts of the Notes with the net proceeds of an equity offering by Source at a redemption price of 110.5% of the principal amount. The Company 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. The prepayment options have been classified as derivative liabilities and are measured at fair value through profit or loss. The value of the derivative liabilities have been recorded as \$247 for the \$107,710 notes and \$115 for the \$50,000 notes as at September 30, 2018 (December 31, 2017 - \$327). Changes in fair value of the derivative liability is recorded through the Consolidated Statements of Operations and Comprehensive Income (Loss). The Company has recorded a fair value gain of \$22 on the prepayment option as of September 30, 2018 (December 31, 2017 - \$202). The Company exercised a portion of the prepayment option as of June 5, 2017 and repaid \$22,290 (17.15%) of the Notes using proceeds from the IPO offering. The \$25,784 payment consisted of the principal of \$22,290, accrued interest of \$1,154 and a make whole premium of 10.5%.

Source deferred \$5,915 in financing costs for the \$107,710 Notes in 2016, and \$2,380 for the \$50,000 Notes in 2018. For the \$107,710 Notes, \$257 and \$734 of these costs were amortized for the three and nine months ended September 30, 2018 (\$201 and \$652 for the three and nine months ended September 30, 2017). \$145 and \$192 was amortized for the \$50,000 Notes in the three and nine months ended September 30, 2018.

As of May 18, 2018, the ABL was increased from \$70,000 to \$88,000. On September 14, 2018, the ABL facility was further amended to extend the term for another year to now mature on December 8, 2020 and also to cancel the US\$5 million standby letter of credit facility. The \$88,000 ABL facility is secured by floating first lien charge on the Accounts Receivable and Inventory of the Company under a general business security agreement and a second lien charge on all other assets of the business. The facilities bear interest based on the bank's prime lending rate, banker's acceptances or LIBOR rates, plus an applicable margin depending on the amount of excess availability. The amount available under the general operating facility is subject to a borrowing base formula applied to accounts receivable and inventories, at September 30, 2018 \$2,000 was drawn under this facility (less cash on hand of \$6,616 and unamortized finance costs of \$545 for a net balance of \$(545)) (December 31, 2017 - \$33,765 drawn, less \$536 in unamortized finance costs and cash on hand of \$494 for a net balance of \$32,735). \$18,776 (\$7,881 at December 31, 2017) was committed to supporting letters of credit under the facility, with \$69,224 (December 31, 2017 - \$13,019) available. The borrowing base is updated monthly.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

The ABL facility includes 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 the Company's excess availability is less than 20% of the lesser of the borrowing base and the operating facility. As of September 30, 2018, the excess availability was greater than 20%. Source deferred \$1,233 in financing costs for the ABL facility, with \$688 of these costs amortized for the nine months ended September 30, 2018.

Interest on the above facility amounted to \$230 and \$2,177 for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - \$200 and \$761). Interest on the above notes amounted to \$4,163 and \$10,215 for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - \$2,843 and 8,592). Effective interest rate for the nine months ended September 30, 2018 is 12% (nine months ended September 30, 2017 - 12.2%).

11. DECOMMISSIONING PROVISION

As at	September 30, 2018	December 31, 2017
Balance, Beginning of period	\$ 14,663	\$ 4,300
Liabilities incurred	2,404	9,695
Liabilities settled	(1,312)	(1,226)
Accretion	264	76
Changes in estimate	(786)	2,055
Changes in F/X Rate	488	(237)
Balance, end of period	\$ 15,721	\$ 14,663

The Company's decommissioning provision relates to reclamation of land and facilities where the mine operates. Management estimates the costs to abandon and re-claim its properties based on current reclamation technology, acres disturbed and the estimated time period in which these costs will be incurred in the future. The total future estimate of undiscounted cash flows required to settle the provision has been discounted using risk-free rate of 2.42% at September 30, 2018 (December 31, 2017 - 1.98%). These obligations are to be settled based on the economic lives of the underlying assets, which is currently estimated to be between 8 and 20 years.

12. SHAREHOLDERS' EQUITY

Upon closing of the Company's IPO on April 13, 2017, the Company issued 16,666,667 common shares at \$10.50 per share for gross proceeds of \$175,000. Total transaction costs incurred on the IPO were \$13,086, which was recognized as a reduction in equity. Transaction costs consisted of underwriters' commission and fees, audit, legal, filing, printing, translation and miscellaneous fees. Prior to the IPO, share capital of \$10 Canadian dollars existed in Source.

The existing SES Canada and SES US LP partnership units were exchanged for units of Source common stock, for a total of 23,845,618 common and 1,300,154 Class B shares, or \$264,031, the fair value at the IPO share price. TriWest Capital Partners currently own 26.5% of the outstanding shares of Source.

The Class B shares are held by SES Sand Holdings US, a subsidiary of TriWest which is a related party, who own 3.74% of the shares of Source Energy Services Canada LP, a subsidiary of Source, and may be converted at the option of the holder into common shares of Source on a one for one basis. Class B shares are entitled to vote at shareholder meetings, but are not entitled to dividends from Source. However, they are entitled to an equivalent distribution on a per share basis from Source Energy Services Canada LP. The Company also settled the below related party loans by issuance of common shares:

- \$37,658 shareholder loan payable – which was made up of four promissory notes that were issued between March 27, 2014 and February 28, 2017, with varying interest terms up to 25% per annum and varying maturity dates. This liability was settled with 3,586,518 shares.
- \$71,977 preferred share obligation – which was issued as part of a reorganization that took place on October 16, 2013, which were non-voting, but entitled to stepped interest return, with no specific terms of repayment. This was settled with \$54,727 in common shares (5,212,081 shares) and \$17,250 cash.

On November 7, 2017, the Company issued 11,235,000 common shares at \$8.35 per share for gross proceeds of \$93,812. Total transaction costs incurred on the equity offering were \$5,428, which was recognized as a reduction in equity. The equity is made up of a \$28,807 public bought deal equity financing, and a \$65,005 concurrent private placement equity financing. The underwriters were granted an option by the Company to purchase up to an additional 450,000 common shares at the offering price of \$8.35, exercisable from time to time, in whole or in part, for a period of 30 days from the closing of the offering. The underwriters exercised this option, in full, and the shares are included in the gross proceeds amount above.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

The following table outlines the issued and outstanding shares as at September 30, 2018:

	Number of common shares	Amount
Balance as at January 1, 2017	96,881,996	\$ 41,941
Issuance of share capital in SESL upon incorporation	1	-
Exchange of partnership units for SESL shares	(71,789,000)	-
Issuance upon closing of IPO	16,666,667	165,455
Issuance upon equity offerings	11,235,000	89,914
Issuance on settlement of EEPP	52,772	554
Issuance on repayment of shareholder loans	3,586,518	37,658
Issuance on repayment of preferred share obligation	5,212,081	54,727
Issuance on settlement of relevant transaction rights	1,005,831	10,563
Balance as at December 31, 2017 and September 30, 2018	62,851,866	\$ 400,812

13. SHARE BASED COMPENSATION

The Company's Share Based Compensation Plan, effective as of April 13, 2017, is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% of the issued and outstanding Common Shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's shares on the date of the grant.

The options issued to date were granted in connection with the IPO and therefore vest 1/3 on the grant date, and 1/3 on the anniversary date of the grant over a two-year period, and expire 5 years from the issue date. Future grants may not follow this vesting profile.

In 000's	Options outstanding	Range of Exercise Price
Outstanding at April 13, 2017	-	-
Granted	2,581	\$10.50
Exercised	-	-
Cancelled	-	-
Forfeited	-	-
Expired	-	-
Outstanding at December 31, 2017 and September 30, 2018	2,581	10.50

The stock options were valued using the Black-Scholes option pricing model, using the following inputs:

Forfeiture Rate (%)	5%
Volatility (%)	33%
Risk free interest rate (%)	0.5%
Dividend yield (%)	0%
Option life	5 years

The Company issued 51,426 DSUs to directors of the Company as of April 13, 2017, at the IPO price of \$10.50. The 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. The DSUs are expected to be settled for cash payment and accordingly were considered a liability settled award for accounting purposes.

The Company issued 101,009 RSUs and 40,394 PSUs to certain employees of the Company as of August 2, 2017, at the IPO price of \$10.50. The RSUs will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from issue date. Subject to achievement of performance criteria set out by the Board of Directors, the PSUs awarded will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from the issue date. The RSUs and PSUs are expected to be settled for cash payment and accordingly were considered a liability settled award for accounting purposes.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

The Company issued 236,501 RSUs and 112,434 PSUs to certain employees of the Company as of March 14, 2018. The fair value of RSUs and PSUs was determined using the five days volume-weighted-average share price prior to the date of the grant. The RSUs will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from issue date. Subject to achievement of performance criteria set out by the Board of Directors, the PSUs awarded will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from the issue date. The RSUs and PSUs may be settled in cash or shares and accordingly were considered a liability settled award for accounting purposes.

The Company issued 200,000 RSUs and 200,000 PSUs to certain employees of the Company as of May 2, 2018. The fair value of RSUs and PSUs was determined using the five days volume-weighted-average share price prior to the date of the grant. The RSUs will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from issue date. Subject to achievement of performance criteria set out by the Board of Directors, the PSUs awarded will vest 1/3 on the anniversary date of the grant over a three-year period and expire five years from the issue date. The RSUs and PSUs may be settled in cash or shares and accordingly were considered a liability settled award for accounting purposes.

The Company issued 75,000 DSUs to directors of the Company as of May 2, 2018. The fair value of DSUs was determined using the five days volume-weighted-average share price prior to the date of the grant. The DSUs are expensed upon grant and vest when a director or participant leaves the Company. The DSUs may be settled in cash or shares and accordingly were considered a liability settled award for accounting purposes.

The following table provides a summary of the status of the Company's compensation plans that are expected to be settled for cash payment:

(number of units)	Restricted Share Units	Performance Share Units	Deferred Share Units
Balance at January 1, 2017	-	-	-
Granted	101,009	40,394	51,426
Exercised	-	-	-
Forfeited	-	-	-
Balance at December 31, 2017	101,009	40,394	51,426
Granted	436,501	312,434	75,000
Exercised	(42,010)	(13,459)	(8,571)
Forfeited	(21,041)	(1,820)	-
Balance as at September 30, 2018	474,459	337,549	117,855
Vested as at September 30, 2018	—	—	—

Total share based compensation for the Share Based Payment Plans for the three and nine months ended September 30, 2018 was \$567 and \$2,775 (\$984 and \$4,854 for the three and nine months ended September 30, 2017).

14. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share for the three and nine months ended September 30, 2018 was based on the earnings (loss) available to common shareholders of \$(959) and \$11,572 (three and nine months ended September 30, 2017 - \$3,178 and \$(7,429)), and a weighted average number of common shares outstanding for the three and nine months ended September 30, 2018 ended of 61,551,712 (three and nine months ended September 30, 2017 - 51,616,866 and 40,256,934).

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss) attributable to common shareholders	\$ (959)	\$ 3,178	\$ 11,572	\$ (7,429)
Net income attributable to NCI shareholders	(11)	(169)	370	(403)
Diluted net income (loss) to shareholders	\$ (970)	\$ 3,009	\$ 11,942	\$ (7,832)

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Common Shares outstanding, beginning of period	61,551,712	50,316,712	61,551,712	23,845,618
Issued upon closing of IPO	—	—	—	10,439,561
Issued on repayment of preferred share obligation	—	—	—	460,545
Issued on settlement of shareholder loan	—	—	—	3,264,710
Issued on settlement of Relevant Transaction Rights	—	—	—	2,246,500
Weighted average common shares outstanding, end of period	61,551,712	50,316,712	61,551,712	40,256,934
Common shares issuable pursuant to conversion option of Class B Shares ^(a)	—	1,300,154	1,300,154	—
Weighted average number of diluted common shares outstanding, end of period	61,551,712	51,616,866	62,851,866	40,256,934

Notes:

(a) Only attributable to NCI shareholders when in an income position.

Diluted earnings (loss) per share

Diluted earnings per share is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential shares. The effects of anti-dilutive options as well as exchangeable shares are ignored in calculating diluted earnings per share. The exchangeable shares were considered dilutive at September 30, 2018 as the Company was in an income position.

15. REVENUE

The following table presents the Company's sales, disaggregated by revenue source:

	For the three months ended September 30, 2018		For the nine months ended September 30, 2018	
Revenue from contracts with customers:				
Sand revenue	\$	99,804	\$	296,970
Wellsite solutions		21,937		59,965
Terminal Services		1,033		2,765
Total revenue from contracts with customers	\$	122,774	\$	359,700
Storage facilities		600		1,263
Total revenue	\$	123,374	\$	360,963

Contract Liabilities

The Company entered into an agreement with one of its customers, effective January 1, 2018, where the Company received \$14,761 (\$11,505 US) as a prepayment for future purchases of proppant. In consideration of the prepayment, the price per metric tonne to the customer was reduced for each tonne of sand sold to the customer. The cash price per tonne is also reduced for each tonne of sand sold to or pumped by the customer.

At this time, the Company does not expect the period between the transfer of the promised goods to the customer and payment by the customer to exceed one year. As such, the Company does not adjust any of the transaction prices for the time value of money.

The following table provides a summary of the contract liability as of September 30, 2018:

Balance, Beginning of Period	\$	278
Cash proceeds		14,761
Satisfaction of performance obligations		(8,914)
Balance, End of Period	\$	6,125

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

16. OPERATING AND GENERAL & ADMINISTRATIVE COSTS

The Company presents its expenses on the Consolidated Statements of Operations and Comprehensive Income using the function of expense method whereby expenses are classified according to their function within the Company. This method was selected as it is more closely aligned with the Company's business structure. The Company's functions under IFRS are as follows:

- Cost of sales; and
- Operating, general and administrative

Cost of sales includes direct operating costs (including product costs, direct labour and overhead costs) and depreciation on assets relating to operations. Additional information on the nature of expenses is as follows:

Three months ended September 30,	2018			2017		
	COS	OPEX & G&A	Total	COS	OPEX & G&A	Total
Direct material	\$ 59,670	\$ —	\$ 59,670	\$ 28,569	\$ —	\$ 28,569
Salary costs	9,289	3,583	12,872	8,160	3,909	12,069
Equipment costs	5,837	550	6,387	5,587	724	6,311
Transportation costs	21,676	—	21,676	15,605	—	15,605
Facility costs	3,046	953	3,999	1,858	716	2,574
Selling costs	—	1,173	1,173	—	167	167
Administration costs	—	960	960	—	1,164	1,164
Total	\$ 99,518	\$ 7,219	\$ 106,737	\$ 59,779	\$ 6,680	\$ 66,459

Nine months ended September 30,	2018			2017		
	COS	OPEX & G&A	Total	COS	OPEX & G&A	Total
Direct Material	\$ 160,756	\$ —	\$ 160,756	\$ 90,822	\$ —	\$ 90,822
Salary costs	26,794	11,059	37,853	19,083	9,776	28,859
Equipment costs	19,240	1,033	20,273	10,751	1,845	12,596
Transportation costs	63,463	—	63,463	42,845	—	42,845
Facility costs	8,376	3,769	12,145	4,853	2,175	7,028
Selling costs	—	3,039	3,039	—	364	364
Administration costs	—	3,968	3,968	—	2,122	2,122
Total	\$ 278,629	\$ 22,868	\$ 301,497	\$ 168,354	\$ 16,282	\$ 184,636

17. COMMITMENTS AND CONTINGENCIES

The Company has various lease commitments regarding equipment, railcars, physical natural gas contracts and office space. The leases expire between October 2018 and September 2026. Estimated annual lease commitments are as follows:

2018	\$ 7,179
2019	23,836
2020	15,941
2021	12,772
2022	11,368
Subsequent Years	15,951
Total	\$ 87,047

In the ordinary course of conducting business, the Company 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 the Company believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Company.

SOURCE ENERGY SERVICES LTD.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

Three and nine months ended September 30, 2018

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

18. FINANCE EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest expense	\$ 4,381	\$ 2,987	\$ 12,305	\$ 12,990
Accretion	897	745	2,607	7,875
Finance expense	42	147	215	1,902
Total	\$ 5,320	\$ 3,879	\$ 15,127	\$ 22,767

19. OPERATING SEGMENTS

The Company has operations in both the United States and Canada; the two geographic segments are summarized in the table below.

The Corporate Segment does not represent an operating segment and is included for informational purposes only.

Sales for the three months ended September 30	Canadian Operations	United States Operations	Corporate	Total
2018	\$ 121,673	\$ 1,701	\$ —	\$ 123,374
2017	\$ 78,028	\$ 3,190	\$ —	\$ 81,218

Sales for the nine months ended September 30	Canadian Operations	United States Operations	Corporate	Total
2018	\$ 350,543	\$ 10,420	\$ —	\$ 360,963
2017	\$ 207,506	\$ 6,803	\$ —	\$ 214,309

Total Assets	Canadian Operations	United States Operations	Corporate	Total
September 30, 2018	\$ 185,536	\$ 329,440	\$ 10,200	\$ 525,176
December 31, 2017	\$ 140,722	\$ 317,433	\$ 9,802	\$ 467,957

20. SUBSEQUENT EVENTS

The Company has applied to the Toronto Stock Exchange (the "TSX") to amend its previously approved normal course issuer bid ("NCIB") to purchase approximately 1% of its outstanding common shares for cancellation through the facilities of the TSX. Previously, the Company was approved to purchase approximately 315,000 common shares; the Company has applied to the TSX to have the NCIB amended to permit the Company to purchase up to \$1,600 worth of its common shares, which, based on current market prices, would represent a purchase of an aggregate of approximately 615,000 common shares including the 315,000 previously approved. As of October 31, 2018 the Company has purchased 251,640 common shares for \$723 with \$877 available NCIB space remaining. The amendment of the NCIB, the date on which the amended NCIB will commence and the number of common shares that the Company will be permitted to purchase for cancellation under the amended NCIB remains subject to TSX review and approval.