

## MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis should be read in conjunction with Source’s audited combined annual financial statements and related notes as at and for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, each of which are provided in Appendix “FS” — *Financial Statements and Management’s Discussion and Analysis*. This Management’s Discussion and Analysis contains forward-looking statements and involves numerous risks and uncertainties, including but not limited to those described in the “*Risk Factors*” section of the prospectus. Actual results may differ materially from those expressed or implied by such forward-looking statements. See “*Forward-Looking Statements*”. Capitalized terms used in this Management’s Discussion and Analysis which are not defined herein have the meanings given to those terms in the prospectus.

### Overview

Source is a fully integrated producer, supplier and distributor of high-quality Northern White frac sand, which is a preferred proppant used to enhance hydrocarbon recovery in the hydraulic fracturing of oil and natural gas wells. Source sells frac sand, primarily to customers operating in the WCSB through its strategically located terminal network, which Source believes is the largest of its kind in the WCSB. Source’s fully integrated logistics platform enables it to transport high volumes of frac sand from its facilities in Wisconsin to its customers in the WCSB such that during 2016 Source sold substantially all of its product “in-basin” and over 50% of its product directly at its customers’ wellsites. Source believes that its terminal network, along with its focus on logistics and ability to efficiently deliver sand directly to the wellsite, attractively position Source as a leading player in the WCSB with the ability to reliably deliver high volumes of frac sand to its customers in a cost effective manner.

### Non-IFRS Measures

Source utilizes EBITDA and Adjusted EBITDA, and Adjusted Gross Margin in its financial analysis of its performance. These measures are not financial measures determined in accordance with IFRS. See “*Non-IFRS Financial Measures*” and “*Selected Historical Information*” in the prospectus for a reconciliation of EBITDA, Adjusted EBITDA and Adjusted Gross Margin to the most comparable financial measures for the years ended December 31, 2016, December 31, 2015, and December 31, 2014. See “*Summary of Quarterly Results*” herein for a reconciliation of EBITDA and Adjusted EBITDA for the noted quarterly periods.

### History of Business

Source began operations in 1998, as a proppant transloading business. From 1998 to 2007, Source further developed its geographic footprint by adding 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 it subsequently sold to EOG Resources, Inc. before completion. In 2010, Source began developing the Sumner Facility and Weyerhaeuser Facility. In October 2013, TriWest IV invested in the Source business and collectively became its majority unitholder. TriWest IV’s investment facilitated the completion of the Sumner Facility, the Weyerhaeuser Facility and the Wembley Terminal. See “*Corporate Structure*” and “*Three-Year History*” in the prospectus.

## Review of Operations for 2016, 2015 and 2014

	For the Year Ended or As at December 31		
	2016	2015	2014
<i>(\$000's CDN, except MT and per unit amounts)</i>			
<b>Sand Volumes (MT)</b>	<b>832,435</b>	821,482	727,213
Sand Revenue	<b>112,962</b>	139,574	118,755
Wellsite Solutions	<b>21,261</b>	6,208	11,782
Terminal Services	<b>4,976</b>	7,353	15,969
<b>Sales</b>	<b>139,199</b>	153,135	146,506
Cost of Sales	<b>123,257</b>	116,364	95,504
Cost of Sales Depreciation	<b>8,039</b>	7,133	4,611
<b>Cost of Sales</b>	<b>131,296</b>	123,497	100,115
<b>Gross Margin</b>	<b>7,903</b>	29,638	46,391
Operating and General and Administrative Expenses	<b>23,866</b>	18,183	18,913
Depreciation	<b>6,373</b>	5,674	3,146
<b>Income (loss) from operations</b>	<b>(22,336)</b>	5,781	24,332
<b>Other expense(income):</b>			
Loss/(gain) on asset disposal	<b>1,082</b>	94	(3,110)
Loss/(gain) on impairment	<b>1,852</b>	-	-
Finance expense	<b>19,491</b>	12,346	8,998
Loss/(gain) on derivative liability	<b>910</b>	-	-
Fair Value adjustment on shareholder loan	-	3,906	-
Other income	<b>(4,859)</b>	(1,796)	(420)
Management Fees	<b>1,043</b>	1,683	1,456
Foreign exchange loss/(gain)	<b>2,059</b>	(1,255)	(64)
Total other expense (income)	<b>21,578</b>	14,978	6,860
Income (loss) before income taxes	<b>(43,914)</b>	(9,197)	17,472
Income taxes	<b>(512)</b>	569	437
Net Income(loss)	<b>(43,402)</b>	(9,766)	17,035
Adjusted EBITDA	<b>(7,526)</b>	22,385	32,802
Sand Revenue Sales/MT	<b>135.70</b>	169.91	163.30
Total Assets	<b>219,406</b>	231,112	194,788
Total non-current financial liabilities	<b>239,549</b>	196,677	151,677

See “*Selected Historical Financial Information*” for a reconciliation of EBITDA and Adjusted EBITDA to Net Income (loss) and of Adjusted Gross Margin to Gross Margin.

### Sales

The majority of Source’s sales are derived from mining, processing and providing a full frac sand delivery solution to customers in basin or at the wellsite. Frac sand sales occur at Source’s terminals or at the customer’s wellsite. These sales primarily occur under a combination of contracts with terms between one and three years. Sales also occur on a spot basis. 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 ranges from current market pricing to fixed prices with adjustment mechanisms based on various factors. Transloading, wellsite storage and logistics coordination service sales are earned on a fee-for-service basis.

Sustained freezing temperatures during the winter months in Wisconsin, where Source’s processing facilities are located, create a general industry practice to halt excavation activities and sand washing operations during these months. Source’s sand washing facility at the Sumner Facility is fully enclosed and heated making it capable of operating year round, including through the winter months. 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 sand in excess of 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.

Sales in 2016 were \$139.2 million, which was a decrease of \$13.9 million from sales of \$153.1 million in 2015. The continued soft oil and gas commodity price environment in 2016 was particularly impactful for the first three quarters

of 2016, and led most exploration and development companies to significantly reduce their drilling and completion programs for 2016. This low activity environment, combined with a very wet and prolonged spring breakup, led to a very price competitive environment for frac sand throughout the WCSB and most of North America. In this low activity environment all the frac sand competitors were able to service the jobs and they were all actively bidding to do so which led to significant price compression particularly in the second and third quarters of 2016. Source's sand sales decreased by \$26.6 million in 2016, reflecting a 19% price decrease compared to 2015, causing a price variance in sand sales of \$28.5 million. Partially offsetting the price decrease was a 1% increase in sales volumes that increased sand sales by \$1.9 million. In the fourth quarter of 2016, when oil and gas commodity prices stabilized and rose, the larger, better financed exploration and development companies returned to work, and Source saw a 79% sequential increase in sales volumes compared to the third quarter of 2016 and a 64% increase in sales volumes compared to 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, sand pricing has also begun to rise. Compared to 2015, Source saw an increase in its sales to customers at the wellsite in 2016 as it worked closely with its customers to find ways to help them reduce their completion costs. As part of this transition to wellsite sales, Source saw 37% of its customer sand sales convert from US dollar denominated sales to Canadian dollar denominated sales. In 2015, sand prices were mainly U.S. dollar denominated. In 2016, 41% of Source's sand sales were U.S. dollar denominated and benefitted from a 4% decrease in the strength of the Canadian dollar. In 2015, 85% of our sales were U.S. dollar denominated and were impacted by a 16% decrease in the strength of the Canadian dollar.

With the push for additional sand sales at the wellsite in 2016, Source saw a \$15.1 million, or a 242%, increase in wellsite solutions sales as compared to 2015. In 2016, as the exploration and production companies worked to manage their well completion costs, they used Source to help manage their last mile logistics costs from the terminal to the wellsite and to provide them with wellsite sand storage solutions. By placing Source's personnel and its Sahara unit on customers' wellsites, it was able to better manage overall trucking costs and sand supply reliability for its customers, which in turn helped them succeed with their completion programs.

Terminal services sales declined by \$2.4 million or 32%, in 2016 from 2015 levels, as the overall slowdown in completion activity in the WCSB reduced the Source's trans loading activities for non-sand proppants (mainly resins) and chemicals. Terminal services sales generally follow completion trends in the WCSB.

In 2015, sales increased by \$6.6 million to \$153.1 million as compared to \$146.5 million in 2014, as sand sales increased by \$20.8 million in 2015 which offset an \$8.6 million decline in terminal services sales and a \$5.6 million decline in wellsite solutions sales in 2015 as compared to 2014. The increase in sand revenue compared with 2014 was the result of both a 13% increase in volumes and a 4% increase in average realized sand prices in 2015. Volumes increased in 2015, despite the downturn in the oil and natural gas industry as natural gas and crude oil prices fell dramatically during 2015, as a result of limited 2014 sand sales due to the delay in completion of Source's sand processing facilities, growing Source's rail car fleet and building the Wembley Terminal in 2014. Sand prices which were mainly U.S. dollar denominated in 2015 were improved in Canadian dollar terms by the weakening of the Canadian dollar by 16% during 2015. With the significant slowdown in the energy industry during 2015, Source extended certain price concessions to customers in order to maintain its market share. Terminal services and wellsite solutions sales fell in 2015 as Source changed its focus to selling its own sand and these parts of the business were more noticeably impacted by the down turn in the oil and gas industry.

### *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 metric tonne 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 associated with employees 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 into 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. Rail related costs 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 market place 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*

*(\$000's CDN, except MT and per unit amounts)*

	<b>2016</b>	2015	2014
Direct Materials	<b>74,138</b>	78,157	61,496
People Costs	<b>12,451</b>	13,094	11,232
Equipment Costs	<b>6,720</b>	10,912	5,054
Transportation Costs	<b>24,695</b>	9,633	13,833
Facility Costs	<b>5,253</b>	4,568	3,889
<b>Cost of Sales</b>	<b>123,257</b>	116,364	95,504

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 \$6.9 million to \$123.3 million in 2016 as compared to 2015. The increase is primarily due to the increased use of third party trucking firms to support the "last mile" solution for Source's customers. Offsetting this increase was a reduction in Source's cost to produce and land sand at its terminals despite a 1% increase in the volumes sold in 2016. 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 2016, the average U.S./Canadian dollar exchange rate weakened by 4% as compared to 2015, which led to increases in the Canadian dollar equivalent cost of sales.

Cost of sales — depreciation is comprised of costs incurred in Source's mining operations. These costs consist of depreciation on sand processing equipment and stripping costs to remove overburden. 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 \$0.9 million year over year, primarily due to taking a full year of depreciation on 2015 capital additions as compared to a partial year in 2015 as construction of part of the sand processing facilities were not completed until part way through the year.

Cost of sales increased by \$20.9 million to \$116.4 million in 2015 as compared to 2014. The increase is partially due to the 13% increase in sales volumes, as described above. In 2015, the average U.S./Canadian dollar exchange rate weakened by 16% as compared to 2014, which led to increases in the Canadian dollar equivalent cost of sales. Depreciation on the sand processing equipment, increased by \$2.5 million year over year, as there was a full year of depreciation in this equipment in 2015 as compared to a partial year in 2014 as construction of part of the sand processing facilities were not completed until part way through the year.

## Gross Margin

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

	2016	2015	2014
Gross Margin	7,903	29,638	46,391
Cost of Sales — depreciation	8,039	7,133	4,611
Adjusted Gross Margin	15,942	36,771	51,002
Gross Margin %	5.7%	19.4%	31.7%
Gross Margin/MT	9.49	36.08	63.79
Adjusted Gross Margin %	11.5%	24.0%	34.8%
Adjusted Gross Margin/MT	19.15	44.76	70.13

Adjusted Gross Margin was \$15.9 million or 11.5% in 2016 vs \$36.8 million or 24% in 2015. The Adjusted Gross Margin declined year over year due to the compression of sand prices that occurred. The Adjusted Gross Margin was also impacted by the increase in lower margin wellsite solutions services year over year. Gross margin of \$7.9 million or 5.7% in 2016 declined by \$21.7 million year over year due to the same reasons the adjusted gross margin declined. Gross margins were also impacted by an increase in cost of sales – depreciation due to a full year of depreciation on production capital expenditures made in 2015.

Gross margin of \$29.6 million or 19.4% in 2015 declined by \$16.8 million year over year, as the increase in cost of sales was not offset by the increase in sales.

## Operating and General and Administrative Expenses

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

	2016	2015	2014
<b>Operating and General and Administrative Expenses</b>			
People	8,446	9,389	10,869
Equipment	5,229	3,278	3,186
Facility	3,064	2,703	2,531
Selling and Administrative	7,127	2,813	2,327
	23,866	18,183	18,913

Operating and general and administrative expenses for the year ended December 31, 2016 were \$23.9 million in 2016, an increase of \$5.7 million from the prior year. Costs associated with Source's people declined year over year due to: not replacing non-operational staff that left Source during the year; not having any bonus program in 2016 and some salary roll backs that were undertaken in response to the downturn in the oil and natural gas industry. Equipment costs of \$5.2 million in 2016 were \$2.0 million higher than 2015, as Source stored older less desirable rail cars for a total of 119,260 car storage days in 2016. The majority of these 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. Facility costs were \$0.4 million higher than 2015 levels due to increased property taxes and other general increases. Selling and administrative costs were \$4.3 million higher than the prior year due to a \$2.9 million bad debt expense when a pressure pumper customer went bankrupt in 2016 compared to a \$0.2 million recovery of a bad debt in the prior year. Professional fees were also \$1.0 million higher in 2016 due to the settlement of the CMSA (see note 9 of the audited financial statements of Source for the year ended December 31, 2016 and "Legal Proceedings and Regulatory Actions" in the prospectus) and the settlement of several smaller lawsuits during the year.

Operating and general and administrative expenses for the year ended December 31, 2015 were \$18.2 million, a decline of \$0.7 million from the prior year. Costs associated with Source's employees declined year over year due to staffing reductions that were undertaken in response to the downturn in the oil and natural gas industry and lower bonus payouts as only safety targets were achieved. Facility and equipment costs were higher due to a full year of operation of the Wembley Terminal and the opening of the Eckville, Alberta terminal to better service Source's central Alberta customers. Selling and administrative costs were \$0.5 million higher than the prior year due to higher professional fees, related to establishing sand sales contracts with customers and ancillary costs related to upgrading Source's enterprise resource system.

## 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 in 2016 increased by \$0.7 million year over year due to a full year of depreciation being taken on 2015 capital additions as compared to a partial year in 2015.

Depreciation in 2015 increased year over year by \$2.5 million due to having a full year of depreciation on the Wembley Terminal assets as well as the depreciation associated with a terminal located in Eckville, Alberta that was completed in 2015.

#### *Finance Expense*

Finance expense is primarily composed of interest expense on the Notes, the Credit Facilities, the Previous Credit Facility, the preferred shares obligation, the Sand Royalty Loan, the Shareholder Loans and interest on the Prepayment Note. These items are all further described in the prospectus and notes to the audited financial statements of Source for the year ended December 31, 2016. See Appendix “FS” — *Financial Statements and Management’s Discussion and Analysis*.

Finance expenses increased by \$7.2 million to \$19.5 million in 2016 as compared to 2015. Source’s financial performance during the first three quarters of 2016 led to an increase in the interest rate on its Previous Credit Facility as well as some additional advisory fees. The Previous Credit Facility was ultimately repaid from the proceeds of the Note Offering. At the same time the Credit Facilities were put in place and the prior deferred financing costs of \$1.2 million were expensed. Financing costs also increased by \$1.4 million in 2016 due to having a full year of interest on the SES II Shareholder Loan. The distribution rate on the preferred share obligation owed to the Class B Founder also increased on July 1, 2016 to 6.82%, resulting in an increase to finance expense of \$0.3 million in 2016.

Finance expense increased by \$3.3 million to \$12.3 million in 2015 as compared to 2014. Increases in the Previous Credit Facility and the Shareholder Loans were put in place to finance further growth in Source’s terminal network as it started work on a unit train facility in Edson, Alberta. Construction activities on this facility were subsequently suspended as a result of the continued downturn in the energy industry. Additional financing was also put in place to support the growth in working capital that arose from the additional sales volumes. The interest on the SES Shareholder Loan was converted to more permanent capital in 2015 and its interest rate was increased by 7% to 25% per annum.

#### *Other Expense and Income*

In 2016, the loss on asset disposals was \$1.1 million as compared to \$0.1 million for 2015 as surplus miscellaneous equipment was sold throughout the year. In 2014, there was a gain on asset sales as Source disposed of a number of surplus assets as part of the transition to selling its own sand, resulting in a higher amount of other income.

A loss on impairment of \$1.9 million was recognized in 2016 as Source closed and moved out of its Eckville terminal due to a lack of oil and gas activity in the area. There was no loss on impairments in 2015 or 2014.

In December 2016, the Note Offering 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 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 recorded a combined fair value loss on both derivatives of \$0.9 million. There were no such losses recorded in 2015 or 2014.

In 2015, when the SES Shareholder Loan was converted to more permanent capital, Source became obligated to pay 25% per annum interest for a minimum of 15 months, which expires in March 2017. Therefore, a fair value adjustment of \$3.9 million was recorded as of December 31, 2015. No fair value adjustments related to the SES Shareholder Loan were recognized in 2016 or 2014.

Other income of \$4.9 million was recorded in 2016, compared to other income of \$1.8 million in 2015 and \$0.4 million in 2014. In December 2016, Source settled a deferred revenue contract with the CMSA Customer and recognized a gain on the settlement of \$3.3 million.

Source realized a foreign exchange loss of \$2.1 million in 2016, which was a \$3.3 million change from the \$1.3 million gain recognized in 2015. The 2016 loss was generated from a weakening Canadian dollar and lower average U.S. dollar denominated net working capital balances in 2016 than 2015, as some of Source's customers changed from buying sand in U.S. dollars to Canadian dollars. The weakening of the Canadian dollar against the U.S. dollar in 2015 resulted in a realized foreign exchange gain on stronger U.S. dollar denominated working capital balances.

Adjusted EBITDA for 2016 declined by \$29.1 million to a loss of \$7.5 million, as the decline in oil and gas commodity prices put downward pressure on sand prices, which lowered revenues despite an increase in sand sales volumes. Operating and general and administrative costs were higher year over year due to storing older less desirable rail cars until their leases expired late in 2016.

## 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 third quarter 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.

	2016				2015				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>\$000's, except MT and per unit amounts</i>												
<b>Sand Sales MT</b>	<b>260,117</b>	<b>133,636</b>	<b>157,210</b>	<b>281,472</b>	<b>242,081</b>	<b>156,037</b>	<b>251,740</b>	<b>171,624</b>	<b>37,910</b>	<b>175,959</b>	<b>231,079</b>	<b>282,265</b>
Sand Revenue	40,947	17,066	19,109	35,840	44,770	26,222	45,299	23,283	5,613	27,377	37,875	47,890
Wellsite Solutions	858	6,982	4,499	8,922	1,276	1,112	2,038	1,782	3,654	1,839	3,872	2,417
Terminal Services	1,530	1,049	1,112	1,285	2,562	1,052	2,088	1,651	6,301	2,680	3,672	3,316
<b>Sales</b>	<b>43,335</b>	<b>25,097</b>	<b>24,720</b>	<b>46,047</b>	<b>48,608</b>	<b>28,386</b>	<b>49,425</b>	<b>26,716</b>	<b>15,568</b>	<b>31,896</b>	<b>45,419</b>	<b>53,623</b>
Cost of Sales	34,249	25,755	24,048	39,205	32,116	22,494	37,027	24,728	10,229	23,424	30,311	31,540
Cost of Sales Depreciation	2,360	1,989	2,078	1,612	1,620	1,782	1,551	2,181	1,200	1,146	1,097	1,167
<b>Cost of Sales</b>	<b>36,609</b>	<b>27,744</b>	<b>26,126</b>	<b>40,817</b>	<b>33,735</b>	<b>24,275</b>	<b>38,578</b>	<b>26,909</b>	<b>11,429</b>	<b>24,570</b>	<b>31,408</b>	<b>32,707</b>
<b>Gross Margin</b>	<b>6,726</b>	<b>(2,647)</b>	<b>(1,406)</b>	<b>5,230</b>	<b>14,873</b>	<b>4,111</b>	<b>10,847</b>	<b>(193)</b>	<b>4,139</b>	<b>7,326</b>	<b>14,011</b>	<b>20,916</b>
Operating and General and Admin Expenses	4,766	7,906	4,444	6,750	4,183	4,055	4,040	5,905	4,249	4,616	3,908	6,140
Depreciation	1,299	1,523	1,200	2,351	1,397	1,305	1,816	1,156	724	778	827	818
<b>Income (loss) from operations</b>	<b>661</b>	<b>(12,076)</b>	<b>(7,050)</b>	<b>(3,871)</b>	<b>9,293</b>	<b>(1,249)</b>	<b>4,991</b>	<b>(7,254)</b>	<b>(834)</b>	<b>1,932</b>	<b>9,276</b>	<b>13,958</b>
<b>Other expense(income):</b>												
Loss(gain) on asset disposal	-	1,460	1,410	(1,788)	75	27	(1)	(7)	(8,915)	(917)	(509)	7,231
Loss(gain) on impairment	-	-	-	1,852	-	-	-	-	-	-	-	-
Finance expense	3,500	4,902	3,984	7,105	2,513	2,272	3,676	3,885	743	1,312	4,495	2,448
Loss(gain) on derivative liability	-	-	-	910	-	-	-	-	-	-	-	-
Fair Value adjustment on shareholder loan	-	-	-	-	-	-	3,906	-	-	-	-	-
Other income	(1,028)	(55)	(310)	(3,466)	(146)	(217)	(53)	(1,380)	(127)	(105)	(122)	(66)
Management Fees	178	636	76	153	348	592	164	579	364	364	364	364
Foreign exchange loss/(gain)	309	569	118	1,063	(1,460)	11	(106)	300	47	(1)	(39)	(71)
<b>Total other expense (income)</b>	<b>2,959</b>	<b>7,512</b>	<b>5,278</b>	<b>5,829</b>	<b>1,330</b>	<b>2,685</b>	<b>7,586</b>	<b>3,377</b>	<b>(7,888)</b>	<b>653</b>	<b>4,189</b>	<b>9,906</b>
<b>Income (loss) before income taxes</b>	<b>(2,298)</b>	<b>(19,588)</b>	<b>(12,328)</b>	<b>(9,700)</b>	<b>7,963</b>	<b>(3,934)</b>	<b>(2,595)</b>	<b>(10,631)</b>	<b>7,054</b>	<b>1,279</b>	<b>5,087</b>	<b>4,052</b>
Income taxes	-	4	81	(597)	(6)	23	(1)	553	33	22	3	379
<b>Net Income (loss)</b>	<b>(2,298)</b>	<b>(19,592)</b>	<b>(12,409)</b>	<b>(9,103)</b>	<b>7,969</b>	<b>(3,957)</b>	<b>(2,594)</b>	<b>(11,184)</b>	<b>7,021</b>	<b>1,257</b>	<b>5,084</b>	<b>3,673</b>
<b>Net Income (loss)</b>	<b>(2,298)</b>	<b>(19,592)</b>	<b>(12,409)</b>	<b>(9,103)</b>	<b>7,969</b>	<b>(3,957)</b>	<b>(2,594)</b>	<b>(11,184)</b>	<b>7,021</b>	<b>1,257</b>	<b>5,084</b>	<b>3,673</b>
Interest	3,193	4,325	3,840	4,844	2,487	2,256	3,676	3,660	720	1,316	4,295	2,507
Income taxes	-	4	81	(597)	(6)	23	(1)	553	33	22	3	379
Depreciation	1,299	1,523	1,200	2,351	1,397	1,305	1,816	1,156	724	778	827	818
Cost of Sales Depreciation	2,360	1,989	2,078	1,612	1,620	1,782	1,551	2,181	1,200	1,146	1,097	1,167
<b>EBITDA</b>	<b>4,554</b>	<b>(11,751)</b>	<b>(5,210)</b>	<b>(893)</b>	<b>13,467</b>	<b>1,409</b>	<b>4,448</b>	<b>(3,634)</b>	<b>9,698</b>	<b>4,519</b>	<b>11,306</b>	<b>8,544</b>
Add:												
Loss(gain) on asset disposal	-	1,460	1,410	(1,788)	75	27	(1)	(7)	(8,915)	(917)	(509)	7,231
Loss(gain) on impairment	-	-	-	1,852	-	-	-	-	-	-	-	-
Finance expense	307	577	144	2,261	26	16	-	225	23	(4)	200	(59)
Loss(gain) on derivative liability	-	-	-	910	-	-	-	-	-	-	-	-
Fair Value adjustment on shareholder loan	-	-	-	-	-	-	3,906	-	-	-	-	-
Management Fees	178	636	76	153	348	592	164	579	364	364	364	364
Transaction and professional fees	264	-	662	-	-	-	-	746	-	-	-	229
Gain on settlement of deferred revenue	-	-	-	(3,328)	-	-	-	-	-	-	-	-
<b>Adjusted EBITDA</b>	<b>5,303</b>	<b>(9,078)</b>	<b>(2,918)</b>	<b>(833)</b>	<b>13,916</b>	<b>2,044</b>	<b>8,517</b>	<b>(2,091)</b>	<b>1,170</b>	<b>3,962</b>	<b>11,361</b>	<b>16,309</b>
Sand Revenue Sales/MT	157	128	122	127	185	168	180	136	148	156	164	170
Gross Margin	6,726	(2,647)	(1,406)	5,230	14,873	4,111	10,847	(193)	4,139	7,326	14,011	20,916
Cost of Sales Depreciation	2,360	1,989	2,078	1,612	1,620	1,782	1,551	2,181	1,200	1,146	1,097	1,167
<b>Adjusted Gross Margin</b>	<b>9,086</b>	<b>(658)</b>	<b>672</b>	<b>6,842</b>	<b>16,493</b>	<b>5,893</b>	<b>12,398</b>	<b>1,988</b>	<b>5,339</b>	<b>8,472</b>	<b>15,108</b>	<b>22,083</b>
Gross Margin/MT	25.86	(19.81)	(8.94)	18.58	61.44	26.35	43.09	(1.12)	109.71	41.63	60.63	74.10
Adjusted Gross Margin/MT	34.93	(4.92)	4.27	24.31	68.13	37.76	49.25	11.58	140.83	48.15	65.38	78.23

### *Quarters Ended December 31, 2016, 2015 and 2014*

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. Fourth quarter 2016 sales volumes were consistent with fourth quarter 2014 sales volumes. As North American sand sales volumes have ramped up in the fourth quarter of 2016 and into the first quarter of 2017, 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 from 2015's sales of \$23.3 million. 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 margins for the quarter.

In the fourth quarter of 2016, the Note Offering was completed. The proceeds from the Note Offering were used to repay the Previous Credit Facility and to settle the Prepayment Note. As explained in the section above entitled "*Finance Expense*" this increased finance expense in the fourth quarter of 2016 as the Previous Credit Facility's 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 has 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 sales levels are affected by weather conditions. As warm weather returns in the spring each year, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment or trucks hauling sand until they have dried out. In addition, many exploration and production areas in northern Canada are accessible only in the winter months when the ground is frozen.

In 2014, Source began the transition from being a third party transloader of frac sand in the WCSB to being a sand producer selling sand in the WCSB. Throughout 2014, Source was completing its Wisconsin production facilities, its Wembley Terminal and assembling its rail car fleet. It was not until the latter part of the fourth quarter of 2014 that Source was actually able to achieve its full run rate, in a robust pricing environment. In 2015, while the first part of the first quarter was very strong, the impact of the continuing softening of the oil and natural gas commodity prices eventually led to pricing reductions, which was partially offset by increased sales volumes as Source continued to grow its market share. The soft oil and gas commodity price environment continued into the first three quarters of 2016. Sales volumes were also impacted by a very wet second and third quarter in the WCSB in 2016, which impacted the timing of customer's completion programs, as many were delayed until the access roads were usable again in the fourth quarter. As described above, the fourth quarter of 2016 represented a significant turnaround in sales volumes.

### *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.

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 is responsible for overseeing this process. Source considers its capital structure to include Source's equity, bank debt and due to related parties.

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 each of the boards of directors of Source Canada LP GP and Source US LP GP. 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 years ended December 31, 2016, 2015, or 2014.

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 "*Risk Factors*" in the body of the prospectus and factors beyond Source's control.

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 of 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 by Source 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 rights and prepayment option have been classified as a derivative liability and are measured at fair value through profit or loss, for a total of \$14.8 million for the rights and \$0.1 million for the prepayment option as of December 31, 2016. 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 loss on the relevant rights of \$0.8 million and \$0.1 million on the prepayment option as of December 31, 2016 (2015 — \$0, 2014 — \$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 December 31, 2016, \$13.0 million was drawn under the Credit Facilities, and \$26.0 million was available. The borrowing base is updated by the bank monthly. Letters of credits were issued for the amount of 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 December 31, 2016, the excess availability was greater than 20%. Source Canada LP is in compliance with all covenants of the Credit Facilities as of December 31, 2016.

As of December 31, 2015, the Previous Credit Facility composed of three facilities: a \$35 million operating facility, a \$45 million term facility, and a \$15 million capital facility. The Previous Credit Facility was secured by fixed and floating charges on all the assets of Source under a general business security agreement. The facilities bore interest based on the bank's prime lending rate plus an applicable margin, ranging from prime plus 0.75% to prime plus 2.75% per annum. The amount available under the general operating facility was subject to a borrowing base formula applied to accounts receivable and inventories. As of December 31, 2015, \$24.2 million (\$17.0 million as of December 31, 2014) was drawn under this facility. The borrowing base was updated by the bank monthly. This facility was extinguished in connection with the Note Offering

### *Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Source is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the Credit Facilities and loans payable. Source is exposed to interest rate price risk on the long-term debt that bears interest at floating rates. Source had no interest rate swaps or financial contracts in place as at or during the periods ended December 31, 2016, or December 31, 2015 or December 31, 2014.

For the year ended December 31, 2016, a 1% change to the effective interest rate would have an impact of approximately \$0.2 million (year ended December 31, 2015 — \$0.7 million and 2014 — \$0.4 million) on net income and cash flow.

### *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. dollar denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on U.S. costs of manufacturing and transporting inventory for sale to the extent that the payment of those costs are U.S. dollar denominated accounts payable are subject to fluctuations in the foreign exchange rate. Included in accounts receivable and accounts payable and accrued liabilities as of December 31, 2016 are \$1.7 million (2015 — \$17.6 million, 2014 — \$32.3 million) and \$8.4 million (2015 — \$14.5 million, 2014 — \$16.4 million) denominated in foreign currency respectively. The net effect of each 1% change in foreign exchange would have an impact of \$0.2 million for 2016 net income (2015 - \$0.2 million, 2014 — \$0.2 million). As of December 31, 2016, December 31, 2015 and December 31, 2014, Source had no forward exchange rate contracts in place.

### *Cash and Net Working Capital*

As of December 31, 2016, Source had no cash on hand and had senior long term debt outstanding of \$124.4 million, as compared to \$83.1 million as of December 31, 2015. Cash flow deficit from operations was \$9.5 million in 2016, and this shortfall was funded by additional senior debt borrowings and additional Shareholder Loans. Net capital expenditures for 2016 were \$5.6 million which was also funded through proceeds from the increase in senior debt borrowings and additional Shareholder Loans. The balance of the proceeds was used to pay financing charges and tax distributions to limited partners for prior years' taxes owed by those partners.

As of December 31, 2015, Source had no cash on hand and had senior long term debt outstanding of \$83.1 million, as compared to \$63.8 million as of December 31, 2014. Cash flows from operations were \$23.6 million in 2015, which were used to partially fund the net capital expenditures in the year of \$38.7 million. The balance of the capital expenditure program was funded through proceeds from the increase in the Credit Facilities and additional Shareholder Loans. The balance of the proceeds was used to pay financing charges and distributions to limited partners.

Net working capital as of December 31, 2016 was \$6.2 million, as compared to \$10.1 million as of December 31, 2015. The decrease was primarily driven by lower accounts receivable balances as Source had better collections of its accounts receivable in the fourth quarter of 2016 compared to the fourth quarter of 2015. This decrease was partially offset from higher inventory levels at December 2016 as Source prepared for a busy first quarter in 2017.

Net working capital as of December 31, 2015 was \$10.1 million, as compared to \$26.3 million as of December 31, 2014. The decrease was mainly driven from lower accounts receivable balances and no assets held for sale in 2015, partially offset by higher inventory levels. Source was in a better position to build inventory in the fall of 2015 than 2014 to prepare for the busy drilling and completion season that occurs in the WCSB. Sales were slower in the fourth quarter of 2015 than 2014 as the oil and gas industry was dealing with softer commodity prices.

Capital expenditures in 2016 were \$6.4 million, as compared to \$38.9 million in 2015. The 2016 capital expenditure program predominately related to overburden removal expenditures at the mine site and additional payments related to land acquisitions at the mine site. The 2015 capital expenditure program was focused on completing the sand processing facilities, and the terminal network to begin to sell Source's own sand as well as land acquisitions at the mine site.

Capital expenditures in 2015 were \$38.9 million, as compared to \$45.4 million in 2014. The capital expenditure programs for both years were focused on completing the sand processing facilities and the terminal network to begin to sell Source's own sand.

### *Deferred Revenue*

Source has entered into storage subscription agreements with some customers to provide them with guaranteed proppant storage at our 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 our normal sand distribution fees. The subscription fees have been deferred and are recognized as revenue as proppant is transloaded by the subscribers.

In September 2011, Source entered into the Prepayment Note. The prepayment clause was such that the CMSA Customer made three installments upon completion of certain phases of Source's frac sand plant located in Wisconsin. These pre-payments accrued interest at 5%. In consideration of the prepayment amounts, the cash price per ton to the customer was reduced for each metric tonne of frac sand sold in the United States or Canada. The prepayment amount was also reduced by 50% of the customer's billings for storage and transloading services provided in North America. The agreement was secured by a first charge mortgage on land Source uses to mine and process frac sand. Source commenced sales under the contract in 2014. These amounts were recognized as deferred revenue on the combined balance sheets. On December 8, 2016, Source settled the above sales agreement for US\$16.5 million. The total of this customer's advances and interest accrued at the time of settlement was US\$19.0 million (December 31, 2015 — US\$18.2 million December 31, 2014 — US\$19.7 million). Source recorded a gain of US\$2.5 million on the settlement of this contract.

One customer failed to meet the minimum sand purchase requirement outlined in their sale agreement during 2015. As a result, Source deferred \$0.9 million of revenue relating to this penalty, which was recognized in 2016, but subsequently written off as the customer went bankrupt.

### *Contractual Obligations*

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

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

2017	10,225
2018	7,348
2019	5,631
2020	5,011
2021	4,994
Subsequent Years	9,124
	42,333

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 our 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.

### **Outstanding Security Data**

Source's partners' equity is described in note 13 of the audited financial statements of Source for the year ended December 31, 2016.

## Transactions between Related Parties

Shareholder Loans payable consist of four promissory notes. The first promissory note from common unitholders was issued on March 27, 2014 in the amount of \$12.5 million. This promissory note bears interest at 25% per annum which is paid with in kind interest. According to the agreement, Source is obligated to pay the 25% interest for a minimum of three months after December 31, 2016. Therefore, for the year ended December 31, 2015, a fair value adjustment of \$3.9 million was recorded to record the interest obligation until March 31, 2017. The second promissory note from the common unitholders was advanced on December 21, 2015 in the amount of \$7.5 million. This promissory note bears interest at 18% per annum which is also paid in a combination of cash and in kind interest, and the interest increases to 25% per annum after eighteen months. The promissory note and any accrued interest is convertible to equity eighteen months after the date of issue at the option of the unitholder. The conversion and the prepayment represent derivatives, however, Source has elected to designate the Shareholder Loans as fair value through the combined statements of operations and comprehensive income (loss). The maturity date of these promissory notes is on December 31, 2023. The third promissory note has a face value of \$2 million and was recorded at a fair value of \$2 million. It does not bear interest and is due September 7, 2026. See “*Description of Indebtedness — Indebtedness being repaid in connection with the Offering — Shareholder Loans*” in the prospectus.

During 2016, certain unitholders provided guarantees to the syndicated bank group of the Previous Credit Facility totaling \$5.5 million. In exchange for these guarantees, these unitholders were provided with 5,500 warrants at an aggregate price of \$55 dollars or a 0% 10-year promissory note depending on whether the guarantees were drawn or not. The promissory note would be issued for an amount equal to the amount that the guarantee was less than \$5.5 million prior to February 28, 2017, for reasons other than the call of the guarantee by the syndicated banking group of the Previous Credit Facility. The agreements governing such guarantees stipulated that if the syndicated bank facility was repaid, promissory notes for the full amount of the guarantee would be issued and the related warrants would be cancelled. The promissory notes will become due and payable if there is a change of control. The Previous Credit Facility was repaid and the related warrants were cancelled. The \$5,500 promissory note was issued in 2016.

The Sand Royalty Loan bears interest at 8% per annum with no maturity date. Source has accrued all interest due as of December 1, 2022. No payments have been made.

## Proposed Transactions

There are no proposed transactions other than described in the prospectus.

## 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 perform 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. According to the agreement, the Partnership is obligated to pay

### **Changes in Accounting Policies including Initial Adoption and 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, 2017 with earlier application permitted.

#### *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.

### *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 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. 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.

### *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.

## **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 December 2016 combined financial statements. Source employs risk management strategies and policies to ensure that any exposures to risk are in compliance with Source's business objectives and risk tolerance levels. While the board of directors has the overall responsibility for Source's risk management framework, Source's management has the responsibility to administer and monitor these risks.

### **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 December 31, 2016, the fair value of the \$130 million Notes is \$137.8 million.