Source Rock Royalties Ltd.

Financial Statements

For the years ended December 31, 2021 and 2020

To the Shareholders of Source Rock Royalties Ltd.:

Opinion

We have audited the financial statements of Source Rock Royalties Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2021 and December 31, 2020, and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta

April 29, 2022

MNP LLP

Chartered Professional Accountants

(Expressed in Canadian dollars)

		December 31,2021		December 31,2020
Assets				
Current assets				
Cash and cash equivalents	$	1,492,322	$	913,560
Trade and other receivables (note 4)		822,553		364,738
Deferred financing costs (note 8d)		164,280		-
Prepaid expense		5,777		26,824
Total current assets		2,484,932		1,305,122
Non-current assets				
Petroleum and natural gas interests (note 5)		12,622,096		14,905,633
Intangible (note 6)		250,000		250,000
Total assets	$	15,357,028	$	16,460,755
Liabilities				
Current liabilities				
Trade and other payables	$	124,382	$	23,982
Corporate taxes payable		82,308		-
Disbursement payable (note 13)		443,438		146,236
Total current liabilities		650,128		170,218
Non-current liabilities				
Deferred tax (note 10)		145,802		538,468
Total liabilities		795,930		708,686
Shareholders' equity				
Share capital (note 8a)		13,984,321		28,679,325
Contributed surplus (note 8b)		15,731,541		1,081,271
Deficit		(15,154,764)		(14,008,527)
Total shareholders' equity		14,561,098		15,752,069
Total liabilities and shareholders' equity	$	15,357,028	$	16,460,755

Subsequent events (note 13)

Approved on behalf of the Board of Directors by:

"Signed" John Bell	"Signed" Brad Docherty
Director	Director

The accompanying notes are an integral part of these financial statements.

Source Rock Royalties Ltd.
Statements of Income and Comprehensive Income
For the years ended December 31,
(Expressed in Canadian dollars)

		2021		2020
Royalty revenues (note 9)	$	4,261,974	$	1,375,749
Expenses				
Administrative expenses		475,859		346,281
Bad debt (recovery) expense		(9,908)		51,242
Share-based compensation (notes 7 and 8c)		313,704		266,188
Depletion (note 5)		2,235,533		1,036,501
Impairment (note 5)		1,381,559		4,905,855
Total expenses		4,396,747		6,606,067
Loss for the year		(134,773)		(5,230,318)
Other income				
Interest		956		3,953
Loss before taxes		(133,817)		(5,226,365)
Provision for income taxes				
Current tax expense		82,308		-
Deferred tax recovery		(392,666)		(2,370,038)
Income tax recovery (note 10)		(310,358)		(2,370,039)
Total comprehensive income (loss)	$	176,541	$	(2,856,327)
Income (loss) per share, basic	$	0.006	$	(0.099)
Income (loss) per share, diluted	$	0.006	$	(0.099)
Weighted average number of shares:				
Basic		29,422,005		29,001,311
Diluted		31,210,964		29,001,311

The accompanying notes are an integral part of these financial statements.

Source Rock Royalties Ltd.
Statements of Changes in Shareholders' Equity
For the years ended December 31,
(Expressed in Canadian dollars)

	Share capital	Contributed surplus	Deficit	Total shareholders' equity
As at December 31, 2019	$ 28,556,354	$ 933,554	$ (10,574,019)	$ 18,915,889
Shares issued on acquisition of royalty interests (note 5)	4,500	-	-	4,500
Shares issued for compensation (note 7 and 8c)	118,471	147,717	-	266,188
Dividends (note 8e)	-	-	(578,181)	(578,181)
Total comprehensive loss	-	-	(2,856,327)	(2,856,327)
As at December 31, 2020	$ 28,679,325	$ 1,081,271	$ (14,008,527)	$ 15,752,069
Shares issued on acquisition of royalty interests (note 5)	85,000	-	-	85,000
Return of capital (note 8a)	(443,438)	-	-	(443,438)
Reduction of stated capital (note 8a)	(14,556,562)	14,556,562	-	-
Shares issued for compensation (note 7 and 8c)	186,000	127,704	-	313,704
Shares issued on exercise of stock options (note 8c)	33,996	(33,996)	-	-
Dividends (note 8e)	-	-	(1,322,778)	(1,322,778)
Total comprehensive income	-	-	176,541	176,541
As at December 31, 2021	$ 13,984,321	$ 15,731,541	$ (15,154,764)	$ 14,561,098

The accompanying notes are an integral part of these financial statements.

(Expressed in Canadian dollars)

		2021		2020
Operating activities				
Net income (loss)	$	176,541	$	(2,856,327)
Adjustments for:				
Share-based compensation (notes 7 and 8c)		313,704		266,188
Depletion (note 5)		2,235,533		1,036,501
Impairment (note 5)		1,381,559		4,905,855
Bad Debt (recovery) expense		(9,908)		51,242
Deferred income taxes (recovery) expense (note 10)		(392,666)		(2,370,038)
Change in non-cash working capital balances				
Trade and other receivables		(447,907)		127,291
Prepaid expense		21,047		(20,952)
Trade and other payables		45,400		5,768
Corporate taxes payable		82,308		-
Cash flows from operating activities		3,405,611		1,145,528
Financing activities				
Dividends paid to shareholders (note 8e)		(1,469,014)		(863,815)
Deferred Financing Costs (note 8d)		(164,280)		-
Cash flows used in financing activities		(1,633,294)		(863,815)
Investing activities				
Purchase of petroleum and natural gas interests (note 5)		(1,193,555)		(434,864)
Purchase of intangibles (note 6)		-		(250,000)
Cash flows used in investing activities		(1,193,555)		(684,864)
Increase (decrease) in cash and cash equivalents		578,762		(403,151)
Cash and cash equivalents, beginning of year		913,560		1,316,711
Cash and cash equivalents, end of year	$	1,492,322	$	913,560

The accompanying notes are an integral part of these financial statements.

1. REPORTING ENTITY

Source Rock Royalties Ltd. ("Source Rock" or the "Company") was incorporated under the laws of the Province of Alberta on October 11, 2012, and has its registered office at 15th Floor, 850 – 2nd Street, SW, Calgary Alberta T2P 0R8.

The primary business of the Company is to receive royalty revenue from oil and natural gas properties as reserves are produced by the operators over the economic life of the properties. The Company is exclusively focused on acquiring and managing oil and gas royalties and mineral title interests. The Company has a light oil focused portfolio of royalty interests concentrated in S.E. Saskatchewan, east-central Alberta, west-central Alberta and west-central Saskatchewan. The Company is focused on acquiring royalties in properties that have foreseeable future drilling potential and which are operated by fiscally and operationally prudent third parties. The Company is further focused on establishing relationships with third parties via its royalty interests, wherein mutual benefits can be derived from the near-term and medium-term development, and long-term enhancement, of the assets. The Company does not incur any ongoing costs to develop, operate or enhance the lands in which it has royalties, nor does it have any exposure to abandonment or reclamation obligations associated with its royalty lands.

These financial statements were authorized for issuance by the Company's Board of Directors on April 29, 2022.

COVID

During the first quarter of 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial, and municipal governments regarding travel, business operations and isolation/quarantine orders. These measures caused significant disruption to global economies, including reduced demand for commodities and volatile pricing. Although crude oil pricing has improved from its lows in the second quarter of 2020, the potential direct and indirect impacts of the economic downturn and continued economic uncertainty have been considered in management's estimates and assumptions.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") in effect as of January 1, 2021.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for measurement of certain financial instruments at fair value through profit or loss.

c) Functional currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Business Combinations

Management's judgement is required to determine whether a transaction constitutes a business combination or asset acquisition based on the criteria in IFRS 3, "Business Combinations". Business combinations are accounted for using the acquisition method of accounting and are differentiated from an asset acquisition when business processes are associate with the assets.

2. BASIS OF PREPARATION (*Continued*)

e) Use of judgments and estimates

Management is required to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to depreciation, fair values of financial instruments, recoverability of assets and taxes. Actual results may differ from these estimates and these differences may be material.

The key estimates and judgments concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below. Readers are cautioned that the following list is not exhaustive and other items may also be affected by estimates and judgments.

<u>Judgments</u>

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the financial statements.

- *Determining cash generating units ("CGU")* – For the purpose of assessing impairment of petroleum and natural gas interests, assets are grouped at the lowest level of separately identifiable cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs of disposal and value in use. As at December 31, 2021, and 2020, the Company had four CGUs based on geographical location, being west-central Saskatchewan, south-east Saskatchewan, east-central Alberta and west-central Alberta.

- *Impairment* – The Company is required to make a judgment regarding whether indicators of impairment exist at each reporting date by evaluating conditions specific to the organization that may lead to the impairment of assets.

- *Taxes* – The Company applies judgment in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain due to interpretations of complex tax regulations, changes in tax laws, and the amounts and timing of future taxable income. Deferred tax assets, if any, are recognized to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to income tax and expenses already recorded.

- *Contingencies* – Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

<u>Estimates</u>

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Areas where there are significant estimates are as follows:

- *Reserves* - The Company does not have any operational control over its royalty interest lands, thus, obtaining production data from the well operators is generally limited to the information that is made publicly available. As a result, the Company often uses industry reports and operator disclosure to assign well type curves to the producing wells and lands to estimate total anticipated reserves.

2. BASIS OF PREPARATION (*Continued*)

e) Use of judgments and estimates *(continued)*

- Accounts receivables – Accounts are recorded at the estimated recoverable amounts. For the year ended December 31, 2021, Source Rock recorded a credit loss of $nil (2020 - $51,242).
- Depletion and residual values of petroleum and natural gas interests - The amounts recorded for the depletion of petroleum and natural gas interests are based on estimates of petroleum and natural gas reserves. By their nature, these estimates of reserves are subject to uncertainty, and the impact on the financial statements of future periods could be material.
- Impairment - Impairment exists when the carrying value of a CGU exceeds its recoverable amount, which is the higher of its fair value less cost of disposal ("FVLCD") and its value in use ("VIU"). The FVLCD calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used.
- Share-based compensation - All equity-settled, share based awards issued by the Company are recorded at fair value using the Black-Scholes option pricing model. In assessing the fair value of the equity-based compensation, estimates have to be made regarding the expected volatility is based on comparable listed entities in share price, option life, risk-free rate and estimated forfeitures at the initial grant date.
- Taxes - Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the statement of income and comprehensive income both in the period of change, which would include any impact on cumulative provisions, and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in banks, and all short-term investments that are readily convertible into known amounts of cash and have original maturities of three months or less.

b) Revenue recognition

Revenue is made up of royalty income. Royalty income is recognized when the Company's interest in the oil and gas rights is either produced or sold in the period by oil and gas producers on specific lands identified by various royalty interest agreements. Royalty income is measured at the fair value, using estimates, per the terms of various royalty interest agreements. Actual results could differ as a result of using estimates and any differences are recorded in the period in which actual amounts are received.

c) Petroleum and natural gas interests

Petroleum and natural gas interests are classified under IAS 16 as "Property, Plant and Equipment" and include royalty interests, stated at cost, less accumulated depletion and accumulated impairment losses. A gain or loss on disposal of a petroleum and natural gas interest is recognized to the extent that the net proceeds exceed or are less than the appropriate portion of the capitalized costs of the asset.

Petroleum and natural gas interests are depleted on the unit-of-production method based on estimated proved and probable oil and gas reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

d) Impairment of long-term assets

At each reporting date, the Company assesses groups of assets or CGUs for impairment whenever events or changes in circumstances indicate that the carrying value of the CGU may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount.

A CGU's recoverable amount is the higher of its FVLCD and its VIU. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. In assessing VIU, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. FVLCD is the amount obtainable from the sale of assets in an arm's length transaction less cost of disposal

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized.

If that is the case, the carrying amount of the CGU is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the CGU in prior years. Such a reversal is recognized in the statement of comprehensive income. After such a reversal, the depletion charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

e) Share-based compensation

The grant-date fair value of share-based payment awards granted to employees, directors or consultants is recognized as share-based compensation expense, with a corresponding increase in contributed surplus, over the period that the individuals become entitled to the awards. Any consideration received on exercise of stock options is credited to share capital along with the amounts originally recorded as contributed surplus.

f) Taxes

Tax expense comprises current and deferred tax. Current and deferred tax is recognized in the statement of comprehensive income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Income per share

The calculation of basic income per share is based on net income divided by the weighted average number of common shares outstanding. Diluted income per share is determined by adjusting the income per share attributable to ordinary shareholders for the effects of all potentially dilutive ordinary shares, which comprise share options and warrants granted to employees and directors. All share purchase options are considered anti-dilutive when the Company is in a loss position.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

h) Financial instruments

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured at amortized cost. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade and other receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Financial instrument de-recognition

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognized when the obligation is discharged, cancelled, or expired.

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

i) Provisions

A provision is recognized if, because of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

j) Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received net of direct issue costs.

k) Intangible assets

The Company purchased a right to acquire a 2% GORR in all oil and natural gas interested purchased or earned by a certain company. Intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite life intangible assets are reviewed for impairment annually or at any time if an indicator of impairment exists.

4. TRADE AND OTHER RECEIVABLES

Accounts Receivable and Accrued Royalty Revenues		As at December 31, 2021		As at December 31, 2020
Trade receivable and accrued royalty revenue	$	854,228	$	407,646
Expected credit loss		(41,335)		(51,242)
GST receivable		9,660		8,334
	$	822,553	$	364,738

Trade receivable and accrued revenue relate to royalty production payments receivable.

The analysis of trade receivable and accrued royalty revenue that are past due but not impaired is as follows:

					Past due but not impaired			
		Total		Neither past due nor Impaired		3-6 Months		7- 12 Months
As at December 31, 2021	$	812,893	$	804,665	$	8,228	$	-
As at December 31, 2020	$	356,404	$	334,232	$	14,319	$	7,853

In determining the collectability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivable and the credit worthiness of the parties (note 11).

5. PETROLEUM AND NATURAL GAS INTERESTS

Cost		Total
Balance December 31, 2019	$	27,085,667
Additions		439,364
Impairment		(4,905,855)
Balance December 31, 2020	$	22,619,176
Additions		1,333,555
Impairment		(1,381,559)
Balance December 31, 2021	$	22,571,172
Accumulated depletion		
Balance December 31, 2019	$	6,677,042
Depletion		1,036,501
Balance December 31, 2020	$	7,713,543
Depletion		2,235,533
Balance December 31, 2021	$	9,949,076
Carrying Amounts		
At December 31, 2020		14,905,633
At December 31, 2021	**$**	12,622,096

<u>2021:</u>

- On August 6, 2021, the Company acquired a 2% gross overriding royalty ("GORR") in land located in S.E. Saskatchewan for $71,110.
- On July 9, 2021, the Company acquired a 2% GORR in land located in S.E. Saskatchewan for $32,256.
- On April 26, 2021, the Company acquired various GORR's in S.E. Saskatchewan for $1,215,000, comprised of $1,130,000 in cash and 85,000 common shares at a price of $1.00 per share. As at December 31, 2021, $55,000 (2020 - $Nil) was included in trade and other payables related to this acquisition.
- On March 18, 2021, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for $15,189.

<u>2020:</u>

- On January 27, 2020, the Company acquired a 2% gross overriding royalty ("GORR") in land located in S.E. Saskatchewan for $30,545.
- On February 13, 2020, the Company acquired a 3% GORR in land located in S.E. Saskatchewan for $27,500, comprised of $23,000 in cash and $4,500 in common shares of Source Rock.
- On March 6, 2020, the Company acquired a 2% GORR in land located in S.E. Saskatchewan for $189,047, including acquisition costs of $7,404.
- On April 9, 2020, the Company acquired a 3% GORR in land located in S.E. Saskatchewan for $74,511.
- On May 15, 2020, the Company acquired a 2% GORR in land located in S.E. Saskatchewan for $47,488.
- On June 4, 2020, the Company acquired a 2% GORR in land located in S.E. Saskatchewan for $41,376. On December 10, 2020, the Company reduced the purchase price of a prior acquisition and received $10,000 due to a drill commitment clause that an operator failed to satisfy.
- On December 22, 2020, the Company acquired a 2% GORR in land located in S.E. Saskatchewan for $38,897

5. PETROLEUM AND NATURAL GAS INTERESTS (*Continued*)

Impairment

Source Rock groups it GORR's into cash generating units ("CGU's") for the purpose of evaluating the carrying value of its petroleum and natural gas interests. The recoverable amounts were determined using fair value less cost to sell. The estimated recoverable amount of the Company's assets involved certain significant estimates including the future cash flows expected to be derived from each CGU and the discount rate. The significant assumptions used by the Company in determining the future cash flow estimates related to future royalty production and future realized commodity prices. The fair value measurement is designated Level 3 on the fair value hierarchy. Changes in any of the significant estimates and assumptions, such as a downward revision in future royalty production, a decrease in future realized commodity prices, or an increase in the discount rate would have decreased the recoverable amounts of assets and any impairment charges would affect operating results. The other key assumptions used in determining the recoverable amount included the future cash flows using a market discount rate of 10%.

As at December 31, 2021, there were no indicators of impairment however impairment testing was still completed. No impairment charges were taken as at December 31, 2021.

As at March 31, 2021, there were indicators of impairment due to the continued underperformance of two CGU's. Despite improved commodity prices during Q1 2021, these CGU's did not see production volumes return to historical levels as anticipated as at December 31, 2020.

As at March 31, 2021, the following benchmark reference price forecasts were used to calculate the recoverable amounts:

	2021	2022	2023	2024	2025
Canadian Light Sweet ($Cdn/bbl)	56.12	61.69	66.79	68.14	69.50

As at March 31, 2021, the following impairment charges were taken:

CGU	**Impairment**
West-central Saskatchewan	$668,819
West-central Alberta	$712,740

As at December 31, 2020, the carrying value of the Company's West-Central Saskatchewan CGU exceeded its carrying value. As a result, an impairment charge was taken in the amount of $4,905,855.

6. INTANGIBLE

On January 27, 2020, Source Rock entered into an agreement with a S.E. Saskatchewan focused oil and gas company ("E&P Co."), whereby Source Rock paid $250,000 for a right, but not an obligation, to acquire a 2% GORR in all oil and natural gas interests purchased or earned by E&P Co. The agreement is not subject to any geographical boundaries, does not expire and will be required to be assumed by future parties in any change of control scenarios relating to E&P Co.

7. RELATED PARTY TRANSACTIONS

Key personnel transactions

Key personnel includes the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary and the Directors of the Company. For the year ended December 31, 2021 and 2020, the Company had the following transactions with key personnel.

		2021		2020
Consulting fees	$	357,000	$	283,500
Share-based compensation		313,704		266,188
Total	$	670,704	$	549,688

Share-based compensation includes share-based consulting fees and a charge for stock options. During the year ended December 31, 2021, 190,312 (2020 - 450,882) common shares were issued as compensation to management and was recorded as share-based compensation in the amount of $186,000 (2020 - $118,471). The remaining balance of the share-based compensation charge was recorded for the vesting of issued stock options in the amount of $127,704 (2020 - $147,717) (see note 8c).

In addition, during the year ended December 31, 2021, $199,602 (2020 - $11,987), was incurred to a law firm at which the Corporate Secretary of the Company is a Partner of which $95,980 (2020 – Nil) was payable at year-end. These fees primarily related to work associated with deferred financing fees related to its initial public offering (the "IPO"), general corporate matters, closing a private placement and work associated with various acquisitions.

All transactions were in the normal course of operations and were measured at the amount of consideration agreed to by both parties. As at December 31, 2021, there was $98,873 (December 31, 2020 - $4,447) in trade payables and accrued liabilities relating to these transactions.

8. SHARE CAPITAL

a) Common shares

The Company has authorized an unlimited number of common shares for issuance, without stated par value.

	December 31, 2021		December 31, 2020		
	# of common shares	Amount	# of common shares		Amount
Balance, beginning of year	29,247,247	28,679,325	28,791,365	$	28,556,354
Shares issued on acquisition of royalty interest (i)(ii)	85,000	85,000	5,000		4,500
Shares issued for exercised stock options (note 8c)	40,000	33,996	-		-
Shares issued for compensation (note 7)	190,312	186,000	450,882		118,471
Return of capital (note 13)	-	(443,438)	-		-
Reduction in stated capital (note 8a)	-	(14,556,562)	-		-
Balance, end of year	29,562,559	13,984,321	29,247,247	$	28,679,325

(i) During 2021, the Company issued 85,000 common shares at $1.00 per share as partial consideration for GORR’s.
(ii) During 2020, the Company issued 5,000 common shares at $0.90 per share as partial consideration for GORR’s.

Reduction of stated capital

Under the Alberta Business Corporations Act ("ABCA"), a corporation is prohibited from taking certain actions, including declaring or paying a dividend, if, among other things, there are reasonable grounds for believing that the realizable value of its assets would, as a result of the declaration or payment of the dividend, be less than the aggregate of its liabilities and stated capital of all classes of its shares. The stated capital is the aggregate of all amounts received by a corporation upon the issuance of its shares, adjusted in certain circumstances in accordance with the provisions of the ABCA. The stated capital for a class of shares can be reduced in accordance with the restrictions in the ABCA. A corporation reducing its stated capital reduces the aggregate of the corporation’s liabilities and stated capital of all classes of its shares to increase the difference between such amount and the realizable value of the corporation’s assets, thereby providing the corporation with additional flexibility to pay dividends if, as and when declared.

On December 22, 2021, the Company’s shareholders approved a reduction in the Company’s stated capital by $15,000,000. The Company subsequently reduced its stated capital by aggerate of $15,000,000, which included the reduction associated with a return of capital of $443,438 (see "*Subsequent Events*").

8. SHARE CAPITAL *(Continued)*

b) Contributed surplus

Balance, December 31, 2019	$	933,554
Share-based compensation (note 8c)		147,717
Balance, December 31, 2020	$	1,081,271
Share-based compensation (note 8c)		127,704
Exercised stock options (note 8c)		(33,996)
Reduction in stated capital (note 8a)		14,556,562
Balance, December 31, 2021	$	15,731,541

c) Stock options

The Company created a rolling 10% stock option plan which became effective July 2, 2013. The stock option plan provides options for directors, key management personnel and consultants. A summary of the Company's outstanding stock options as at December 31, 2021, and the changes for the current year, is as follows:

	Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
Balance, December 31, 2019	2,602,000	2.5	$	0.95
Granted	945,000	4.8	$	0.40
Expired	(1,057,000)	-	$	1.00
Balance, December 31, 2020	2,490,000	3.5	$	0.72
Granted	40,000	-	$	Nil
Exercised	(40,000)	-	$	Nil
Balance, December 31, 2021	2,490,000	2.5	$	0.72

For the year ended December 31, 2021, the Company has recorded $127,704 (2020 - $147,717) in share-based compensation expense for the vesting of granted stock options with a corresponding amount credited to contributed surplus. During 2021, Nil (2020 - 1,057,000) stock option expired as a result of these not being exercised prior to the agreement expiring. As of December 31, 2021, the Company has 2,175,000 (2020 - 1,561,667) exercisable stock options.

The fair value of stock options granted in 2021 and 2020 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2021	2020
Exercise price	$Nil	$0.40
Dividend yield	Nil	Nil
Expected volatility	42.7%	42.7%
Risk-free interest rate	1.5%	1.5%
Expected life	5 Year	5 year
Forfeiture Rate	0.0%	4.8%

8. SHARE CAPITAL *(Continued)*

d) Deferred financing costs

During the fourth quarter of 2021, Source Rock initiated the IPO process and incurred legal costs of $164,280, which have been deferred until the IPO closes (see "*Subsequent Events*"). Upon closing of the IPO these financing costs will be capitalized against the proceeds as share issuance costs.

e) Dividends

During 2021, the Company declared dividends of $1,322,778 (2020 - $578,182). The total dividends paid during 2021 was $1,469,014 (2020 - $863,815).

9. REVENUES

As per note 3b), royalty and other revenue are measured at fair value of the consideration received or receivable, per the terms of various agreements. The transaction price used for crude oil, natural gas, natural gas liquids and other products is based on the commodity price in the month of production specific to the property or interest. The commodity price received, or receivable is based on market benchmarks adjusted for quality, location, allowable deductions, if any, and other factors. Typically, Source Rock would receive the cash payments 30 to 60 days following production or the sale of commodity by the producer.

Revenue and other revenue by product		2021		2020
Oil	$	4,141,265	$	1,318,551
Natural Gas		75,061		39,951
NGL		45,648		17,247
Total royalty revenue	$	4,261,974	$	1,375,749

As at December 31, 2021, there was outstanding trade accounts receivable of $812,893 (2020 - $326,560).

10. TAXES

The tax effects of deductible and taxable temporary differences that give rise to the Company’s deferred tax are as follows:

		2021		2020
Share issue costs	$	-	$	3,903
Non-capital loss carry forwards		-		772,382
Capital loss carry forwards		10,839		21,999
Petroleum and natural gas interest		(145,802)		(1,314,754)
Deferred tax asset not recognized		(10,839)		(21,999)
Deferred tax liability	$	(145,802)	$	(538,468)

10. TAXES (*Continued*)

The components of the Company's net tax expense which has been recorded in these financial statements are as follows:

		2021		2020
Net income (loss) before taxes	$	(133,817)	$	(5,226,365)
Statutory rate		46.67%		47.67%
Expense/(recovery) at statutory rate		(62,452)		(2,491,408)
Share-based compensation		59,599		70,417
Refundable dividend on hand		(157,724)		-
Rate difference and other		(149,781)		50,952
Income tax recovery	$	(310,358)	$	(2,370,039)

The continuity of deferred taxes is as follows:	Balance December 31, 2021	Recognized in statement of comprehensive income	Recognized directly in shareholders' equity	Balance December 31, 2020
Petroleum and natural gas interest	(145,802)	1,168,951	-	(1,314,753)
Share issue costs	-	(3,903)	-	3,903
Tax loss carry-forwards	-	(772,382)	-	772,382
	(145,802)	392,666	-	(538,468)

The Company has $nil (2020 - $1,654,987) in non-capital loss carry forwards and $94,255 (2020 - $94,255) in capital loss carry forwards. The statutory rate decreased from 47.67% to 46.67% is due to a decrease in the Alberta provincial tax rate on July 1, 2020.

11. FINANCIAL RISK MANAGEMENT

Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and commodity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Fair values

The Company's financial instruments recognized on the statement of financial position consist of current assets and liabilities of cash and cash equivalents, trade and other receivables, and trade and other payables and dividends payable. The fair values of the Company's current financial assets and liabilities approximate their carrying values due to their short-term maturities.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. As at December 31, 2021, the Company's trade receivable balance was subject to normal industry credit risks and was primarily with two royalty payors which accounted for 73% (2019 - 64%) of the trade and other receivable balance and 74% (2020 - 58%) of the revenue balance. The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its royalty payors and the industry in which they operate. The carrying amounts of trade and other receivables and cash and cash equivalents represent the Company's maximum credit exposure. The Company has recorded an impairment of $nil (2020 - $51,242) in trade and other receivables specific to two customers.

11. FINANCIAL RISK MANAGEMENT (*Continued*)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations at the point at which they are due. The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing.

All of the Company's trade and other payables are due in less than one year.

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. During the years ended December 31, 2021 and 2020, the Company had no commodity price risk related derivative contracts in place.

For the year ended December 31, 2021, the average price realization on the Company's royalty interests was $81.52/boe (2020 - $40.17/boe). If the price realization increased (decreased) by 5%, with all other variables held constant, net income would have increased (decreased) by approximately $213,099 (2020 - $68,781).

12. CAPITAL MANAGEMENT

The Company's capital is comprised of cash and cash equivalents and shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management but rather promotes a prudent, repeatable, scalable and sustainable corporate platform that minimizes operating costs, and aims to maximize returns to its shareholders through per share cash flow growth and ultimately payment of a sustainable and conservative dividend. The Company is not subject to any externally or internally imposed capital requirements as at December 31, 2021.

13. SUBSEQUENT EVENTS

On January 11, 2022, Source Rock made a $0.015 per share payment to shareholders of record on December 31, 2021, which was approved by Source Rock's Board of Directors on December 15, 2021. This payment was structured as a "return of capital", which was approved by Source Rock's shareholders at an Annual General Meeting held on December 22, 2021 (note 8a).

On March 1, 2022, Source Rock closed the IPO, through the issuance of 13,667,100 Units at a price of $0.90 pursuant to a final prospectus dated February 23, 2022, for gross proceeds of $12,300,390. Each Unit was comprised of one Common Share and one half of one warrant to purchase an additional Common Share at $1.25 for a period of two years (the "Warrants"). The IPO was completed by a syndicate of underwriters co-led by PI Financial Corp (as Sole Bookrunner) and Acumen Capital Finance Partners Limited, together with Haywood Securities Inc., Canaccord Genuity Corp. and ATB Capital Markets Inc.

On March 2, 2022, Source Rock's Common Shares began trading on the TSX Venture Exchange under the symbol "SRR" and the Warrants began trading under the symbol "SRR.WT".

On March 16, 2022, Source Rock closed the over-allotment portion of the IPO through the issuance of an additional 1,667,000 Units, for gross proceeds of $1,500,300.

On April 14, 2022, a dividend of $0.015 was paid to shareholders, which was approved by Source Rock's Board of Directors on March 15, 2022 for shareholders of record on March 31, 2022.