

Source Rock Royalties Ltd.
Condensed Interim Financial Statements

As at and for the three-months ended March 31, 2022
(Unaudited)

Source Rock Royalties Ltd.
Condensed Interim Statements of Financial Position
(Expressed in Canadian dollars)

	March 31, 2022 (unaudited)	December 31, 2021 (audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 14,769,345	\$ 1,492,322
Trade and other receivables (note 3)	1,150,325	822,553
Deferred financing cost (note 7e)	-	164,280
Prepaid expense	59,324	5,777
Total current assets	15,978,994	2,484,932
Non-current assets		
Petroleum and natural gas interests (note 4)	12,083,567	12,622,096
Deferred tax	242,011	-
Intangible (note 5)	250,000	250,000
Total assets	\$ 28,554,572	\$ 15,357,028
Liabilities		
Current liabilities		
Trade and other payables	\$ 382,786	\$ 124,382
Corporate taxes payable	318,357	82,308
Dividends payable (note 7d)	673,449	443,438
Total current liabilities	1,374,592	650,128
Non-current liabilities		
Deferred tax	-	145,802
Total liabilities	1,374,592	795,930
Shareholders' equity		
Share capital (note 7a)	26,300,172	13,984,321
Warrants (note 7a)	306,682	-
Contributed surplus (note 7b)	15,754,239	15,731,541
Deficit	(15,181,113)	(15,154,764)
Total shareholders' equity	27,179,980	14,561,098
Total liabilities and shareholders' equity	\$ 28,554,572	\$ 15,357,028

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

Source Rock Royalties Ltd.
Condensed Interim Statements of Income and Comprehensive Income
(Expressed in Canadian dollars)
(unaudited)

	Three months ended March 31,	
	2022	2021
Royalty revenues (note 8)	\$ 1,527,386	\$ 807,071
Expenses		
Administrative expenses	125,383	79,390
Share-based compensation (note 6 and 7c)	22,698	40,677
Depletion (note 4)	538,529	549,033
Impairment (note 4)	-	1,381,558
Total expenses	686,610	2,050,658
Income (loss) for the period	840,776	(1,243,587)
Other income		
Interest	6,477	675
Income (loss) before taxes	847,253	(1,242,912)
Provision for income taxes		
Current tax expense	236,049	-
Deferred tax recovery	(35,896)	(569,133)
Income tax expense (recovery)	200,153	(569,133)
Total Comprehensive income (loss)	\$ 647,100	\$ (673,779)
Income (loss) per share, basic	\$ 0.019	\$ (0.023)
Income (loss) per share, diluted	\$ 0.018	\$ (0.023)
Weighted average number of shares:		
Basic	34,547,946	28,927,271
Diluted	36,874,803	30,810,591

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

Source Rock Royalties Ltd.
Condensed Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital	Warrants	Contributed surplus	Deficit	Total shareholders' equity
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 4)	85,500	-	-	-	85,500
Return of capital	(443,438)	-	-	-	(443,438)
Reduction of stated capital	(14,556,562)	-	14,556,562	-	-
Shares issued for compensation (note 6 and 7c)	186,000	-	127,704	-	155,469
Shares issued on exercise of stock options (note 7c)	33,996	-	(33,996)	-	-
Dividends (note 7a)	-	-	-	(1,322,778)	(1,322,778)
Total comprehensive loss for the period	-	-	-	176,541	176,541
As at December 31, 2021	\$ 13,984,321	\$ -	\$ 15,731,541	\$ (15,154,764)	\$ 14,561,098
Shares issued for cash (note 7a)	13,494,008	-	-	-	13,494,008
Warrants (note 7a)	-	306,682	-	-	306,682
Share issuance costs, net of deferred tax benefit of \$351,917	(1,178,157)	-	-	-	(1,178,157)
Share-based compensation (note 7c)	-	-	22,698	-	22,698
Dividends (note 7d)	-	-	-	(673,449)	(673,449)
Total comprehensive income for the period	-	-	-	647,100	647,100
As at March 31, 2022	\$ 26,300,172	\$ 306,682	\$ 15,754,239	\$ (15,181,113)	\$ 27,179,980

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

Source Rock Royalties Ltd.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian dollars)
(unaudited)

	Three months ended March 31,	
	2022	2021
Operating activities		
Net comprehensive income (loss) for the period	\$ 647,100	\$ (673,779)
Adjustments for:		
Share-based compensation (note 6)	22,698	40,677
Depletion (note 4)	538,529	549,033
Impairment (note 4)	-	1,381,559
Deferred income taxes recovery	(35,896)	(569,133)
Change in non-cash working capital balances		
Trade and other receivables	(327,772)	(81,406)
Prepaid expenses	(53,547)	1,879
Trade and other payables	258,404	25,760
Corporate taxes payable	236,049	-
Cash flows from operating activities	1,285,565	674,590
Financing activities		
Dividends paid to shareholders' (note 7a)	-	(146,236)
Return of capital (note 7a)	(443,438)	-
Proceeds from shares issued (note 7a)	13,494,008	-
Proceeds from warrants issued (note 7a)	306,682	-
Share issuance costs	(1,365,794)	-
Cash flows used in financing activities	11,991,458	(146,236)
Investing activities		
Purchase of petroleum and natural gas interests (note 4)	-	(15,189)
Cash flows used in investing activities	-	(15,189)
Increase (decrease) in cash and cash equivalents	13,277,023	513,165
Cash and cash equivalents, beginning of period	1,492,322	913,560
Cash and cash equivalents, end of period	\$ 14,769,345	\$ 1,426,725

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

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

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, with 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, and nor does it have any exposure to abandonment or reclamation obligations associated with its royalty lands.

These unaudited interim condensed interim financial statements were authorized for issuance by the Company's Board of Directors on May 30, 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

These condensed interim financial statements have been prepared by management, in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements. The significant accounting policies and methods of computations followed in these condensed interim financial statements are the same as those applied in the Company's audited annual financial statements for the year ended December 31, 2021. Certain information and disclosures normally included in the audited annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted.

These financial statements have been prepared on a historical cost basis, except for share-based payment transactions. The financial statements have been prepared on a going concern basis and amounts are in millions of Canadian dollars unless otherwise stated.

These condensed interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2021.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

2. BASIS OF PREPARATION (continued)

b) Estimates

The timely preparation of the unaudited interim condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

In preparing these unaudited interim condensed interim financial statements, the judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended December 31, 2021.

3. TRADE AND OTHER RECEIVABLES

Accounts Receivable and Accrued Royalty Revenues	As at March 31, 2022	As at December 31, 2021
Trade receivable and accrued royalty revenue	\$ 1,148,759	\$ 854,228
Expected credit loss	(41,335)	(41,335)
Accrued Interest receivable	5,927	-
GST receivable	36,974	9,660
	\$ 1,150,325	\$ 822,553

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

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

	Total	Neither past due nor Impaired	Past due but not impaired	
			4-6 Months	7- 12 Months
As at March 31, 2022	\$ 1,107,424	\$ 1,107,424	\$ -	\$ -
As at December 31, 2021	\$ 812,893	\$ 804,665	\$ 8,228	\$ -

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 10).

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

4. PETROLEUM AND NATURAL GAS INTERESTS

Cost	Total
Balance December 31, 2020	\$ 22,619,176
Additions	1,333,555
Impairment	(1,381,559)
Balance December 31, 2021	\$ 22,571,172
Additions	-
Balance March 31, 2022	\$ 22,571,172
Accumulated depletion	
Balance December 31, 2020	\$ 7,713,543
Depletion	2,235,533
Balance December 31, 2021	\$ 9,949,076
Depletion	538,529
Balance March 31, 2022	\$ 10,487,605
Carrying Amounts	
At December 31, 2021	\$ 12,622,096
At March 32, 2022	\$ 12,083,567

2021:

- On August 6, 2021, Source Rock acquired a 2% gross overriding royalty ("GORR") in land located in S.E. Saskatchewan for proceeds of \$71,110.
- On July 9, 2021, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$32,256.
- On April 26, 2021, Source rock acquired various GORR's in S.E. Saskatchewan for proceeds of \$1,215,000, comprised of \$1,130,000 in cash and \$85,000 common shares at a price of \$1.00 per share.
- On March 18, 2021, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$15,189.

Impairment

As March 31, 2022, there were no indicators of impairment on Source Rock Royalties' Cash Generating Units ("CGU"). As a result, no impairment testing was conducted. As previously reported, there was an impairment charged against selected CGUs as at March 31, 2021 of \$1,381,559 as its carrying value exceeded its estimated value in use.

5. 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.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

6. 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 three months ended March 31, 2022, the Company had the following transactions with key personnel.

	Three months ended March 31,	
	2022	2021
Consulting fees	\$ 19,500	\$ 62,250
Share-based compensation	22,698	40,677
Total	\$ 42,198	\$ 102,927

Share-based compensation includes share-based consulting fees and a charge for stock options. During the three-month period ended March 31, 2022, nil (2021 - 21,562) common shares were issued as compensation to management and the Directors in lieu of cash compensation and was recorded as share-based compensation in the amount of \$nil (2021 - \$17,250). The remaining balance of the share-based compensation charge was recorded for the vesting of issued stock options in the amount of \$22,698 (2021 - \$23,427) (see note 7c).

In addition, during the three-month period ended March 31, 2022, \$258,372 (2021 - \$4,888), was incurred to a law firm at which the Corporate Secretary of the Company is a Partner. These fees primarily related to work associated with Source Rock's initial public offering ("IPO") and general corporate matters.

All transactions were in the normal course of operations and were measured at the amount of consideration agreed to by both parties. As at March 31, 2022, there was \$266,231 (December 31, 2021 - \$98,873) in trade payables and accrued liabilities relating to these transactions.

7. SHARE CAPITAL

a) Common shares

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

	March 31, 2022		December 31, 2021	
	# of common shares	Amount	# of common shares	Amount
Balance, beginning of period	29,562,559	\$ 13,984,321	29,247,247	\$ 28,679,325
Shares issued for cash (i)	15,334,100	13,494,008	-	-
Share issuance costs, net of deferred tax benefit of \$351,917	-	(1,178,157)	-	-
Fractional shares canceled	(14)	-	-	-
Shares issued on acquisition of royalty interest (ii)	-	-	85,000	85,000

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

7. SHARE CAPITAL (continued)

Shares issued for exercised stock options (note 7c)	-	-	40,000	33,996
Shares issued for compensation (note 6)	-	-	190,321	186,000
Return of capital	-	-	-	(443,438)
Reduction in stated capital	-	-	-	(14,556,562)
Balance, end of period	44,896,645	\$ 26,300,172	29,562,559	\$ 13,984,321

(i) 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 (with an ascribed value of \$0.88) and one half of one warrant (with an ascribed value of \$0.02) to purchase an additional Common Share at \$1.25 for a period of two years (the "Warrants"). On March 16, 2022, Source Rock closed the over-allotment portion of the IPO by issuing of an additional 1,667,000 Units, for gross proceeds of \$1,500,300. As a result of the IPO and closing the over-allotment, there are 7,667,050 Warrants issued and outstanding.

(ii) In Q2, 2021, the Company issued 85,000 common shares at \$1.00 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 aggregate of \$15,000,000, which included the reduction associated with a return of capital of \$443,438.

b) Contributed surplus

Balance, December 31, 2020	\$ 1,081,271
Share-based compensation (note 7c)	127,704
Exercised stock options (note 7c)	(33,996)
Reduction in stated capital (note 7a)	14,556,562
Balance, December 31, 2021	\$ 15,731,541
Share-based compensation (note 7c)	22,698
Balance, March 31, 2022	\$ 15,754,239

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

7. SHARE CAPITAL (continued)

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 March 31, 2022 and the changes for the current year, is as follows:

	Outstanding	Weighted Average Remaining Contractual Life (in years)		Weighted Average Exercise Price
Balance, December 31, 2020	2,490,000	3.5	\$	0.72
Granted	40,000	4.0		0.40
Exercised	(40,000)	-	\$	1.00
Balance, December 31, 2021	2,490,000	2.5	\$	0.72
Balance, March 31, 2022	2,490,000	2.2	\$	0.72

For the three-months ended March 31, 2022, the Company has recorded \$22,698 (2021 - \$23,427) in share-based compensation expense for the vesting of issued stock options with a corresponding amount credited to contributed surplus. As of March 31, 2022, the Company has 2,175,000 (December 31, 2021 - 2,175,000) exercisable stock options.

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

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

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 closed. Upon closing of the IPO these financing costs were capitalized against the proceeds as share issuance costs.

e) Dividends

During Q1 2022, the Company declared dividends of \$673,449 (2021 - \$439,032). The total dividends paid during the Q1 2022 was \$nil (2021 - \$146,236), however the Company made a \$443,438 cumulative payment to shareholders in the form of a "return of capital".

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

8. REVENUES

The Company's 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.

		Three months ended March 31,	
Revenue and other revenue by product		2022	2021
Oil	\$	1,467,841	\$ 792,270
Natural Gas		35,830	9,489
NGL		23,705	5,312
Total royalty revenue	\$	1,527,386	\$ 807,071

9. TAXES

The Company is presently classified as a public company pursuant to the Income Tax Act (Canada), as a result, the Company's taxable income will be taxed at the statutory tax rate of approximately 23%. Prior to 2022, the Company was classified as a "specified investment business", which was taxed at the highest effective tax rate of 47.7%.

10. 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. 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.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2022
(unaudited)

10. 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. The company does not hedge its commodity price risk.

11. 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

12. SUBSEQUENT EVENTS

On April 14, 2022, a dividend of \$673,449 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.