

Source Rock Royalties Ltd.
Condensed Interim Financial Statements
As at and for the three and nine months ended September 30, 2022
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the company discloses that its external auditors have not reviewed the unaudited condensed interim financial statements for the three and nine months ended September 30, 2022.

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

	September 30, 2022 (unaudited)	December 31, 2021 (audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 16,283,684	\$ 1,492,322
Trade and other receivables (note 3)	742,163	822,553
Deferred financing cost (note 7e)	-	164,280
Prepaid expense	51,245	5,777
Total current assets	17,077,092	2,484,932
Non-current assets		
Petroleum and natural gas interests (note 4)	11,078,837	12,622,096
Deferred tax	310,435	-
Intangible (note 5)	250,000	250,000
Total assets	\$ 28,716,364	\$ 15,357,028
Liabilities		
Current liabilities		
Trade and other payables	\$ 44,108	\$ 124,382
Corporate taxes payable	622,622	82,308
Dividends payable (note 7f)	673,450	443,438
Total current liabilities	1,340,180	650,128
Non-current liabilities		
Deferred tax	-	145,802
Total liabilities	1,340,180	795,930
Shareholders' equity		
Share capital (note 7a)	26,292,227	13,984,321
Warrants	306,682	-
Contributed surplus (note 7b)	15,953,780	15,731,541
Deficit	(15,176,505)	(15,154,764)
Total shareholders' equity	27,376,184	14,561,098
Total liabilities and shareholders' equity	\$ 28,716,364	\$ 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		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Royalty revenues (note 8)	\$ 1,554,910	\$ 1,161,759	\$ 4,986,098	\$ 3,014,804
Expenses				
Administrative expenses	335,564	153,895	649,097	332,221
Bad Debt Recovery	-	-	-	(9,908)
Share-based compensation (note 6, 7c and 7d)	176,843	226,173	222,239	290,277
Depletion (note 4)	518,971	574,913	1,598,367	1,670,103
Impairment (note 4)	-	-	-	1,381,559
Total expenses	1,031,378	954,981	2,469,703	3,664,252
Income (loss) for the period	523,532	206,778	2,516,395	(649,448)
Other income				
Interest	113,703	-	146,882	955
Income (loss) before taxes	637,235	206,778	2,663,277	(648,493)
Provision for income taxes				
Current tax expense	217,824	-	766,617	-
Deferred tax expense (recovery)	(27,479)	123,298	(101,947)	(253,920)
Income tax expense (recovery)	190,345	123,298	664,670	(253,920)
Total Comprehensive income (loss)	\$ 446,890	\$ 83,480	\$ 1,998,607	\$ (394,573)
Income (loss) per share, basic	\$ 0.010	\$ 0.003	\$ 0.048	\$ (0.013)
Income (loss) per share, diluted	\$ 0.010	\$ 0.003	\$ 0.047	\$ (0.013)
Weighted average number of shares:				
Basic	44,896,645	29,548,945	41,484,986	29,374,638
Diluted	46,071,388	31,402,460	42,222,843	31,034,657

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)	85,000	-	-	-	85,000
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	-	313,704
Shares issued on exercise of stock options (note 7c)	33,996	-	(33,996)	-	-
Dividends (note 7f)	-	-	-	(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 \$354,290	(1,186,102)	-	-	-	(1,186,102)
Share-based compensation (note 7c and 7d)	-	-	222,239	-	222,239
Dividends (note 7f)	-	-	-	(2,020,348)	(2,020,348)
Total comprehensive income for the period	-	-	-	1,998,607	1,998,607
As at September 30, 2022	\$ 26,292,227	\$ 306,682	\$ 15,953,780	\$ (15,176,505)	\$ 27,376,184

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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Operating activities				
Net comprehensive income (loss) for the period	\$ 446,890	\$ 83,480	\$ 1,998,607	\$ (394,573)
Adjustments for:				
Share-based compensation (note 6)	176,843	226,173	222,239	290,277
Bad debt (recovery) expense	-	-	-	(9,908)
Depletion (note 4)	518,971	574,913	1,598,367	1,670,103
Impairment (note 4)	-	-	-	1,381,559
Deferred income taxes recovery	(27,479)	123,298	(101,947)	(253,920)
Change in non-cash working capital balances				
Trade and other receivables	232,213	(286,296)	80,390	(426,857)
Prepaid expenses	19,360	2,425	(45,468)	19,474
Trade and other payables	8,782	(17,835)	(80,274)	(9,366)
Corporate taxes payable	169,820	-	540,314	-
Cash flows from operating activities	1,545,400	706,158	4,212,228	2,266,789
Financing activities				
Dividends paid to shareholders' (note 7f)	(673,449)	(440,307)	(1,346,898)	(1,025,576)
Return of capital (note 7f)	-	-	(443,438)	-
Proceeds from shares issued (note 7a)	-	-	13,494,008	-
Proceeds from warrants issued (note 7a)	-	-	306,682	-
Share issuance costs	-	-	(1,376,112)	-
Cash flows used in financing activities	(673,449)	(440,307)	10,634,242	(1,025,576)
Investing activities				
Purchase of petroleum and natural gas interests (note 4)	(55,108)	(268,366)	(55,108)	(1,193,555)
Cash flows used in investing activities	(55,108)	(268,366)	(55,108)	(1,193,555)
Increase (decrease) in cash and cash equivalents	816,843	(2,515)	14,791,362	47,658
Cash and cash equivalents, beginning of period	15,466,841	963,733	1,492,322	913,560
Cash and cash equivalents, end of period	\$ 16,283,684	\$ 961,218	\$ 16,283,684	\$ 961,218

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 and nine months ended September 30, 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, 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 November 28, 2022.

COVID

During the first quarter of 2020, there was a global outbreak of COVID-19 (coronavirus), which 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.

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 and nine months ended September 30, 2022
(unaudited)

2. BASIS OF PREPARATION (continued)

b) Estimates

The timely preparation of the unaudited 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 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 September 30, 2022	As at December 31, 2021
Trade receivable and accrued royalty revenue	\$ 767,529	\$ 854,228
Expected credit loss	(41,335)	(41,335)
GST receivable	15,969	9,660
	\$ 742,163	\$ 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:

				Past due but not impaired	
	Total	Neither past due nor Impaired		4-6 Months	7- 12 Months
As at September 30, 2022	\$ 726,194	\$ 742,163	\$ -	\$ -	-
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 and nine months ended September 30, 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		55,108
Balance September 30, 2022	\$	22,626,280
Accumulated depletion		
Balance December 31, 2020	\$	7,713,543
Depletion		2,235,533
Balance December 31, 2021	\$	9,949,076
Depletion		1,598,367
Balance September 30, 2022	\$	11,547,443
Carrying Amounts		
At December 31, 2021		12,622,096
At September 30, 2022	\$	11,078,837

2022:

On July 27, 2022, Source Rock acquired a 2% gross overriding royalty ("GORR") in land located in S.E. Saskatchewan for proceeds of \$55,108.

2021:

On August 6, 2021, Source Rock acquired a 2% 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 (\$330,000 of which was subject to deferred payment terms over a six-month period) 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 September 30, 2022, there were no indicators of impairment on Source Rock's Cash Generating Units ("CGU"). As a result, no impairment testing was conducted. As previously reported, there was an impairment charged against certain CGUs as at March 31, 2021 in the amount of \$1,381,559 as its carrying value exceeded its estimated value in use.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

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.

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 and nine months ended September 30, 2022, the Company had the following transactions with key personnel.

		Three months ended September 30,			Nine months ended September 30,	
		2022	2021		2022	2021
Wages & consulting fees	\$	170,566	\$ 135,750	\$	334,333	\$ 277,500
Share-based compensation		159,353	226,173		205,049	290,277
Total	\$	329,919	\$ 361,923	\$	539,382	\$ 567,777

Share-based compensation includes share-based consulting fees and a charge for stock options, RSU and DSUs, as defined herein. During the three and nine month periods ended September 30, 2022, nil (2021 - 168,750) and nil (2021 - 190,312) 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 - \$168,750) and \$nil (2021 - \$186,000). A share-based compensation expense was recorded for the vesting of issued stock options during the three and nine month periods ended September 30, 2022 in the amount of \$34,158 (2021 - \$57,423) and \$79,554 (2021 - \$104,277) (see note 7c). A share-based compensation expense was recorded relating to RSUs and DSUs granted during the three and nine month periods ended September 30, 2022 in the amount of \$35,623 (2021 - \$nil) and \$89,872 (2021 - \$nil).

In addition, during the three and nine month periods ended September 30, 2022, \$39,405 (2021 - \$2,860) and \$404,430 (2021 - \$8,359), of costs were incurred to a law firm at which the Corporate Secretary of the Company is a Partner. These fees primarily related to work associated with the Company'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 September 30, 2022, there was \$1,891 (December 31, 2021 - \$98,873) in trade payables and accrued liabilities relating to these transactions.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

7. SHARE CAPITAL

a) Common shares

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

	September 30, 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 \$354,290	-	(1,186,102)	-	-
Fractional shares canceled	(14)	-	-	-
Shares issued on acquisition of royalty interest (ii)	-	-	85,000	85,000
Shares issued for exercised stock options (note 7c)	-	-	40,000	33,996
Shares issued for compensation (note 6)	-	-	190,312	186,000
Return of capital	-	-	-	(443,438)
Reduction in stated capital	-	-	-	(14,556,562)
Balance, end of period	44,896,645	\$ 26,292,227	29,562,559	\$ 13,984,321

(i) On March 1, 2022, Source Rock closed an initial public offering (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"). 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 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.

(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 an aggregate of \$15,000,000, which included the reduction associated with a return of capital of \$443,438.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

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)	222,239
Balance, September 30, 2022	\$ 15,953,780

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 September 30, 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
Granted	400,000	4.9	\$	0.90
Expired	(650,000)	-		0.90
Balance, September 30, 2022	2,240,000	2.8	\$	0.67

For the three and nine months ended September 30, 2022, the Company has recorded \$51,648 (2021 - \$57,423) and \$97,064 (2021 - \$71,498) in share-based compensation expense for the vesting of issued stock options with a corresponding amount credited to contributed surplus. As of September 30, 2022, the Company has 1,568,333 (December 31, 2021 - 2,175,000) exercisable stock options outstanding.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

c) Stock options (continued)

The fair value of stock options granted in 2022 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2021
Exercise price	\$0.90
Dividend yield	Nil
Expected volatility	35-45%
Risk-free interest rate	2.5%
Expected life	5 Year
Forfeiture Rate	0.0%

d) Restricted Share Units ("RSU") and Deferred Share Units ("DSU")

On June 22, 2022, the Company's shareholders approved a fixed 10% RSU/DSU compensation plan (the "RSU/DSU Plan"). The RSU/DSU Plan provides RSU's and DSU's for directors, key management personnel and consultants.

Each RSU/DSU entitles the holder to acquire one common share of Source Rock, or a cash payment equal to the equivalent value of one common share of Source Rock at the time of vesting, or a combination of both (in the sole discretion of the Company's Board of Directors). RSU's will be settled within 30 days of vesting. DSU's will be settled within 30 days of the holder no longer being an officer, director, employee or consultant of the Company. Because the Company's Board of Directors has the ability to settle the RSU's/DSU's through equity and have not stated nor have any history of settling the RSU's/DSU's in cash, the RSU/DSU Plan will be classified as equity settled. Compensation expense is recognized at the market value of the Company's common shares at the time of grant and recognized over the vesting period with a corresponding increase to contributed surplus. Upon vesting of the RSU/DSU, the amount previously recognized in contributed surplus is recorded as an increase to shareholders' capital. The RSU's granted shall vest evenly over three years on the anniversary date of the grant and the DSU's granted shall vest after one year following the grant date.

RSU's and DSU's will be credited with dividend equivalents in the form of additional RSU's and DSU's, respectively, as of each dividend payment date in respect of which normal cash dividends are paid on common shares. Dividends are recognized as compensation expense at the market value on the record date at the time the dividend is paid. Dividend equivalents credited to a RSU/DSU holder's account shall vest in proportion to the RSU's and DSU's to which they relate.

A summary of the Company's outstanding RSU's as at September 30, 2022, and the changes for the current year, is as follows:

	Outstanding	Weighted Average Grant Price
Balance, December 31, 2021	-	\$ -
Granted	307,500	0.85
Balance, September 30, 2022	307,500	\$ 0.85

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

d) Restricted Share Units ("RSU") and Deferred Share Units ("DSU") (continued)

For the three and nine months ended September 30, 2022, the Company has recorded \$35,623 (2021 - nil) in share-based compensation expense with respect to RSU's issued during the period, with a corresponding amount credited to contributed surplus.

A summary of the Company's outstanding DSU's as at September 30, 2022, and the changes for the current year, is as follows:

	Outstanding	Weighted Average Grant Price
Balance, December 31, 2021	-	\$ -
Granted	472,500	0.85
Balance, September 30, 2022	472,500	\$ 0.85

For the three and nine months ended September 30, 2022, the Company has recorded \$89,572 (2021 - nil) in share-based compensation expense with respect to DSU's issued during the period, with a corresponding amount credited to contributed surplus.

e) Deferred financing costs

During the fourth quarter of 2021, Source Rock initiated the IPO process and incurred legal costs of \$164,280, which were deferred until the IPO closed. Upon closing of the IPO these financing costs were capitalized against the proceeds as share issuance costs.

f) Dividends

During the three and nine months ended September 30, 2022, the Company declared dividends of \$673,450 (2021 - \$440,307) and \$2,020,347 (2021 - \$879,340). The total dividends paid during the three and nine months ended September 30, 2022 was \$673,449 (2021 - \$443,438) and \$1,346,898 (2021 - \$1,322,778). In addition, during the nine months ended September 30, 2022, the Company paid \$443,438 to shareholders in the form of a "return of capital".

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.

Revenue and other revenue by product	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Oil	\$ 1,499,155	\$ 1,132,050	\$ 4,777,603	\$ 2,950,895
Natural Gas	34,643	17,134	126,706	38,673
NGL	21,112	12,575	81,789	25,236
Total royalty revenue	\$ 1,554,910	\$ 1,161,759	\$ 4,986,098	\$ 3,014,804

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

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 effective tax rate of 23.0%. 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.

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.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2022
(unaudited)

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 September 30, 2022.

12. SUBSEQUENT EVENTS

On October 14, 2022, Source Rock paid a \$0.015 per share dividend to shareholders of record on September 30, 2022, which was approved by Source Rock's Board of Directors on September 15, 2022. This dividend was designated as an "eligible dividend" for Canadian income tax purposes.

On October 31, 2022, Source Rock granted 80,000 DSU's to its President & CEO in lieu of his cash salary for the fourth quarter of 2022. The DSU's granted shall vest of October 31, 2023.

On November 25, 2022, the Source Rock closed the acquisition of a 2% GORR in approximately 6,400 net acres (10 sections) of land in S.E. Saskatchewan (the "GORR Lands"). The purchase price was \$3.5 million and the transaction has an effective date of October 1, 2022. The GORR Lands are operated by Anova Resources Inc. ("Anova"), and Elevation Oil & Gas Limited ("Elevation") is partnered with Anova on the GORR Lands. Gross production from the GORR Lands averaged approximately 500 bbl/d of Frobisher light oil in October 2022. In addition, 8 horizontal wells were recently drilled on the GORR Lands, and 4 of these wells began producing over the last two weeks. It is anticipated that the remaining recently drilled horizontal wells will begin producing prior to year-end. As part of the purchase of the GORR, Source Rock has received a drill commitment for 15 additional net horizontal wells (each a "Drill Commitment Well") to be drilled on Source Rock's royalty lands prior to December 31, 2024 (the "Drill Commitment Deadline"). Source Rock is entitled to \$125,000 in damages for each Drill Commitment Well not drilled before the Drill Commitment Deadline. The Drill Commitment Deadline may be automatically extended as follows: (i) upon the first time that the price of the NYMEX West Texas Intermediate ("WTI") Light Sweet Crude Oil Futures Contract (in U.S. Dollars) settles below \$70.00 for 30 consecutive days, it shall be extended by 90 days; and (ii) every time thereafter that the price of WTI settles below \$70.00 for 30 consecutive days, it shall be extended by an additional 30 days. Following completion of this acquisition, Source Rock has approximately \$13 million of working capital (\$0.29 per share).