Management's Discussion and Analysis
Three and Six Months Ended June 30, 2023

This Management's Discussion and Analysis ("MD&A") is management's opinion about the operating and financial results of Source Rock Royalties Ltd. ("Source Rock" or the "Corporation") for the three and six months ended June 30, 2023 ("Q2 2023"), and previous periods, and the outlook for Source Rock based on information available as of August 29, 2023.

The financial information contained herein is based on information in the unaudited condensed interim financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts contained herein are expressed in Canadian currency, unless otherwise noted. This MD&A should be read in conjunction with Source Rock's audited financial statements for the year ended December 31, 2022, together with the accompanying notes. Information contained in the 2022 annual MD&A that is not discussed in this document remains materially unchanged.

This MD&A contains additional GAAP measures, non-GAAP measures, and forward-looking statements that are intended to help readers better understand Source Rock's business and prospects. References are made to "Adjusted EBITDA" and "funds from operations" which are non-GAAP financial measures and the terms "payout ratio", "operating netback" and "corporate netback" which are non-GAAP ratios. These financial measures and ratios do not have a standardized prescribed meaning under Canadian GAAP and therefore are referred to as non-GAAP financial measures and ratios. The non-GAAP financial measures and ratios used by Source Rock may not be comparable to similar measures used by other companies. Please refer to the disclosure under the "Non-GAAP Financial Measures & Ratios" and the "Forward-Looking Statements" sections of this MD&A.

SUMMARY OF RESULTS

	Three months ended June 30,			Six months ended June 30,		
FINANCIAL ($)	2023	2022	Change	2023	2022	Change
Royalty revenue	1,526,946[1]	1,903,802	-20%	2,907,197[1]	3,431,188	-15%
Adjusted EBITDA[2]	1,363,910	1,715,652	-21%	2,521,430	3,117,655	-19%
Per share (basic)	0.030	0.038	-21%	0.060	0.078	-23%
Funds from operations[2]	1,316,628	1,429,610	-8%	2,428,099	2,602,041	-7%
Per share (basic)	0.029	0.032	-9%	0.054	0.065	-17%
Total comprehensive income (loss)	431,863	904,617	-52%	654,098	1,551,717	-58%
Per share (basic)	0.010	0.020	-50%	0.015	0.039	-62%
Per share (diluted)	0.009	0.020	-55%	0.014	0.039	-64%
Dividends Declared	740,795	673,449	10%	1,414,245	1,116,887[2]	27%
Per share (basic)	0.017	0.015	13%	0.032	0.030	7%
Payout ratio[2] (%)	56%	47%	19%	58%	43%	35%
Cash and cash equivalents	7,716,650	15,466,841	-50%	7,716,650	15,466,841	-50%
Per share (basic)	0.172	0.344	-50%	0.172	0.344	-50%
Average shares outstanding (basic)	44,896,645	44,896,645	-	44,896,645	39,750,883	13%
Shares outstanding (end of period)	44,896,645	44,896,645	-	44,896,645	44,896,645	-
OPERATING						
Average daily production (boe/d)	206[3]	168	23%	193[3]	167	16%
Percentage oil & NGLs	92%	92%	-	92%	92%	-
Average price realizations ($/boe)	81.57	124.40	-34%	83.24	113.58	-27%
Operating netback ($/boe)[2]	72.86	112.22	-35%	72.19	103.14	-30%
Corporate netback ($/boe)[2]	70.33	93.51	-25%	69.52	86.08	-19%

(1) Source Rock also benefited from $23,594 for Q2 2023 and $171,875 for the six-month period ended June 30, 2023, of sales proceeds from royalty production that occurred after the effective date but prior to the closing dates of acquisitions. These sales proceeds were accounted for as a reduction to the purchase price of the acquisitions.
(2) This is a non-GAAP financial measure or non-GAAP ratio. Refer to the disclosure under the heading "Non-GAAP Financial Measures & Ratios" for more information on each non-GAAP financial measure or ratio.
(3) Source Rock also benefited from 3 boe/d (100% oil & NGLs) for Q2 2023 and 9 boe/d (100% oil & NGLs) for the six-month period ended June 30, 2023, of royalty production that occurred after the effective date but prior to the closing dates of acquisitions.

BUSINESS OVERVIEW

Source Rock is a dividend-paying corporation incorporated under the laws of the Province of Alberta. Source Rock is indirectly involved in the development and production of oil, natural gas liquids ("NGLs") and natural gas, exclusively in western Canada. Source Rock receives revenue from its royalty interests as reserves are produced by the operators over the economic life of the lands. Source Rock is exclusively focused on acquiring and managing oil and gas royalties and mineral interests.

Source Rock has a light oil focused portfolio of royalty interests concentrated in S.E. Saskatchewan, central Alberta and west-central Saskatchewan. Source Rock is focused on acquiring royalties in lands that have foreseeable future drilling potential and which are operated by fiscally and operationally prudent third parties. Source Rock is further focused on establishing working relationships 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. Source Rock does not incur any ongoing costs to develop, operate, enhance or optimize the lands in which it has royalties, nor does it have any exposure to abandonment or reclamation obligations associated with its royalty lands.

The Advantages of Royalties

Source Rock benefits from the drilling activity, optimization efforts and enhanced recovery activity, if any, of the operators of its royalty lands. Royalties offer the benefit of sharing in production revenue without exposure to the capital costs to drill and equip wells for production, operating costs associated with bringing production online and maintaining production and environmental costs associated with abandoning wells and ultimately restoring the land on which wells were drilled to its original state.

Source Rock owns the following royalty interests:

- Various gross overriding royalty ("GORR") interests in S.E. Saskatchewan.
- A production volume royalty in Viking mineral rights in east-central Alberta.
- Various GORRs in central Alberta.
- Various GORRs in the west-central Saskatchewan Viking light oil play.

Source Rock is actively pursuing the acquisition of additional GORRs, lessor royalties and mineral interests in the Western Canadian Sedimentary Basin ("WCSB").

Source Rock's Strategy

Our operational goal is to provide shareholders with low risk and low capital cost exposure to oil, NGLs and natural gas production in the WCSB. Executing on this strategy will occur through the acquisition of low-decline and long-life, high netback producing royalties with identifiable upside drilling potential and drill-ready mineral title interests. Although we may participate in bidding on royalties that are marketed for sale, it is our intention to leverage our industry relationships to access opportunities to purchase royalties and/or to create royalties in lands that are not auctioned through a competitive bidding process. We will mitigate the risk associated with not operating the lands from which we derive royalty production by targeting royalty interests in lands operated by successful and well-funded companies that are operationally focused in the areas where our royalty lands are located. In addition, our focus will be on royalties in areas that are providing strong rates of return for the operators.

We intend to maintain a prudent, repeatable, scalable and sustainable corporate platform that minimizes administrative costs, maximizes per share growth and that permits payment of a sustainable yield.

BUSINESS ENVIRONMENT

Commodity Prices

Crude Oil

The West Texas Intermediate ("WTI") benchmark crude oil price average decreased by 3% to $73.78 (US$) in Q2 2023 compared to the first quarter of 2023 ("Q1 2023") and was 32% lower than during the second quarter of 2022 ("Q2 2022"). Source Rock’s realized price on crude oil is primarily based on Mixed Sweet Blend ("MSW") Par at Edmonton, Alberta and Light Source Blend ("LSB") Par at Cromer, Manitoba oil prices.

	Three months ended June 30,			Six months ended June 30,		
BENCHMARK AVERAGES	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
WTI oil (US$/bbl)	73.78	108.41	-32%	74.96	101.35	-26%
Cdn$/US$ exchange rate	1.34	1.28	5%	1.35	1.27	6%
WTI oil (C$/bbl)	99.11	138.44	-28%	101.01	128.92	-22%
MSW par oil at Edmonton (C$/bbl)	95.19	137.83	-31%	97.25	126.73	-23%
LSB par oil at Cromer (C$/bbl)	96.06	138.35	-31%	96.35	127.29	-24%
AECO natural gas price (C$/mcf)	2.59	7.70	-66%	3.08	5.99	-49%

We currently receive payment for royalty production directly from the operators of our royalty lands, however we do maintain the right to take our production ‘In Kind’.

The Royalty Market

The marketplace for existing royalties is active, as both junior and mid-cap oil and gas operators seek to dispose of non-core royalty assets, reduce debt and maintain active development programs. Although cash flow has increased materially for operators, issuing a royalty interest in their existing lands or new acquisitions is still a potentially attractive source of capital for many companies. We continue to identify opportunities to work with issuers to establish relationships and create royalties in their acquisitions and/or existing production and undeveloped mineral interests to assist with funding their development plans or their desired acquisitions. Despite the availability of royalty acquisitions, the royalty market continues to be competitive for royalties in the highest quality regions of the WCSB and with the strongest counterparties.

Operational Update, Outlook & Forecasts

Initial Public Offering

On March 1, 2022, Source Rock closed its 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 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 (the "TSXV") 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.

Acquisition Activities

On June 1, 2023, Source Rock acquired fee title mineral interests in two quarter sections of land (the "Fee Title") and a 2% GORR in approximately 5,800 gross acres (9 sections) of land in S.E. Saskatchewan (the "GORR Lands") for gross proceeds of $3.3 million (the "June 2023 Acquisition"), with an effective date of May 1, 2023. The purchase of the 20% Fee Title interest included a commitment to drill two additional horizontal wells on or before October 31, 2023, however these wells were drilled in June 2023. A portion of the GORR Lands are contiguous to or directly offsetting Source Rock's existing royalty lands that are actively and successfully being developed, primarily targeting the Frobisher formation. The Frobisher is a shallow, conventional light oil play that does not require hydraulic fracturing; it is one of the most economic light oil plays in Canada. Portions of the GORR Lands are also prospective for future development of the Midale and Bakken formations. As part of the purchase of the GORR, Source Rock also received a drill commitment for 12 additional horizontal wells (each a "Drill Commitment Well") to be drilled on Source Rock's royalty lands prior to May 31, 2025 (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.

On April 18, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $155,924.

In March 2023, Source Rock acquired a 5% GORR in three light oil properties in Central Alberta (the "Alberta GORR Lands"). The purchase price was $1.6 million, and the transaction had an effective date of January 1, 2023. The Alberta GORR Lands are operated by a private Calgary-based oil and gas company (the "Royalty Partner"). The Royalty Partner's oil production from the Alberta GORR Lands was 420 bbl/d of low-decline light oil in January 2023 (21 bbl/d of light oil royalty production). Approximately 90% of the current oil production from the Alberta GORR Lands is under waterflood. As part of the purchase, Source Rock received a capital commitment for $3.2 million in operations to be completed on the Alberta GORR Lands prior to December 31, 2024 (the "Capital Commitment"). Operations associated with the Capital Commitment will be focused on optimizing and recompleting existing wellbores and additional waterflood initiatives.

In January 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $342,515.

We remain confident in our ability to secure additional royalty acquisitions on accretive metrics. We will continue to be very specific with the types of acquisitions that we pursue and will not expend shareholder capital on acquisitions purely for the sake of achieving growth.

Acquisition Marketplace Discussion

Higher commodity prices have created increased value expectations from sellers of royalty interests despite public company valuations compressing materially. This market dynamic has increased our patience with respect to completing acquisitions, however we continue to actively pursue the acquisition of new royalty interests to expand and diversify our portfolio of assets in a prudent and disciplined manner.

Despite the royalty market being competitive, Source Rock continues to identify attractive acquisition opportunities that are not being marketed for sale. Source Rock remains focused on specific regions of the WCSB and building a strong base of royalty revenue and upside drilling potential, primarily from oil production and mineral interests prospective for oil. Given the competitive landscape of the royalty market, Source Rock is keen on establishing working relationships with operators through which we can position future acquisition opportunities.

Revised Royalty Terms

Source Rock's Alberta Viking light oil royalty lands (the "Alberta Viking Lands") were shut-in from April 1, 2020 to September 15, 2020 due to the significant drop in oil prices. To facilitate having the operator of the Alberta Viking Lands resume production efficiently, Source Rock agreed to temporary revised terms relating to its royalty interest in these lands. These revised terms were set to expire on December 31, 2020. Source Rock agreed to an extension to these revised terms on the basis that the maximum barrel per day entitlement be increased.

From January 1, 2021 to December 31, 2021 (the "Additional Interim Period"), Source Rock's entitlement to royalty production from the Alberta Viking Lands was determined based on the realized sales price (C$) for oil production during each calendar month, as follows:

Monthly Average Price	Royalty Production
$50.00 or lower	50 bbl/d
$50.01 to $52.50	60 bbl/d
$52.51 to $55.00	65 bbl/d
$55.01 to $57.50	70 bbl/d
$57.51 to $60.00	75 bbl/d
$60.01 or $62.50	80 bbl/d
$62.51 to $65.00	85 bbl/d
$65.01 to $67.50	90 bbl/d
$67.51 or higher	95 bbl/d

As of December 31, 2021, Source Rock had an accrued right to 16,805 barrels of light oil production (the "Accumulated Barrels") that were not delivered pursuant to the terms of the royalty agreement that governs the Alberta Viking Lands (the "Alberta Viking Royalty Agreement").

Effective January 1, 2022, the Additional Interim Period ended and Source Rock's royalty interest in the Alberta Viking Lands reverted to the original terms of the Alberta Viking Royalty Agreement (subject to negotiated changes to allow Source Rock to receive the Accumulated Barrels on a reasonable timeline), being:

- 2022 - 95 bbl/d;
- 2023 to 2034 - 20% lower on a per day basis than the prior calendar year; and
- January 1, 2035 - conversion to a 0.50% GORR in the Hamilton Lake Unit or a $500,000 pay-out, at the discretion of the royalty payor.

Effective January 1, 2023, Source Rock agreed to receive the Accumulated Barrels on the following schedule (the "Accumulated Barrel Schedule"):

- 2023 - 9 bbl/d;
- 2024 - 14.2 bbl/d; and
- 2025 - 21.36 bbl/d.

Following incorporation of the Accumulated Barrel Schedule, effective January 1, 2023, Source Rock will receive production from the Alberta Viking Lands as follows:

- 2023 - 85 bbl/d;
- 2024 - 75 bbl/d;
- 2025 - 70 bbl/d;
- 2026 - 39 bbl/d; and
- 2027 to 2034 - 20% fewer bbl/d than the prior calendar year.

Subsequent Events

On each of July 14, 2023 and August 15, 2023, Source Rock declared a $0.0055 per share dividend to shareholders of record on July 31, 2023 and August 31, 2023, respectively. These dividends were designated as "eligible dividends" for Canadian income tax purposes.

On July 19, 2023, pursuant to its Restricted Share Unit and Deferred Share Unit Compensation Plan, Source Rock granted (i) 292,500 deferred share units (each, a "DSU"); and (ii) 665,000 restricted share units (each, a "RSU"), to officers, directors and consultants. Each DSU represents the right to receive one common share of Source Rock upon the holder of such DSU ceasing to be an officer, director or consultant of Source Rock. Each RSU 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. The RSUs granted shall vest 1/3 on July 19, 2024, 1/3 on July 19, 2025 and 1/3 on July 19, 2026.

On August 1, 2023, Source Rock re-engaged Brisco Capital Partners Corp. ("Brisco") to provide marketing and investor relations services (the "Services") to assist Source Rock with expanding investor awareness of its business and actively communicating with the investment community. In consideration for the Services, Source Rock will pay Brisco a monthly fee of $7,500 plus an additional $2,500 fee per travel marketing event arranged and attended by Brisco. Source Rock has re-engaged Brisco for a term of 12 months, however Source Rock can terminate the engagement at any time upon giving 30 days notice to Brisco. Source Rock has also granted to Brisco an additional 100,000 stock options to purchase common shares for a period of 5 years at a price of $0.90 per share.

QUARTERLY HIGHLIGHTS

Q2 2023 Highlights:

- Record quarterly royalty production was achieved averaging 206 boe/d (92% oil & NGLs), an increase of 23% as compared to Q2 2022, which averaged 168 boe/d (92% oil & NGLs). Source Rock also benefited from 3 boe/d (100% oil & NGLs) for Q2 2023, of royalty production that occurred after the effective date but prior to the closing date of an acquisition that closed June 1, 2023.
- Record monthly royalty production was achieved averaging 215 boe/d (92% oil & NGLs) in June 2023.
- Quarterly royalty revenue decreased by $376,856 (20%) to $1,526,946 as compared to Q2 2022, which totalled $1,903,802. Source Rock also benefited from $23,594 for Q2 2023, of sales proceeds from royalty production that occurred after the effective date but prior to the closing date of an acquisition that closed June 1, 2023. These sales proceeds were accounted for as a reduction to the purchase price of the acquisition.
- Quarterly Adjusted EBITDA decreased by $351,742 (21%) to $1,363,910 (89% of revenue) as compared to Q2 2022, which totalled $1,715,652 (90% of revenue). This represents a decrease of 21% on a per share basis.
- Quarterly funds from operations decreased by $112,982 (8%) to $1,316,628 (86% of revenue) as compared to Q2 2022, which totalled $1,429,610 (75% of revenue). This represents a decrease of 9% on a per share basis.
- Average realized price for royalty production was $81.57 per boe (92% oil & NGLs), a decrease of 34% as compared to $124.40 per boe (92% oil & NGLs) in Q2 2022.
- Achieved an operating netback of $72.86 per boe (Q2 2022 - $112.22) and a corporate netback of $70.33 (Q2 2022 - $93.51).
- Completed $3,471,446 worth of royalty acquisitions.
- Ended Q2 2023 with available cash and cash equivalents of $7,716,650 (Q2 2022 - $15,466,841).
- Declared three "eligible dividends" of $0.0055 per common share, for cumulative dividends of $0.0165.

Year to Date 2023 Highlights:

- Royalty revenue decreased by $523,991 (15%) to $2,907,197 as compared to the same period in 2022, which totalled $3,431,188. Source Rock also benefited from $171,875 for the six-month period ended June 30, 2023, of sales proceeds from royalty production that occurred after the effective date but prior to the closing dates of acquisitions. These sales proceeds were accounted for as a reduction to the purchase price of the acquisitions.

- Royalty production averaged 193 boe/d (92% oil & NGLs), an increase of 16% as compared to the same period in 2022, which averaged 167 boe/d (92% oil & NGLs). Source Rock also benefited from 9 boe/d (100% oil & NGLs) for the six-month period ended June 30, 2023, of royalty production that occurred after the effective date but prior to the closing dates of acquisitions.
- Adjusted EBITDA decreased by $596,235 (19%) to $2,521,430 (87% of revenue) as compared to the same period in 2022, which totalled $3,117,655 (91% of revenue). This represents a decrease of 23% on a per share basis.
- Funds from operations decreased by $173,942 (7%) to $2,428,099 (84% of revenue) as compared to the same period in 2022, which totalled $2,602,041 (76% of revenue). This represents a decrease of 17% on a per share basis.
- Average realized price for royalty production was $83.24 per boe (92% oil & NGLs), a decrease of 27% as compared to $113.58 per boe (92% oil & NGLs) for the same period in 2022.
- Achieved an operating netback of $72.19 per boe (Q2 2022 - $103.14) and a corporate netback of $69.52 (Q2 2022 - $86.08).
- Completed $5,275,057 worth of royalty acquisitions.
- Declared one quarterly "eligible dividend" of $0.015 per common share and three monthly "eligible dividends" of $0.0055 per common share, for cumulative dividends of $0.0315.

ROYALTY PRODUCTION & REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Average daily production (boe/d)	206	168	193	167
Percentage oil & NGLs (%)	92%	92%	92%	92%
Average realized price ($/boe)	$ 81.57	$ 124.40	$ 83.24	$ 113.58
Royalty revenue	$ 1,526,946	$ 1,903,802	$ 2,907,197	$ 3,431,188

For Q2 2023, royalty revenue decreased by $376,856 (20%) to $1,526,946 as compared to Q2 2022, which totalled $1,903,802. The decrease in revenue resulted from lower realized pricing and was offset by an increase in royalty production volumes. For Q2 2023, royalty production averaged 206 boe/d (92% oil & NGLs), an increase of 23% as compared to Q2 2022, which averaged 168 boe/d (92% oil & NGLs). For Q2 2023, the average realized price for royalty production was $81.57 per boe (92% oil & NGLs), a decrease of 34% as compared to $124.40 per boe (92% oil & NGLs) in Q2 2022.

For the six months ended June 30, 2023, royalty revenue decreased by $523,991 (15%) to $2,907,197 as compared to the same period in 2022, which totalled $3,431,188. The decrease in revenue resulted from lower realized pricing and was offset by an increase in royalty production volumes. For the six months ended June 30, 2023, royalty production averaged 193 boe/d (92% oil & NGLs), an increase of 16% as compared to the same period in 2022, which averaged 167 boe/d (92% oil & NGLs). For the six months ended June 30, 2023, the average realized price for royalty production was $83.24 per boe (92% oil & NGLs), a decrease of 27% as compared to $113.58 per boe (92% oil & NGLs) for the same period in 2022.

Given the size and industry experience of most of the operators of our producing royalty lands, we do not feel as though taking royalty production ‘In Kind’ and marketing the production for sale ourselves is necessary, nor would it provide any direct benefit. We maintain the option in the future to take our royalty production ‘In Kind’.

EXPENSES

OPERATING EXPENSES

As a royalty owner, we share in production revenue without incurring the operational costs, risks, and responsibilities typically associated with oil, NGLs and natural gas production and operations. As a result, Source Rock does not incur any operating costs.

ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Administrative expenses	$ 163,036	$ 188,150	$ 385,767	$ 313,533

Administrative expenses primarily consisted of wages, consulting fees, professional fees, corporate service fees, insurance costs, listing fees and marketing expenses. For Q2 2023, administrative expenses decreased by $25,114 (13%) to $163,036 as compared to $188,150 in Q2 2022 as a result of costs incurred relating to the IPO in the prior year. For the six months ended Q2 2023, administrative expenses increased by $72,234 (23%) to $385,767 as compared to $313,533 for the same period in 2022. The increase in administrative expenses for the six months ended was the result of the TSXV listing fee, and higher fees associated with reserves evaluation and investor relations. A material portion of such fees are only incurred one-time per year so are not recurring in the second half of 2023.

RELATED PARTY TRANSACTIONS

Key personnel include the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary and the Directors of the Corporation. For the three and six months ended June 30, 2023 and 2022, Source Rock incurred the following items with key personnel:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Wages & consulting fees	$ 79,500	$ 79,500	$ 159,000	$ 159,000
Share-based compensation(1)	183,900	22,698	355,260	45,396
Total fees	$ 263,400	$ 102,198	$ 514,260	$ 204,396

(1) See “Share-based Compensation”.

In addition, during the three and six months ended June 30, 2023, $31,987 (2022 - $277,418) and $55,165 (2022 - $386,117), respectively, in fees were incurred to a law firm at which the Corporate Secretary of the Corporation is a Partner. These fees primarily related to work associated with acquisitions and general corporate matters.

All transactions were in the normal course of operations and were measured at fair value, which was the amount of consideration established by Source Rock’s Compensation Committee (comprised entirely of independent directors of the Corporation), or the Corporation’s management, and agreed to by both parties. As at June 30, 2023, there was $779 (December 31, 2022 - $1,895) in trade payables and accrued liabilities relating to these transactions.

SHARE-BASED COMPENSATION

		Three months ended June 30,			Six months ended June 30,	
		2023	2022		2023	2022
Share-based compensation	$	190,163	$ 22,698	$	375,986	$ 45,396

Share-based compensation includes share-based consulting fees and a charge for stock options, RSUs and DSUs (as defined below). During the three and six months ended June 30, 2023, a share-based compensation charge was recorded for the vesting of previously issued stock options, RSUs and DSUs (as defined below) in the amounts of $190,163 (2022 - $22,698) and $375,986 (2022 - $45,396), respectively. See "*Shares Outstanding*".

Stock Option Plan

The Corporation has a "rolling" 10% stock option plan which became effective on July 2, 2013 that provides all option holders the right to acquire common shares upon exercise of the options in accordance with their terms. Source Rock follows the fair value method for accounting using the Black-Scholes option pricing model whereby the compensation expense is recognized for the stock options on the date of grant and amortized over the option's vesting period.

Restricted Share Unit and Deferred Share Unit Compensation Plan

The Corporation has a Restricted Share Unit and Deferred Share Unit Compensation Plan (the "RSU/DSU Plan"). An RSU 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. RSUs typically vest 1/3 each year following the date of grant. A DSU represents the right to receive one common share of Source Rock upon the holder of such DSU ceasing to be an officer, director or consultant of Source Rock. DSUs will typically vest one year after being granted. In addition, RSU and DSU dividend equivalents, as applicable, are granted on outstanding RSUs and DSUs on the payment date for each dividend declared.

DEPLETION

		Three months ended June 30,			Six months ended June 30,	
		2023	2022		2023	2022
Depletion	$	766,296	$ 540,867	$	1,432,706	$ 1,079,396
Per boe ($)		40.94	35.34		41.02	35.73

Royalty interests are depleted on the unit-of-production method based on an internal estimate of proved plus probable oil, NGLs and natural gas reserves. For the three and six months ended June 30, 2023, the depletion expense was $766,296 (2022 - $540,867) and $1,432,706 (2022 - $1,079,396), respectively. The cost per barrel of oil equivalent of production increased to $40.94 and $41.02, respectively.

IMPAIRMENT

Source Rock groups its GORRs 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 Corporation'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 Corporation 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 June 30, 2023, there were no indicators of impairment so no impairment testing was completed and no impairment charges were taken.

OTHER INCOME

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Interest	$ 115,210	$ 26,702	$ 250,713	$ 33,179

Interest income fluctuates based on the amount of excess cash that Source Rock has on its balance sheet during the period and what interest rates are available to the Corporation. Any excess cash held by Source Rock is invested in interest bearing term deposits that currently pay 4.75% to 5.25% interest on an annualized basis.

INCOME TAXES

Effective January 1, 2022, the Corporation became a "public corporation" pursuant to the *Income Tax Act (Canada).* As a result, the Corporation’s statutory tax rate is approximately 23%.

Cash Taxes

The Corporation estimates that it will be required to pay $162,492 and $344,044, respectively, in cash taxes for the three and six months ended June 30, 2023 (2022 - $312,744 and $548,793). However, the actual amount of taxes owing for these periods could be subject to adjustment as at year-end 2023 depending on the Corporation’s acquisition activities, expenses incurred throughout the year and other factors.

The Corporation expects to pay cash taxes consistently going forward. The anticipated amount of taxes is influenced by, among other factors, royalty production volumes, commodity prices, changes in tax laws, newly acquired tax pools via the acquisition of additional royalties (and the timing in each fiscal year of such acquisitions) and the amount of expenses and financing costs incurred by Source Rock.

QUARTERLY REVIEW

Quarterly variances in revenues, net income/(loss) and funds from operations are caused mainly by fluctuations in realized commodity prices and production volumes. Commodity prices are generally determined by global supply and demand factors, and the variances do not have seasonal predictability.

	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Royalty revenue	$ 1,526,946	$ 1,380,251	$ 1,504,421	$ 1,554,910
Adjusted EBITDA[1]	$ 1,363,910	$ 1,157,520	$ 1,399,621	$ 1,219,346
Funds from operations[1]	$ 1,316,628	$ 1,111,471	$ 1,411,440	$ 1,115,225
Total comprehensive income (loss)	$ 431,863	$ 222,235	$ 559,447	$ 446,890
Per share (basic)	$ 0.010	$ 0.005	$ 0.012	$ 0.010
Per share (diluted)	$ 0.009	$ 0.005	$ 0.012	$ 0.010
Average daily production (boe/d)	206	180	169	160
Percentage oil & NGLs (%)	92%	90%	92%	92%
Current assets	$ 8,930,717	$ 12,451,270	$ 14,292,275	$ 17,077,092
Total assets	$ 27,333,680	$ 28,077,389	$ 28,818,196	$ 28,716,364
Total current liabilities	$ 278,446	$ 903,386	$ 1,378,801	$ 1,340,180
Shareholder equity	$ 27,055,234	$ 27,714,003	$ 27,439,395	$ 27,376,184
Weighted average number of shares outstanding (basic)	44,896,645	44,896,645	44,896,645	44,896,645

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Royalty revenue	$ 1,903,802	$ 1,527,386	$ 1,247,171	$ 1,161,759
Adjusted EBITDA[1]	$ 1,715,652	$ 1,395,526	$ 1,103,542	$ 1,007,855
Funds from operations[1]	$ 1,429,610	$ 1,172,431	$ 1,021,234	$ 1,007,864
Total comprehensive income (loss)	$ 904,617	$ 647,100	$ 571,114	$ 83,480
Per share (basic)	$ 0.020	$ 0.019	$ 0.014	$ 0.003
Per share (diluted)	$ 0.020	$ 0.018	$ 0.013	$ 0.003
Average daily production (boe/d)	168	166	166	170
Percentage oil & NGLs (%)	92%	92%	90%	94%
Current assets	$ 16,511,822	$ 15,978,994	$ 2,484,932	$ 1,770,071
Total assets	$ 28,587,478	$ 28,554,572	$ 15,357,028	$ 15,207,597
Total current liabilities	$ 1,161,577	$ 1,374,592	$ 650,128	$ 513,054
Shareholder equity	$ 27,425,901	$ 27,179,980	$ 14,561,098	$ 14,409,995
Weighted average number of shares outstanding (basic)	44,896,645	34,547,946	29,562,559	29,548,945

(1) This is a non-GAAP financial measure or non-GAAP ratio. Refer to the disclosure under the heading "Non-GAAP Financial Measures & Ratios" for more information on each non-GAAP financial measure or ratio.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Cash flows from operating activities	$ 982,561	$ 1,381,263	$ 1,679,968	$ 2,666,828
Change in non-cash working capital balances	334,067	48,347	748,131	(64,787)
Funds from operations[1]	$ 1,316,628	$ 1,429,610	$ 2,428,099	$ 2,602,041
Per share ($)	0.029	0.032	0.054	0.065

(1) This is a non-GAAP financial measure or non-GAAP ratio. Refer to the disclosure under the heading "Non-GAAP Financial Measures & Ratios" for more information on each non-GAAP financial measure or ratio.

The Corporation generates cash flows from royalty interests, based on a combination of production volumes and sales volumes, which are typically paid 30 to 60 days following the end of the month in which they have been earned. These funds are used to pay monthly administrative expenses with the remainder to be retained to fund future royalty acquisitions, dividends and cash taxes.

As at June 30, 2023, Source Rock did not have any loans or other debt instruments outstanding, nor did it have any other material contractual obligations of a financial nature.

As at June 30, 2023, Source Rock had an overall positive working capital balance ("current assets" less "current liabilities" as defined by Canadian GAAP) of $8,652,271 (December 31, 2022 - $12,913,474).

Financing Activities

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Dividends paid to shareholders	$ (1,167,313)	$ (673,449)	$ (1,840,763)	$ (673,449)
Return of capital	-	-	-	(443,438)
Proceeds from shares issued	-	-	-	13,494,008
Proceeds from warrants issued	-	-	-	306,682
Share issuance costs	-	(10,318)	-	(1,376,112)
Cash flows from (used in) financing activities	$ (1,167,313)	$ (683,767)	$ (1,840,763)	$ 11,307,691

During Q2 2023, dividends paid was $1,167,313 (Q2 2022 - $673,449). During the six months ended June 30, 2023, dividends paid was $1,840,763 (2022 - $673,449). In addition, during the six months ended June 30, 2022, $443,438 was paid to shareholders in the form of a "return of capital". In April 2023 Source Rock transitioned to paying dividends monthly from quarterly. In March 2022, Source Rock completed the IPO (see "*Operational Update, Outlook & Forecasts - Initial Public Offering*").

Investing Activities

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Purchase of petroleum and natural gas interests	$ (3,471,446)	$ -	$ (5,275,057)	$ -
Cash flows from (used in) investing activities	$ (3,471,446)	$ -	$ (5,275,057)	$ -

Three and Six Months Ended Q2 2023:

- On June 1, 2023, Source Rock acquired fee title mineral interests in two quarter sections of land (the "Fee Title") and a 2% GORR") in approximately 5,800 gross acres (9 sections) of land in S.E. Saskatchewan (the "GORR Lands") for gross proceeds of $3,315,000 (the "June 2023 Acquisition"), with an effective date of May 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to $23,594 was deducted from the purchase price. Transaction costs related to the June 2023 Acquisition amounting to $24,116 were added to the purchase price.

- On April 18, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $155,924.

- On March 24, 2023, Source Rock acquired a 5% GORR in land located in Central Alberta for gross proceeds of $1,600,000 (the "March 2023 Acquisition"), with an effective date of January 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to $148,281 were deducted from the purchase price. Transaction costs related to the March 2023 Acquisition amounting to $9,377 were added to the purchase price.

- On January 4, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $342,515.

Three and Six months Ended Q2 2022:

- No investing activities were completed by Source Rock during the three and six months ended June 30, 2022.

Adjusted EBITDA

Adjusted EBITDA is calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Income (loss) before taxes	$ 522,661	$ 1,178,789	$ 963,451	$ 2,026,042
Add-back/(deduct)				
Depletion	766,296	540,867	1,432,706	1,079,396
Share-based compensation	190,163	22,698	375,986	45,396
Interest	(115,210)	(26,702)	(250,713)	(33,179)
Adjusted EBITDA(1)	$ 1,363,910	$ 1,715,652	$ 2,521,430	$ 3,117,655
Per share (basic) ($)	0.0304	0.038	0.0595	0.078

(1) This is a non-GAAP financial measure or non-GAAP ratio. Refer to the disclosure under the heading "Non-GAAP Financial Measures & Ratios" for more information on each non-GAAP financial measure or ratio.

Shares Outstanding

	June 30, 2023	December 31, 2022
Basic common shares outstanding at end of period	44,896,645	44,896,645
Common share stock options outstanding at end of period(1)	2,200,000	2,240,000
RSUs outstanding at end of period(2)(4)	331,009	313,818
DSUs outstanding at end of period(3)(4)	593,006	562,209
Total diluted common shares outstanding at end of period	48,020,660	48,012,672

(1) Stock options were issued on October 1, 2020, which vested 1/3 upon issuance and will vest 1/3 every year thereafter, have a 5-year term and are exercisable at $0.40 per stock option. Stock options were issued on July 1, 2019, which vested 1/3 upon issuance and will vest 1/3 every year thereafter, have a 5-year term and are exercisable at $0.85 per stock option. Stock options were issued on August 1, 2022, which vested 1/3 upon issuance and will vest 1/3 every year thereafter, have a 5-year term and are exercisable at $0.90 per stock option. Stock options were issued on September 1, 2022, which vested 1/3 upon issuance and will vest 1/3 every year thereafter, have a 5-year term and are exercisable at $0.90 per stock option.

(2) RSUs were granted on July 8, 2022, which will vest 1/3 on July 8, 2023, 1/3 on July 8, 2024 and 1/3 on July 8, 2025.

(3) DSUs were granted on July 8, 2022, which will vest on July 8, 2023. DSUs were granted on October 31, 2022, which will vest on October 31, 2023.

(4) RSU and DSU dividend equivalents, as applicable, are granted on outstanding RSUs and DSUs on the payment date for each dividend declared.

DIVIDEND POLICY

The Board of Directors will review the ability of the Corporation to pay a dividend on a monthly basis. The Corporation has established and maintains a dividend policy whereby dividends are financed from internally-generated funds from operations of the Corporation and the amount of cash distributed is determined at the discretion of the Board after consideration of numerous factors including: (i) funds from operations of the Corporation; (ii) funding requirements for the Corporation's operations and future royalty acquisition opportunities; (iii) the satisfaction by the Corporation of liquidity and solvency tests under the Business Corporations Act (Alberta); and (iv) if applicable, any provisions in agreements relating to indebtedness, as applicable, that restrict the declaration and payments of dividends. Our goal is to balance payment of a dividend with growth of our portfolio of royalties and always ensure that our balance sheet is strong.

NON-GAAP FINANCIAL MEASURES & RATIOS

This MD&A contains references to "Adjusted EBITDA" and "funds from operations" which are non-GAAP financial measures and the terms "payout ratio", "operating netback" and "corporate netback" which are non-GAAP ratios. These financial measures and ratios do not have a standardized prescribed meaning under Canadian GAAP and therefore are referred to as non-GAAP financial measures. The non-GAAP financial measures used by Source Rock may not be comparable to similar measures used by other companies.

"Adjusted EBITDA" is used by management to analyze the Corporation's profitability based on the Corporation's principal business activities prior to how these activities are financed, how assets are depreciated, amortized and impaired, and how the results are taxed. Additionally, amounts are removed relating to share-based compensation expense, the sale of assets, fair value adjustments on financial assets and liabilities, other non-cash items and certain non-standard expenses, as the Corporation does not deem these to relate to the performance of its principal business. Adjusted EBITDA is not intended to represent net profit (or loss) as calculated in accordance with IFRS.

"Funds from operations" is defined as cash flows from operating activities before the change in non-cash working capital. Funds from operations, as presented, is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to net income or other measures of financial performance calculated in accordance with GAAP. We consider funds from operations to be a key measure of operating performance as it demonstrates Source Rock's ability to generate the necessary funds to fund operations, pay dividends and repay debt, if applicable. We believe that such a measure provides a useful assessment of Source Rock's operations on a continuing basis by eliminating certain non-cash charges. It is also used by research analysts to value and compare oil and gas companies, and it is frequently included in their published research when providing investment recommendations. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.

"Corporate netback" is calculated as funds from operations divided by cumulative production volumes for the period. Corporate netback is used by Source Rock to better analyze the financial performance of its royalties against prior periods and to assess the cost efficiency of its overall corporate platform as it relates to production volumes. There is no standardized meaning for "corporate netback" and this metric as used by Source Rock may not be comparable with the calculation of similar metrics disclosed by other entities, and therefore should not be used to make comparisons.

"Operating netback" represents the cash margin for products sold. Operating netback is calculated as revenue minus cash administrative expenses divided by cumulative production volumes for the period. Operating netback is used by Source Rock to assess the cash generating and operating performance of its royalties against prior periods and to assess the costs efficiency of its operating platform as it relates to production volumes. There is no standardized meaning for "operating netback" and this metric as used by Source Rock may not be comparable with the calculation of similar metrics disclosed by other entities, and therefore should not be used to make comparisons.

"Payout ratio" is calculated as the aggregate of cash dividends declared in a period divided by funds from operations realized in such period. Source Rock considers payout ratio to be a key measure to assess Source Rock's ability to fund operations, acquisition opportunities, dividend payments, cash taxes and debt repayments, if applicable.

Beginning with Q1 2023, Source Rock changed the definition of "payout ratio" to be based on dividends "declared" instead of dividends "paid", as it was determined that this change will provide more useful disclosure relating to the ratio of the dividend payout relative to financial results for the period being reported on as compared to the period in which the dividend is paid to investors.

CONVERSION OF NATURAL GAS TO BARRELS OF OIL EQUILVALENT (BOE)

Source Rock has adopted the standard conversion ratio of 6 Mcf:1 barrel when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different that the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion ratio may be misleading as an indication of value.

ADDITIONAL INFORMATION

Additional information about Source Rock is available on our website at www.sourcerockroyalties.com or by contacting Source Rock's management at brad@sourcerockroyalties.com or (403) 472-5767.

FORWARD-LOOKING STATEMENTS

This document offers our assessment of Source Rock's future plans and operations as at August 29, 2023, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements are contained in this MD&A under the headings "Business Overview", "Business Environment" and "Dividend Policy", and include our expectations for the following:

- executing on the corporation's strategy of acquiring stable and long-life, high netback producing oil and gas royalties with upside drilling potential and drill ready mineral title interests in areas that are actively being developed by successful operators;
- maintaining a prudent, repeatable, scalable and sustainable corporate platform that minimizes operating costs, maximizes per share royalty revenue growth and ultimately that permits payment of a sustainable yield; and
- anticipating that the marketplace to acquire existing royalties will remain active, and that we expect to be well positioned to complete additional royalty acquisitions.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, and our ability to access sufficient capital from internal and external sources.

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, future oil and natural gas prices, future production levels, future tax rates, our expectation for the consumption of crude oil and natural gas, our expectation for industry drilling activities, our ability to obtain financing on acceptable terms, and our ability to add production and reserves through acquisition activities. The key operating assumptions with respect to the forward-looking statements referred to above are detailed in our discussion under "Business Overview", "Business Environment" and "Dividend Policy" sections of this MD&A.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the anticipated events will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained in this document is expressly qualified by this cautionary statement. Our policy for updating forward-looking statements is to update our key operating assumptions quarterly and, except as required by law, we do not undertake to update any other forward-looking statements.

You are further cautioned that the preparation of financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

CORPORATE INFORMATION

Board of Directors

Brad Docherty, LL.B., B.A.
Chairman

June-Marie Innes, CPA[(1)]
Independent

Shaun Thiessen, B. Comm [(2)(3)]
Independent

Jordan Kevol, B. Sc. Geology[(2)]
Independent

Gary McMurren, P. Eng[(1)(3)]
Independent
Chair of Reserves Committee

Dean Potter, P. Geo[(3)]
Independent

Scott Rideout[(2)]
Independent
Chair of Compensation and Corporate Governance Committee

John Bell, CPA, CA[(1)(2)]
Independent
Chair of Audit Committee

(1) Audit Committee Member.
(2) Compensation and Corporate Governance Committee Member.
(3) Reserves Committee Member.

Officers

Brad Docherty, LL.B., B.A.
President & C.E.O.

Cheryne Lowe, CPA, CA
Chief Financial Officer

Lucas Tomei, LL.B., B. Sc.
Corporate Secretary

Advisors

Legal Counsel
Dentons Canada LLP

Auditors
MNP LLP

Reserves Evaluator
Trimble Engineering Associates Ltd.

Head Office

30th Floor, 421 - 7th Ave S.W.
Calgary, Alberta T2P 4K9

(403) 472-5767
brad@sourcerockroyalties.com

www.sourcerockroyalties.com

SOURCE ROCK
ROYALTIES LTD.