

A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the Provinces of Canada (other than Québec) but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the final prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except in transactions exempt from registration under the U.S. Securities Act and under the securities laws of any applicable state. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".

**AMENDED AND RESTATED PRELIMINARY PROSPECTUS
AMENDING AND RESTATING THE PRELIMINARY PROSPECTUS
DATED JANUARY 10, 2022**

Initial Public Offering

February 3, 2022



SOURCE ROCK
ROYALTIES LTD.

\$12,000,600
13,334,000 Units

Source Rock Royalties Ltd. ("**Source Rock**" or the "**Company**") is a pure-play oil and gas royalty company with an existing, light oil focused portfolio of royalty interests concentrated in southeast Saskatchewan, east-central Alberta, west-central Alberta and west-central Saskatchewan. Source Rock targets a balanced growth and yield business model, using funds from operations to pursue accretive royalty acquisitions and to pay dividends. By leveraging its niche industry relationships, Source Rock is able to identify and acquire both existing royalties and newly created royalties through collaboration with industry partners. Source Rock's strategy is premised on maintaining a low-cost corporate structure and achieving a sustainable and scalable business, measured by growing funds from operations per share and maintaining a strong netback.

Source Rock hereby offers for sale 13,334,000 units (the "**Units**") at a price (the "**Offering Price**") of \$0.90 per Unit (the "**Offering**") pursuant to an underwriting agreement dated ●, 2022 (the "**Underwriting Agreement**") among the Company and PI Financial Corp. and Acumen Capital Finance Partners Limited, as co-lead underwriters (the "**Co-Lead Underwriters**"), and Haywood Securities Inc., Canaccord Genuity Corp. and ATB Capital Markets Inc. (collectively with the Co-Lead Underwriters, the "**Underwriters**"). Each Unit consists of one common share in the capital of the Company (each, a "**Common Share**") and one half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "**Warrant**"). Each Warrant entitles the holder thereof, subject to the terms of the Warrant Indenture (as defined herein), to acquire one Common Share of the Company (each, a "**Warrant Share**") at an exercise price of \$1.25 per Warrant Share until the date that is 24 months following the Closing Date (as defined herein) (the "**Warrant Expiry Date**"), subject to adjustments in certain events. The Warrants will be governed by a warrant indenture (the "**Warrant Indenture**") to be entered into on or before the Closing Date between the Company and TSX Trust Company, as warrant agent (the "**Warrant Agent**"). The Units will immediately separate into Common Shares and Warrants upon issuance. See "*Description of Share Capital and Securities Being Distributed*". See "*Plan of Distribution*".

Price: \$0.90 per Unit

	Price to the Public	Underwriters' Commission (1)(3)(4)	Net Proceeds to the Company (2)(3)(4)
Per Unit	\$0.90	\$0.054	\$0.846
Total	\$12,000,600	\$585,036	\$11,415,564

Notes:

- (1) Pursuant to the terms of the Underwriting Agreement, the Company has agreed to pay to the Underwriters a commission equal to 6.0% of the gross proceeds of the Offering, other than any proceeds raised from directors and officers of the Company, and their families, friends and business associates, as well as certain strategic investors (the "**President's List**"), for which the commission payable to the Underwriters shall be equal to 3.0% of such aggregate gross proceeds from members of the President's List (collectively, the "**Underwriters' Commission**"). The Company has also agreed to reimburse the Underwriters for their reasonable expenses in connection with the Offering. See "*Plan of Distribution*".
- (2) Before deducting expenses of the Offering, estimated to be \$750,000, to be paid by the Company from the proceeds of the Offering.
- (3) The Company has granted to the Underwriters an option (the "**Over-Allotment Option**"), exercisable at the Underwriters' discretion, to purchase from the Company up to an additional 2,000,100 Units (the "**Additional Units**") (representing 15% of the number of Units sold in the Offering) at a price equal to the Offering Price, to cover over-allocations, if any, and for market stabilization purposes. The Over-Allotment Option is exercisable in whole or in part, at any time on or before the date that is 30 days following the date of closing of the Offering. The Over-Allotment Option may be exercised by the Underwriters to acquire: (i) Additional Units at the Offering Price; (ii) additional Common Shares (the "**Additional Common Shares**") at a price of \$● per Additional Common Share; (iii) additional Warrants (the "**Additional Warrants**") at a price of \$● per Additional Warrant; or (iv) any combination of Additional Units, Additional Common Shares and Additional Warrants, so long as the aggregate number of Common Shares and Warrants which may be issued under the Over-Allotment Option does not exceed 2,000,100 Common Shares and 1,000,050 Warrants. If the Underwriters exercise the Over-Allotment Option in full, the total Price to the Public, Underwriters' Commission and Net Proceeds to the Company will be \$13,800,690, \$693,041 and \$13,107,649, respectively, assuming purchasers on the President's List purchase an aggregate of 5,000,000 Units under the Offering. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Units, including any Common Shares and/or Warrants issued or sold pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Units, Common Shares and/or Warrants forming part of the Underwriters' over-allocation position acquires those securities under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*".
- (4) The Underwriters' Commission per Unit reflects a commission equal to 6.0%. The total Underwriters' Commission assumes purchasers on the President's List purchase an aggregate of 5,000,000 Units under the Offering.

The following table sets forth the number of additional securities issuable under the Over-Allotment Option:

Underwriters' Position	Maximum Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	2,000,100 Units, and/or 2,000,100 Common Shares, and/or 1,000,050 Warrants	30 days following the closing of the Offering	\$0.90 per Unit, \$● per Common Share, \$● per Warrant

The Underwriters, as principals, conditionally offer the Units, subject to prior sale, if, as and when issued and sold by the Company and delivered to and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*", subject to approval of certain legal matters relating to the Offering on behalf of the Company by Dentons Canada LLP and on behalf of the Underwriters by McCarthy Tétrault LLP.

Subscriptions for Units will be received subject to rejection or allotment, in whole or in part. Closing of the Offering is expected to occur on or about February 15, 2022 or such later date as the Company and the Underwriters may agree, but in any event not later than March 3, 2022 (the "**Closing Date**"). The Units (other than any Additional

Units issuable or to be sold on exercise of the Over-Allotment Option) are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the final prospectus.

In connection with the Offering, the Underwriters may effect transactions which stabilize or maintain the market price of the Common Shares and Warrants comprising the Units at levels other than those which otherwise might prevail on the open market. **The Underwriters may offer the Units at a lower price than stated above. See "Plan of Distribution".**

Except in certain limited circumstances, no certificates representing the Common Shares and Warrants comprising the Units will be issued to purchasers in the Offering. Instead, on the Closing Date, the purchasers of Units will have their securities registered in the name of CDS Clearing and Depository Services Inc. or its nominee ("CDS") and electronically deposited with CDS. Purchasers of the Units will receive only a customer confirmation from the Underwriters or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Units is acquired.

The Company has applied to list the Common Shares and Warrants distributed under this prospectus on the TSX Venture Exchange ("TSXV") under the symbols "SRR" and "SRR.WT", respectively. Listing will be subject to the Company fulfilling all the listing requirements of the TSXV.

There is currently no market through which the Common Shares or Warrants comprising the Units may be sold and purchasers may not be able to resell the Common Shares or Warrants purchased under this prospectus. This may affect the pricing of the Common Shares and Warrants comprising the Units in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and Warrants comprising the Units and the extent of issuer regulation. See "Risk Factors".

As at the date of this prospectus, Source Rock does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., a U.S. marketplace or a marketplace outside Canada and the United States of America (other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.).

An investment in the Units is speculative and involves a high degree of risk that should be considered by potential purchasers. The Company's business is subject to, directly or indirectly, many of the risks normally encountered in the oil and gas industry and the risks attributable to owning royalties in particular. In addition, the Company's business is subject to risks resulting from the Company's early stage of development. An investment in the Units is suitable only for those purchasers who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investment. See "Risk Factors".

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NOTICE TO INVESTORS

An investor should read this entire prospectus and consult their own professional advisors to assess the income tax, legal, risk factors and other aspects of their investment in the Units.

An investor should rely only on the information contained in this prospectus and is not entitled to rely on parts of the information contained in this prospectus to the exclusion of other parts. The Company has not, and the Underwriters have not, authorized anyone to provide investors with additional or different information. If anyone provides an investor with additional or different or inconsistent information, including statements in media articles about the Company, the investor should not rely on it.

The Company is not, and the Underwriters are not, offering to sell the Units in any jurisdictions where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the Units. The Company's business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

For investors outside Canada, neither the Company nor any of the Underwriters have done anything that would permit the Offering, or possession or distribution of this prospectus, in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this prospectus.

Investors are urged to read the information under the headings "*Important Advisory*" and "*Risk Factors*" appearing elsewhere in this prospectus.

CONVENTIONS

Words importing the singular number include the plural and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this prospectus are in Canadian dollars unless otherwise indicated.

All financial information in this prospectus has been presented in accordance with Canadian GAAP.

Certain terms used in this prospectus are defined under the headings "*Glossary*", "*Glossary of Select Oil and Gas Terms*" and "*Select Abbreviations*". Certain other terms used in this prospectus but not defined in this prospectus are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

Figures, columns and rows presented in tables provided in this prospectus may not add due to rounding.

Unless otherwise indicated or the context otherwise requires, information contained in this prospectus assumes that the Over-Allotment Option has not been exercised.

This prospectus includes a summary description of certain material agreements of the Company. See "*Material Contracts*". The summary description discloses attributes that the Company considers material to an investor in the Units but is not complete and is qualified in its entirety by reference to the terms of the material agreements, which will be filed with the applicable Canadian securities regulatory authorities and available on SEDAR. Investors are encouraged to read the full text of such material agreements.

GLOSSARY

In this prospectus, unless otherwise indicated or the context otherwise requires, the following terms have the corresponding meanings set forth below:

"ABCA" means the *Business Corporations Act* (Alberta).

"**Additional Common Shares**" has the meaning set forth on the cover page of this prospectus.

"**Additional Units**" has the meaning set forth on the cover page of this prospectus.

"**Additional Warrants**" has the meaning set forth on the cover page of this prospectus.

"**Audit Committee**" means the audit committee of the Board.

"**Board**" or "**Board of Directors**" means the board of directors of the Company.

"**Canadian GAAP**" or "**GAAP**" means generally accepted accounting principles in Canada, being IFRS, as in effect from time to time.

"**CDS**" has the meaning set forth on the cover page of this prospectus.

"**Chairman**" means the chairman of the Board of Directors.

"**Chief Executive Officer**" means the chief executive officer of the Company.

"**Chief Financial Officer**" means the chief financial officer of the Company.

"**Closing**" means the closing of the Offering.

"**Closing Date**" has the meaning set forth on the cover page of this prospectus.

"**Co-Lead Underwriters**" has the meaning set forth on the cover page of this prospectus.

"**Common Share**" has the meaning set forth on the cover page of this prospectus.

"**Compensation and Corporate Governance Committee**" means the compensation and corporate governance committee of the Board.

"**Corporate Secretary**" means the corporate secretary of the Company.

"**CSA 51-324**" means Staff Notice 51-324 – *Revised Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators.

"**Current Assets**" means, at the relevant time, the amount of current assets of the Company as determined in accordance with GAAP.

"**Current Liabilities**" means, at the relevant time, the amount of current liabilities of the Company as determined in accordance with GAAP.

"**Deferred Plans**" means, collectively, RRSPs, RRIFs, RESPs, RDSPs, deferred profit sharing plans, and TFSAs, and "**Deferred Plan**" means any one of them.

"**DRIP**" means the Company's dividend reinvestment plan, dated effective March 30, 2015.

"**FOFI**" means future-oriented financial information.

"**Founder**" means the founder of the Company.

"**G&A**" means general and administrative expenses as determined in accordance with GAAP.

"**GORR**" has the meaning set forth under the heading "*Description of the Business – Description of Royalty Assets*".

"**IFRS**" means International Financial Reporting Standards as issued by the International Accounting Standards Board, as adopted by the Canadian Accounting Standards Board.

"**Longshore**" means Longshore Resources Ltd.

"**Named Executive Officers**" or "**NEOs**" has the meaning ascribed thereto under section 1.2 of National Instrument 51-102F6V – *Statement of Executive Compensation – Venture Issuers*.

"**NI 51-101**" means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*.

"**NI 51-102**" means National Instrument 51-102 – *Continuous Disclosure Obligations*.

"**NI 52-109**" means National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*.

"**NI 58-101**" means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

"**NP 46-201**" means National Policy 46-201 – *Escrow for Initial Public Offerings*.

"**NP 58-201**" means National Policy 58-201 – *Corporate Governance Guidelines*.

"**Offering**" has the meaning set forth on the cover page of this prospectus.

"**Offering Price**" has the meaning set forth on the cover page of this prospectus.

"**Option**" means an option to purchase a Common Share granted under the Option Plan.

"**Option Plan**" means the stock option plan of the Company.

"**Over-Allotment Option**" has the meaning set forth on the cover page of this prospectus.

"**Preferred Shares**" means the preferred shares in the capital of the Company.

"**President**" means the president of the Company.

"**President's List**" has the meaning set forth on the cover page of this prospectus.

"**Production Volume Royalty Agreement**" means the amended and restated royalty agreement dated July 31, 2015 between Source Rock and Longshore (as successor to Toro), as amended.

"**PVR**" has the meaning set forth under the heading "*Description of the Business – Description of Royalty Assets*".

"**PVR Lands**" has the meaning set forth under the heading "*Description of the Business – Description of Royalty Assets*".

"**RDSP**" means a registered disability savings plan.

"**Reserves Report**" means the report prepared by Trimble evaluating the crude oil and natural gas reserves attributable to the Royalty Lands with an effective date of December 31, 2020 and a preparation date of December 20, 2021.

"**RESP**" means a registered education savings plan.

"**Return of Capital**" has the meaning set forth under the heading "*Investment Highlights*".

"**Royalty Lands**" means the lands in which the Company holds a royalty interest.

"**RRIF**" means a registered retirement income fund.

"**RRSP**" means a registered retirement savings plan.

"**Shareholders**" means the holders of Common Shares from time to time.

"**Source Rock**" or the "**Company**" means Source Rock Royalties Ltd.

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time.

"**TFSA**" means a tax-free savings account.

"**Toro**" means Toro Oil & Gas Ltd.

"**Trimble**" means Trimble Engineering Associates Ltd., independent petroleum consultants of Calgary, Alberta.

"**TSXV**" has the meaning set forth on the cover page of this prospectus.

"**U.S.**" or "**United States**" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia.

"**U.S. Person**" has the meaning ascribed thereto in Regulation S under the U.S. Securities Act.

"**U.S. Securities Act**" means the United States Securities Act of 1933, as amended.

"**Underwriters**" has the meaning set forth on the cover page of this prospectus.

"**Underwriters' Commission**" has the meaning set forth on the cover page of this prospectus.

"**Underwriting Agreement**" has the meaning set forth on the cover page of this prospectus.

"**Unit**" has the meaning set forth on the cover page of this prospectus.

"**Warrant**" has the meaning set forth on the cover page of this prospectus.

"**Warrant Agent**" has the meaning set forth on the cover page of this prospectus.

"**Warrant Expiry Date**" has the meaning set forth on the cover page of this prospectus.

"**Warrant Indenture**" has the meaning set forth on the cover page of this prospectus.

"**Warrant Share**" has the meaning set forth on the cover page of this prospectus.

"**WCSB**" means Western Canadian Sedimentary Basin.

"**working capital**" means, at the applicable time, Current Assets less Current Liabilities.

SELECT ABBREVIATIONS

In this prospectus, unless otherwise indicated or the context otherwise requires, the following abbreviations shall have the corresponding meaning set forth below:

Crude Oil

bbls/d	barrels of oil per day
bbls	barrels of oil
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mmbtu	million British thermal unit

Other

km	kilometres
\$, \$Cdn, Cdn\$ or dollars	Canadian dollars
\$000	thousand dollars
\$/bbl	dollars per barrel
\$/boe	dollars per barrel of oil equivalent

SELECT CONVERSIONS

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To Convert From	To	Multiply By
mcf	cubic metres	28.317
cubic metres	cubic feet	35.315
bbls	cubic metres	0.159
cubic metres	bbls	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

IMPORTANT ADVISORY

Forward-Looking Statements

Certain statements contained in this prospectus constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions, or the negatives thereof, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this prospectus should not be unduly relied upon. These statements speak only as of the date of this prospectus. In addition, this prospectus may contain forward-looking statements and forward-looking information attributed to third party industry sources.

In particular, this prospectus contains forward-looking statements pertaining to the following:

- the Offering Price and the completion, size and timing of the Offering;
- the exercise of the Over-Allotment Option;
- the net proceeds of the Offering and the use of the net proceeds of the Offering;
- the estimated production and decline rates from the Company's assets;
- the Company's expectations regarding commodity prices;
- expectations regarding the Company's tax horizon;
- supply and demand fundamentals for crude oil and natural gas;
- the cash available for the payment of dividends;
- the Company's dividend policy, including the sustainability of dividend payments and the amount and timing of dividend payments;
- the timing for receipt of regulatory approvals;
- the financial strength of the Company's royalty payors;
- expectations regarding the possibility that the Company's ongoing working relationships will lead to future royalty acquisition opportunities;
- expectations regarding drilling activity to be undertaken by operators in areas in which the Company owns royalties and the resulting level of anticipated production;
- the Company's growth strategy, including through acquisitions;
- expectations with respect to future opportunities;
- expectations with respect to future funds from operations and other financial results, including expected production and revenue from the PVR and the proportion that revenue from the PVR constitutes of total revenue;
- the long-term impact of COVID-19 on the Company's business, financial position, results of operations and cash flows;
- the estimated quantity and value of the Company's proved and probable reserves;
- estimates of future interest and foreign exchange rates;
- the development of undeveloped reserves and the expected timing thereof;
- expectations that the Company's competitive advantages will yield successful execution of its business strategy;
- the potential for production disruption and constraints;
- industry conditions pertaining to the oil and gas industry;
- the Company's treatment under governmental regulatory regimes and tax laws;
- the Company's future general and administrative expenses; and
- the compensation that is expected to be paid to the executive officers and directors of the Company in 2022 and thereafter.

With respect to forward-looking statements and forward-looking information contained in this prospectus, assumptions have been made regarding, among other things:

- future crude oil and natural gas prices;
- the Company's future production levels;
- the ability of the working interest owners in the Royalty Lands to maintain or increase production and reserves from these properties;
- the ability of the working interest owners in the Royalty Lands to successfully market their respective crude oil and natural gas products;
- the ability of the Company to enforce contractual provisions in order to receive payments in respect of the Royalty Lands;
- the willingness and financial capability of the working interest owners in the Royalty Lands to continue to develop and invest additional capital in the Royalty Lands and to obtain financing on acceptable terms, or at all, to fund capital expenditures;
- the Company's future income tax expense;
- the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which the Company conducts its business and any other jurisdictions in which the Company may conduct its business in the future;
- the absence of any material litigation or claims against the Company;
- the recoverability of the Company's reserves;
- future cash flows from production meeting the expectations stated in this prospectus;
- geological and engineering estimates in respect of the Company's reserves;
- the intentions of the Board with respect to the executive compensation plans and corporate governance programs described herein;
- the impact of competition on the Company;
- the Company's ability to obtain qualified staff in a timely and cost-efficient manner; and
- the Company's ability to obtain financing on acceptable terms.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and included elsewhere in this prospectus, including:

- volatility in market prices for crude oil and natural gas;
- risks related to the exploration, development and production of oil and natural reserves;
- risks relating to the Company's dividend policy, including any changes thereto such as a decrease or elimination of the payment of dividends by the Company as a result of a Board determination or restrictions under applicable agreements or corporate laws;
- the Royalty Lands are not developed by third parties in the manner anticipated by the Company;
- failure by counterparties to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties;
- the Company's status and stage of development;
- general economic, market and business conditions;
- risks of health epidemics, pandemics and similar outbreaks, including COVID-19, which may have sustained material adverse effects on the Company's business, financial position, results of operations and cash flows;
- current global financial conditions, including fluctuations in interest rates, foreign exchange rates and stock market volatility;
- competition for, among other things, capital and the acquisition of royalties;
- risks related to the environment and changing environmental laws in relation to the operations conducted on the Royalty Lands;
- climate change risks, including the effects of unusual weather and natural catastrophes;
- actions by governmental authorities, including changes in government regulation and taxation;

- geological, technical, drilling and completions, processing and handling issues (including deductions from the Company's royalty share of production) associated with crude oil and nature gas development activities by third parties;
- failure of third parties' reviews, reports and projections to be accurate;
- the availability of capital on acceptable terms;
- political risks;
- changes in tax or environmental laws or royalty or incentive programs relating to the oil and natural gas industry;
- changes to royalty or tax regimes;
- the failure of the Company or the holders of certain licenses or leases to meet specific requirements of such licenses or leases;
- claims made or legal actions brought against the Company in respect of the Company's properties or assets;
- aboriginal claims;
- unforeseen title defects;
- risks arising from future acquisition activities;
- potential conflicts of interest;
- the potential for management estimates and assumptions to be inaccurate;
- risks associated with establishing and maintaining systems of internal controls;
- risks related to the reliance on historical financial information, including that historical financial information does not reflect the added costs that the Company expects to incur as a public entity;
- volatility in the market price of the Common Shares or Warrants;
- the absence of an existing public market for the Common Shares or Warrants;
- the effect that the issuance of additional securities by the Company could have on the market price of the Common Shares or Warrants;
- uncertainties inherent in estimating quantities of oil and natural gas reserves;
- discretion in the use of proceeds of the Offering; and
- the other factors discussed under "*Risk Factors*".

In addition, information and statements in this prospectus relating to "reserves" are deemed to be forward-looking information and statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and that the reserves described can be profitably produced in the future. See also "*Certain Reserves Data Information*". Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive.

The forward-looking statements included in this prospectus are expressly qualified by this cautionary statement and are made as of the date of this prospectus. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

Certain statements included in this prospectus may be considered "financial outlook" or "FOFI" for purposes of applicable securities laws, all of which are subject to the same assumptions, risk factors, limitations and qualifications as set forth in the above paragraphs. The actual results of operations of the Company and the resulting financial results will likely vary from the amounts set forth in this prospectus and such variation may be material. The Company and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgements. However, because this information is subjective and subject to numerous risks, it should not be relied on as necessarily indicative of future results. FOFI contained in this prospectus was made as of the date of this prospectus and was provided for the purpose of providing further information about the Company's anticipated future business operations. Readers are cautioned that the FOFI contained in this prospectus should not be used for purposes other than for which it is disclosed herein.

Non-GAAP Measures

In this prospectus the Company uses the term "funds from operations" which is a non-GAAP financial measure and the term "payout ratio" which is a non-GAAP ratio. These financial measures and ratios do not have a standardized

prescribed meaning under GAAP and these measures and ratios may not be comparable with the calculation of similar measures disclosed by other entities.

The most directly comparable GAAP financial measure to funds from operations is cash flow from operating activities. "Funds from operations" is defined as cash flow from operating activities before the change in non-cash working capital. Source Rock believes the timing of collection, payment or incurrence of these non-cash items involves a high degree of discretion and as such may not be useful for evaluating Source Rock's operating performance. Source Rock considers funds from operations to be a key measure of operating performance as it demonstrates Source Rock's ability to generate funds to fund operations, acquisition opportunities, dividend payments and debt repayments, if applicable. Funds from operations per share is calculated using the same weighted average number of shares outstanding used in calculating income per share. Funds from operations should not be construed as an alternative to income or cash flow from operating activities determined in accordance with GAAP as an indication of Source Rock's performance.

A summary of the reconciliation of cash flows from operating activities to funds from operations is set forth below:

	For the three months ended September 30, 2021	For the nine months ended September 30, 2021	For the year ended December 31, 2020
Cash flows from operating activities	\$706,158	\$2,266,789	\$1,145,528
Change in non-cash working capital balances	\$301,706	\$416,749	\$(112,106)
Funds from operations	\$1,007,864	2,683,538	\$1,033,422

"Payout ratio" is calculated as the aggregate of cash dividends paid 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.

Oil and Gas Information Presentation Advisories

In this prospectus the Company uses the term "netback". "Netback" is defined as royalty revenue less G&A, calculated on a per boe basis. 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 corporate platform as it relates to production volumes. There is no standardized meaning for "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.

Source Rock has adopted the standard of 6 mcf:1 bbl when converting natural gas to oil equivalent. **Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl 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 the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 mcf: 1 bbl, utilizing a conversion ratio of 6 mcf: 1 bbl may be misleading as an indication of value.**

The discounted and undiscounted net present value of future net revenues attributable to reserves do not represent the fair market value of reserves.

There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil and natural gas reserves provided in this prospectus are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil and natural gas reserves may be greater than or less than the estimates provided in this prospectus.

The estimates of reserves and future net revenue for individual properties in this prospectus may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

Information Regarding Public Issuer Counterparties

Certain information contained in this prospectus relating to the Company's public issuer counterparties and the nature of their respective businesses is taken from and based solely upon information published by such issuers. Neither the Company nor the Underwriters have independently verified the accuracy or completeness of any such information.

Presentation of Market and Industry Data

Certain market, independent third-party and industry data contained in this prospectus is based upon information from government or other independent industry publications and reports or based on estimates derived from such publications and reports. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but none of the Company or any of the Underwriters has conducted its own independent verification of such information. While the Company believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. None of the Company or any of the Underwriters has independently verified any of the data from independent third-party sources referred to in this prospectus or ascertained the underlying assumptions relied upon by such sources.

MARKETING MATERIALS

Any "template version" of any "marketing materials" (as such terms are defined under applicable Canadian securities laws) that are utilized by the Underwriters in connection with the Offering are not part of this prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this prospectus. Any template version of any marketing materials that has been, or will be, filed on SEDAR before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this prospectus.

Certain information in this amended and restated prospectus modifies information contained in the template version of the term sheet of the Company dated January 10, 2022 with respect to the Offering (the "**Initial Term Sheet**"). Such modifications are with respect to: (i) the size and price of the Offering; (ii) the exercise price of the Warrant Shares; and (iii) the anticipated Closing Date. Source Rock has prepared a revised template version of the Initial Term Sheet, dated February 3, 2022 (the "**Revised Term Sheet**"), which has been blacklined to show the modified information. The Revised Term Sheet can be viewed on Source Rock's SEDAR profile on www.sedar.com.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and is qualified by and should be read in conjunction with the more detailed information, reserves data, financial data and statements appearing elsewhere in this prospectus.

SOURCE ROCK ROYALTIES LTD.

Business of the Company

Source Rock is a pure-play oil and gas royalty company that has been actively implementing and executing on its business model since inception in 2013. All of Source Rock's royalties are located within the WCSB. Source Rock's existing royalties are predominantly light oil focused, and Source Rock continues to target royalty acquisitions in light oil producing lands. Source Rock is focused on the acquisition of already existing royalties as well as creating new royalties in the working interests of oil and gas exploration and production companies.

Source Rock's strategy is premised on maintaining a low-cost corporate structure and achieving a sustainable and scalable business. Source Rock strives to execute on a balanced growth and yield business model. While top-line royalty revenue growth and royalty production growth are important to the long-term success of Source Rock's business, management views funds from operations per share growth and Netback as the key metrics for the success and sustainability of the business.

Source Rock strives to maintain low G&A to maximize bottom-line growth when royalty production and revenue increase via new drilling, accretive acquisitions or higher commodity prices. This focus on maintaining a lower level of G&A allows for higher funds from operations which is then used to provide a yield to Shareholders and to acquire additional royalties.

To-date, Source Rock has only raised equity capital (at prices ranging from \$0.80 to \$1.30) and has not used debt in its business model. As at December 31, 2021, Source Rock had a working capital balance of approximately \$1.5 million (\$0.05 per Common Share).

See "*Description of the Business*".

Investment Highlights

Source Rock presents a unique opportunity to invest in a junior oil and gas royalty company in Canada. Source Rock believes it has a track-record of executing on its business model and presents the following key investment highlights:

Existing Royalty Revenue from Light Oil Focused Royalties in Saskatchewan and Alberta

The Royalty Lands are primarily producing and prospective for light oil. Light oil exposure allows for a strong Netback despite periods of depressed prices. For the month of October 2021, Source Rock's royalty production and revenue were 160 boe/d (94% oil and NGLs) and \$431,700, respectively.

Over Eight Years of Identifying, Structuring and Executing on Non-Marketed Royalty Acquisitions

Source Rock has consistently acquired royalties since inception, despite a high degree of energy market volatility. Source Rock has almost entirely been focused on non-marketed royalty acquisitions, as compared to royalty opportunities marketed through formalized third-party processes. Source Rock has strong relationships in the oil and gas sector in the WCSB and leverages these relationships to identify and access non-marketed royalty acquisitions.

History of Positive Funds from Operations During All Market Cycles

Despite multiple oil price crashes and very volatile energy markets since inception, Source Rock has consistently achieved positive funds from operations. The chart below sets forth funds from operations and funds from operations per share for the years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021.

	<u>Three Months Ended September 30, 2021</u>	<u>Nine Months Ended September 30, 2021</u>	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
Funds from Operations (\$)	1,007,864	2,683,538	1,033,422	2,368,054
Per Share (\$)	0.034	0.091	0.036	0.086
Percentage of Revenue	87%	89%	75%	88%

History of Dividend Payments Despite Volatile Market Conditions

Source Rock paid its first dividend of \$0.015 per share for the first quarter of 2014. Source Rock then paid the same quarterly dividend for 25 consecutive quarters until the onset of the COVID-19 pandemic, the oil price war between Saudi Arabia and Russia and the resulting crash in oil prices in March and April of 2020. Following a modest recovery in oil prices in the latter half of 2020, Source Rock resumed paying a dividend by declaring a \$0.005 per share quarterly dividend for Q4 2020, and then reinstating in full its historical quarterly dividend of \$0.015 per share beginning with Q1 2021. Source Rock has now made this \$0.015 per share payment to Shareholders for four consecutive quarters.

The chart below sets forth dividends paid and payout ratios for the years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021. See "*Dividends and Dividend Policy*".

	<u>Three Months Ended September 30, 2021</u>	<u>Nine Months Ended September 30, 2021</u>	<u>Year Ended December 31, 2020</u>	<u>Year Ended December 31, 2019</u>
Dividends Paid (\$)	440,307	1,025,576	863,815	1,642,258
Per Share (\$)	0.015	0.035	0.03	0.06
Payout Ratio	44%	38%	84%	69%

Vested, Aligned and Experienced Management and Board of Directors

Source Rock's management and the board of directors own approximately 14% of the Common Shares on a non-diluted basis. Further, approximately 7% of the Common Shares are owned by the Founder, President and Chief Executive Officer.

No Exposure to Drilling & Operating Costs, Abandonment Liabilities or Reclamation Costs

As a pure-play royalty business Source Rock does not have any exposure to the cost of: (i) drilling, producing and optimizing wells on the Royalty Lands; (ii) abandoning wellbores on the Royalty Lands; or (iii) remediating and completing reclamation work on the Royalty Lands.

Low-Cost Operating Platform Allows for Sustainability, Scalability & Positive Funds from Operations Per Share

Source Rock strives to keep G&A low to maximize funds from operations. Since inception, the only fixed fee personnel that Source Rock has had are its: (i) President and Chief Executive Officer; and (ii) Chief Financial Officer. Source Rock engages other personnel and professionals as consultants on an as-needed hourly basis.

Key Institutional Shareholder

In July 2014, CN Canadian Master Trust Fund ("CN") became a Shareholder. Since this initial investment, CN has participated in every financing that Source Rock has completed. Prior to the Offering, CN owns approximately 26% of the Common Shares.

See "*Investment Highlights*".

Growth Strategy

Establishing Royalty Partnerships Through Niche Relationships

The majority of Source Rock's past royalty acquisitions have been newly created royalties in the developed and undeveloped mineral interests of exploration and production companies. Source Rock often takes a collaborative approach with such transactions whereby it concurrently creates areas of mutual interests, rights of first refusals and/or rights and options to acquire additional royalties in mineral rights acquired by the counterparties after the initial transaction.

Acquisition of Existing Royalty Interests

Unlike ownership in oil and gas mineral rights in Canada, there is no database of royalty owners in oil and gas mineral interests. This dynamic creates a barrier of entry to competition with respect to acquiring royalties. Source Rock has been working to identify royalties for over eight years. This experience provides specific knowledge about the ownership of certain royalties in the WCSB, and in effect provides Source Rock with its own database of acquisition opportunities to pursue. Having this experience also creates an element of industry awareness regarding Source Rock's desire to acquire existing royalties. This awareness provides in-bound acquisition opportunities for Source Rock.

Acquisition of Fee Title & Leasing of Crown Mineral Interests for Farm-out

Source Rock may also acquire royalties by first acquiring undeveloped fee title or leasing Crown mineral interests, and then farming out the right to develop such mineral interests in exchange for a retained royalty.

Development of Existing Royalty Lands

Source Rock benefits from ongoing drilling activity on the Royalty Lands without expending any capital after its initial royalty purchase. Source Rock anticipates that drilling activity will remain consistent in the near term on portions of the Royalty Lands.

See "*Description of the Business – Growth Strategy*".

Select Financial and Operational Information

The following table sets out select historical financial and operational information as at and for the periods indicated. Investors should read the select historical financial information in conjunction with the Company's management's discussion and analysis and the Company's audited and unaudited financial statements and the accompanying notes under Appendix "FS" – "*Index to Financial Statements and Management's Discussion and Analysis*".

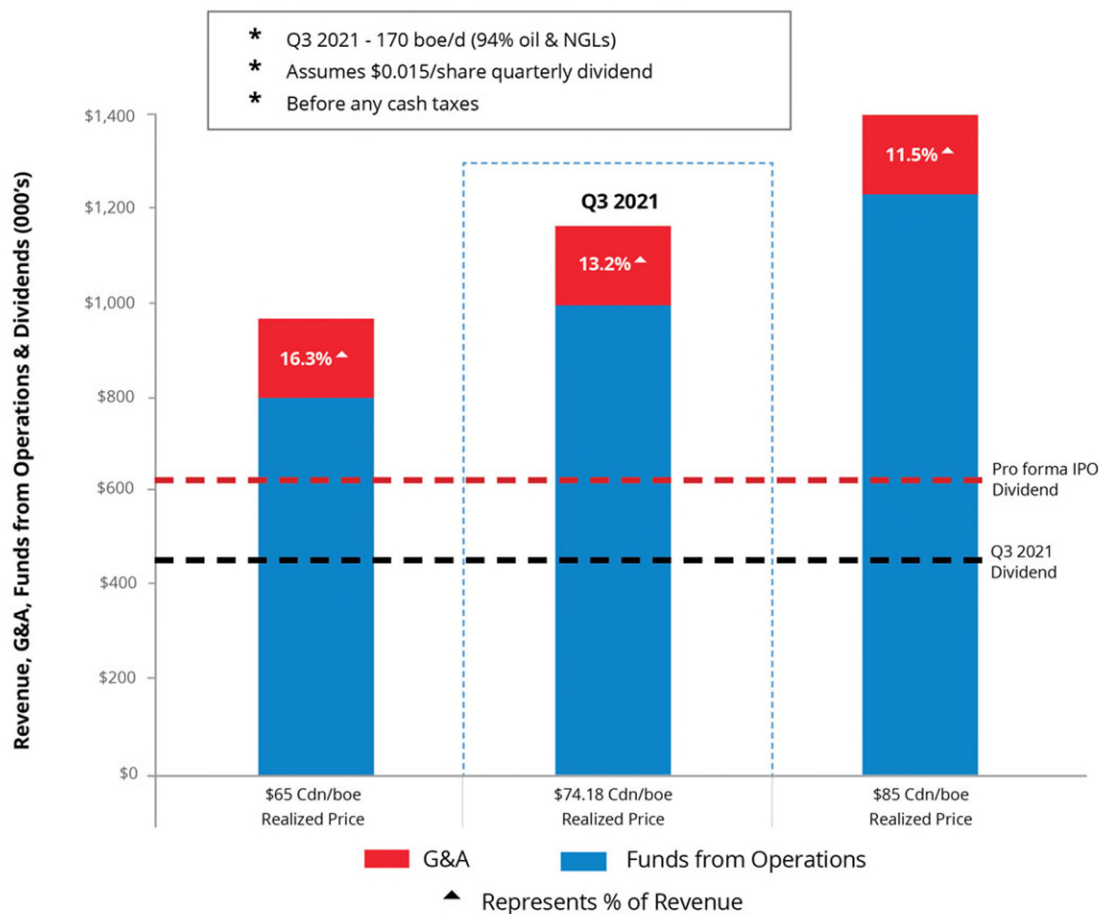
	<u>For the three months ended September 30, 2021</u>	<u>For the nine months ended September 30, 2021</u>	<u>For the year ended December 31, 2020</u>
Production			
Oil Equivalent (boe/d)	170	159	94
	(93.6% oil and NGLs)	(94.7% oil and NGLs)	(92.1% oil and NGLs)

	For the three months ended September 30, 2021	For the nine months ended September 30, 2021	For the year ended December 31, 2020
Financial			
Royalty revenue	\$1,161,759	\$3,014,804	\$1,375,749
G&A	\$153,895	\$332,221	\$346,281
Funds from Operations ⁽¹⁾	\$1,007,864	\$2,683,538	\$1,033,422
Cash Flow from Operating Activities	\$706,158	\$2,266,789	\$1,145,528
Dividends Paid	\$440,307	\$1,025,576	\$863,815
Payout Ratio ⁽¹⁾	44%	38%	84%
Per BOE			
Average price realization (\$/boe)	\$74.18	\$69.36	\$40.17
Netback (\$/boe) ⁽²⁾	\$64.37	\$61.98	\$30.18

Note:

- (1) This is a non-GAAP financial measure or non-GAAP ratio. Refer to the disclosure under the heading "Important Advisory – Non-GAAP Measures" for more information on each non-GAAP financial measure or ratio.
- (2) There is no standardized meaning for this metric. Refer to the disclosure under the heading "Important Advisory – Oil and Gas Information Presentation Advisories" for more information on this metric as used by Source Rock.

The chart below shows the sensitivity of revenue and funds from operations to changes in realized pricing using Q3 2021 production information, and shows Q3 2021 G&A as a percentage of revenue and the dividend coverage (both before and after giving effect to the Offering) at such varying realized pricing.



See "Description of the Business – Business of the Company – Select Historical Financial and Operational Information".

THE OFFERING

Issuer:	Source Rock Royalties Ltd.
Offering:	\$12,000,600 (\$13,800,690 if the Over-Allotment Option is exercised in full). See " <i>Plan of Distribution</i> ".
Offering Price:	\$0.90 per Unit.
Units:	13,334,000 Units for gross proceeds of \$12,000,600. If the Over-Allotment Option is exercised in full, the Company will sell an additional 2,000,100 Units.

Each Unit is comprised of one Common Share and one half of one Warrant. Each Warrant entitles the holder thereof to acquire one Warrant Share at an exercise price of \$1.25 per Warrant Share until the date that is 24 months following the Closing Date. The Warrants will be issued pursuant and subject to the terms of the Warrant Indenture to be entered into on the Closing Date between the Company and the Warrant Agent. See "*Plan of Distribution*".

Over-Allotment Option:	The Company has granted to the Underwriters the Over-Allotment Option, exercisable at the Underwriters' sole discretion, in whole or in part, from time to time, until 30 days after Closing, to purchase, at the Offering Price, up to 2,000,100 Additional Units, representing 15% of the aggregate number of Units offered by the Company under this prospectus, to cover the over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters to acquire: (i) Additional Units at the Offering Price; (ii) Additional Common Shares at a price of \$● per Additional Common Share; (iii) Additional Warrants at a price of \$● per Additional Warrant; or (iv) any combination of Additional Units, Additional Common Shares and Additional Warrants, so long as the aggregate number of Common Shares and Warrants which may be issued under the Over-Allotment Option does not exceed 2,000,100 Common Shares and 1,000,050 Warrants. See " <i>Plan of Distribution</i> ".
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Common Shares Outstanding Following Completion of the Offering:	42,896,559 Common Shares outstanding following completion of the Offering (44,896,659 Common Shares if the Over-Allotment Option is exercised in full for Additional Units or Additional Common Shares).
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Closing:	On or about February 15, 2022, or such other date as the Company and the Underwriters may agree, but in any event not later than March 3, 2022. See " <i>Plan of Distribution</i> ".
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Use of Proceeds:	The Company expects to receive net proceeds of the Offering of approximately \$10.7 million after deducting the Underwriters' Commission and the expenses of the Offering, estimated to be approximately \$750,000, assuming purchasers on the President's List purchase an aggregate of 5,000,000 Units under the Offering. The Company will receive estimated net proceeds from the Offering of approximately \$12.4 million if the Over-Allotment Option is exercised in full, after deducting the Underwriters' Commission and the expenses of the Offering, estimated to be approximately \$750,000, assuming purchasers on the President's List purchase an aggregate of 5,000,000 Units under the Offering.
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The Company intends on using the net proceeds of the Offering for additional royalty acquisitions in the WCSB. See "*Use of Proceeds*".

Dividends:	Source Rock intends to use the majority of its funds from operations to pay dividends to Shareholders, targeting a payout ratio of 50-70%. The Board has established a dividend
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policy pursuant to which the Company intends to continue to pay an annual dividend in the amount of \$0.06 per Common Share on a quarterly basis (being \$0.015 per Common Share per quarter).

Following Closing, the next scheduled dividend will be for the quarter ending March 31, 2022 and is expected to be paid on or about April 15, 2022 to Shareholders of record on March 31, 2022 in the amount of \$0.015 per Common Share. Cash dividends are not guaranteed. Although Source Rock intends to pay dividends in the amount indicated to Shareholders, cash dividends may be reduced or suspended. The actual amount distributed, if any, will depend on numerous factors and conditions existing from time to time. See "*Risk Factors*" and "*Dividends and Dividend Policy*".

Eligibility for Investment:

On the Closing Date, provided that the Common Shares are listed on a designated stock exchange (which includes Tier 1 of the TSXV), and subject to certain qualifications as further described under "*Eligibility for Investment*", each of the Common Shares, including the Warrant Shares, and the Warrants would on that date be a qualified investment under the Tax Act for Deferred Plans.

Risk Factors:

An investment in the Units is speculative and involves a high degree of risk that should be considered by potential purchasers. The Company's business is subject to, directly or indirectly, many of the risks normally encountered in the oil and gas industry and the risks attributable to holding royalties in particular, such as: fluctuations in the prices for crude oil and natural gas; competition for royalties; current global financial conditions; foreign currency exchange risks; political, regulatory and legal issues in the jurisdictions in which the Company operates; replacement of existing reserves on an ongoing basis; failure to realize anticipated benefits of acquisitions; reliance on third party operators; the potential losses which would stem from any disruptions in production; and management of growth-related risks. The reserves and recovery information contained in this prospectus are estimates only and the actual production and ultimate reserves recovered from the Company's properties may be greater or less than the estimates contained in this prospectus. The success of exploration or development activities conducted by third parties on the Royalty Lands cannot be assured. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of management when evaluating an investment in the Units. There is currently no market through which the Common Shares or Warrants comprising the Units may be sold and investors may not be able to resell the Common Shares or Warrants qualified for distribution under this prospectus, or the Warrant Shares. These risk factors and those discussed in greater detail in "*Risk Factors*" are not an exhaustive list of all risks associated with an investment in the Units and should be read in conjunction with the information set forth elsewhere in this prospectus. See "*Market for Securities*" and "*Risk Factors*".

CORPORATE STRUCTURE

General

Source Rock is an Alberta corporation that owns and manages royalties in petroleum and natural gas minerals exclusively in the WCSB. See "*Description of the Business*" and "*Source Rock Reserves*".

Source Rock was incorporated under the ABCA as Source Rock Royalties Ltd. on October 11, 2012. On May 30, 2013, the Company amended and restated its articles of incorporation to change the minimum and maximum number of directors and to remove restrictions on the transfer of shares. On December 23, 2021, the Company amended and restated its articles of incorporation to remove the provision enabling the Company to put a lien on shares.

Source Rock's head office is located at 3000, 421 – 7th Ave S.W., Calgary, Alberta T2P 4K9 and its registered office is located at 1500, 850 – 2nd Street S.W., Calgary, Alberta T2P 0R8.

The Company does not have any subsidiaries.

DESCRIPTION OF THE BUSINESS

Business of the Company

Overview

Source Rock is a pure-play oil and gas royalty company that has been actively implementing and executing on its business model since inception in 2013. All of Source Rock's royalties are located within the WCSB. Source Rock's existing royalties are predominantly light oil focused, and Source Rock continues to target royalty acquisitions in light oil producing assets. Source Rock is focused on the acquisition of already existing royalties as well as creating new royalties in the working interests of exploration and production companies. Through such newly created royalties, Source Rock fosters ongoing working relationships with the counterparties that can lead to additional future royalty acquisition opportunities.

Source Rock's strategy is premised on maintaining a low-cost corporate structure and achieving a sustainable and scalable business. Source Rock strives to execute on a balanced growth and yield business model. While top-line royalty revenue growth and royalty production growth are important to the long-term success of Source Rock's business, management views funds from operations per share growth and Netback as the key metrics for the success and sustainability of the business.

Source Rock strives to maintain low G&A to maximize bottom-line growth when royalty production and revenue increase via new drilling, accretive acquisitions or higher commodity prices. Maintaining low G&A also provides insulation from decreases in production volumes and commodity prices. This focus on maintaining a lower level of G&A allows for higher funds from operations which is then used to provide a yield to Shareholders and to acquire additional royalties.

To-date, Source Rock has only raised equity capital (at prices ranging from \$0.80 to \$1.30) and has not used debt in its business model. As at December 31, 2021, Source Rock had a working capital balance of approximately \$1.5 million (\$0.05 per Common Share).

Select Historical Financial and Operational Information

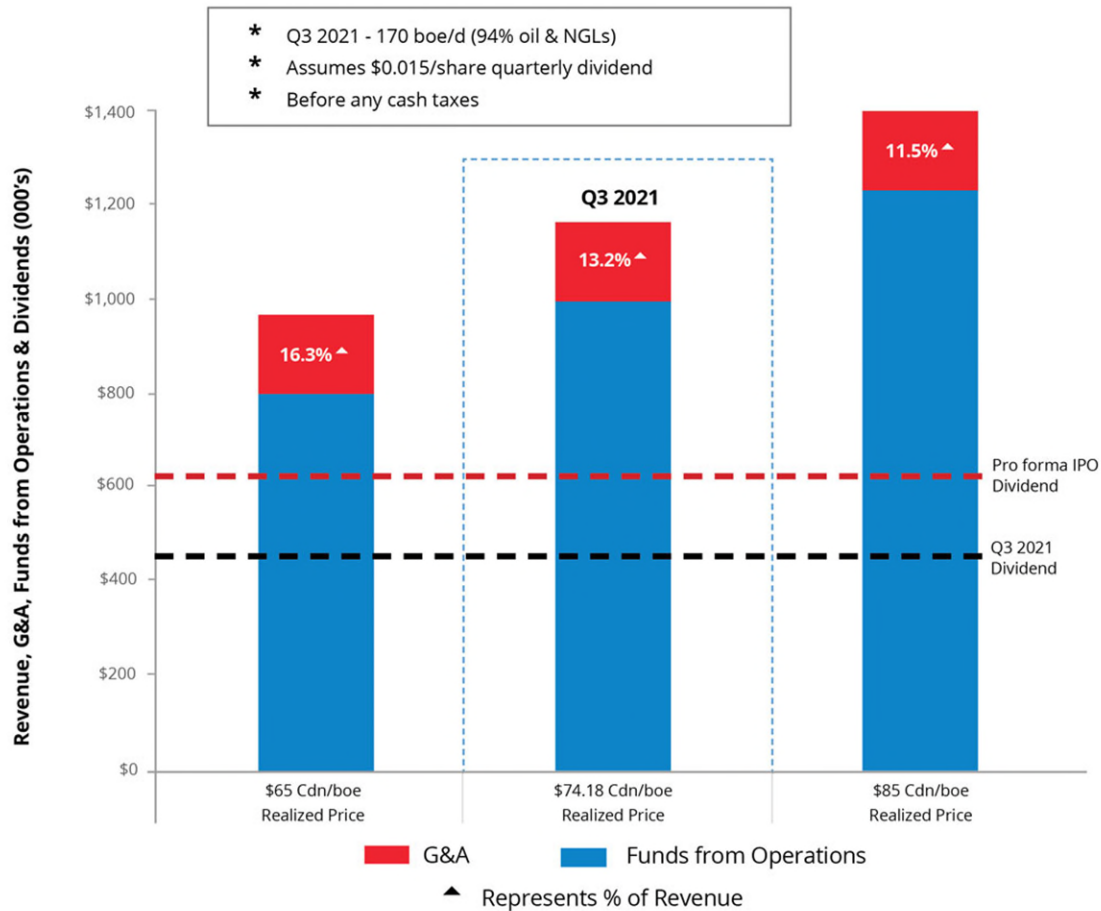
The following table sets out select historical financial and operational information as at and for the periods indicated. Investors should read the select historical financial information in conjunction with the Company's management's discussion and analysis, the Company's audited and unaudited financial statements and the accompanying notes included in this prospectus under Appendix "FS" – *"Index to Financial Statements and Management's Discussion and Analysis"*.

	For the three months ended September 30, 2021	For the nine months ended September 30, 2021	For the year ended December 31, 2020
Production			
Oil Equivalent (boe/d)	170 (93.6% oil and NGLs)	159 (94.7% oil and NGLs)	94 (92.1% oil and NGLs)
Financial			
Royalty revenue	\$1,161,759	\$3,014,804	\$1,375,749
G&A	\$153,895	\$332,221	\$346,281
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Payout Ratio ⁽¹⁾	44%	38%	84%
Per BOE			
Royalty revenue (\$/boe)	\$74.18	\$69.36	\$40.17
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Note:

- (1) This is a non-GAAP financial measure or non-GAAP ratio. Refer to the disclosure under the heading *"Important Advisory – Non-GAAP Measures"* for more information on each non-GAAP financial measure or ratio.
- (2) There is no standardized meaning for this metric. Refer to the disclosure under the heading *"Important Advisory – Oil and Gas Information Presentation Advisories"* for more information on this metric as used by Source Rock.

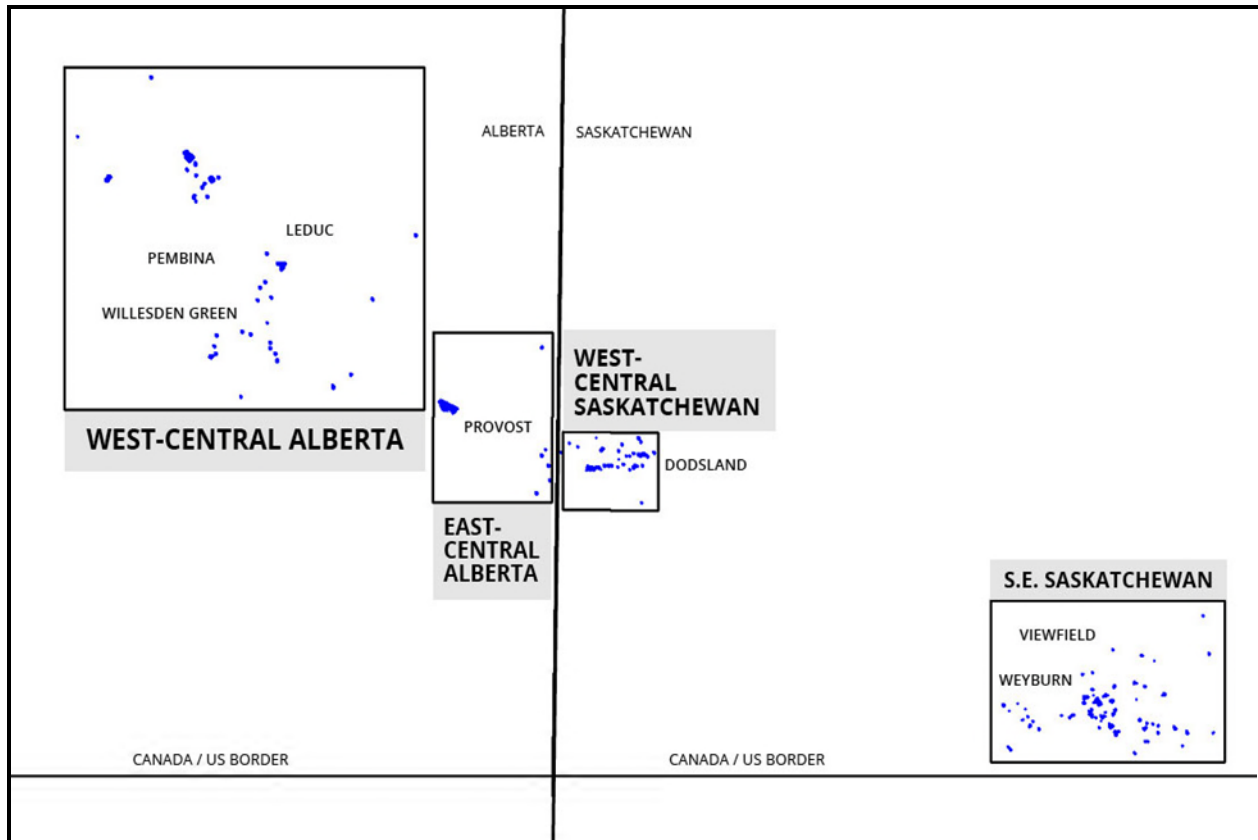
The chart below shows the sensitivity of revenue and funds from operations to changes in realized pricing using Q3 2021 production information, and shows Q3 2021 G&A as a percentage of revenue and the dividend coverage (both before and after giving effect to the Offering, assuming the Offering is priced at \$0.95).



Description of Royalty Assets

Source Rock has an existing portfolio of light oil focused royalties that are situated across southeastern Saskatchewan, east-central Alberta, west-central Alberta and west-central Saskatchewan. Source Rock owns varying gross overriding royalties ("**GORR**") in approximately 75,000 gross acres of land. Source Rock also owns a production volume royalty (the "**PVR**") in Viking mineral interests in lands located in east-central Alberta (the "**PVR Lands**"). The PVR is predominately supported by production from the Hamilton Lake Viking Oil Sand B-Pool Unit (the "**Hamilton Lake Unit**").

The following map depicts substantially all of the Royalty Lands, shaded in blue.



Source Rock's royalties are structured as "interests in land", which means they are carved out of a working interest in mineral leases and are attached to and move with the land if ownership of the working interest changes. GORRs are contractual in nature and as a result do not last in perpetuity. GORRs typically expire when the underlying lease is no longer valid, which normally occurs when the productive life of a lease is over. The PVR is also contractual in nature and expires at the end of the agreed upon term or converts to a GORR. The vast majority of Source Rock's royalties are based on top-line revenue so Source Rock has minimal exposure to deductions associated with the cost to produce from wellbores and to sell the various commodities that are produced.

As at September 30, 2021, there were approximately 275 gross producing wellbores (excluding wellbores that are within a unit) on Source Rock's royalty lands. In addition, Source Rock owns varying royalties in seven units. Source Rock's royalty production comes from an array of formations, including but not limited to the Frobisher, Viking, Midale, Bakken, Tilston, Souris Valley, Lower Waterous-Alida, Ostracod, Mannville, Glauconitic, Rex, Cardium and Ellerslie.

Source Rock believes that the vast majority of its current royalty payors are fiscally well-positioned and have strong capabilities to operate and maximize value from the lands in which Source Rock owns royalties. For the three months ended September 30, 2021, approximately 99% of Source Rock's royalty revenue was paid by the following sixteen entities (in varying amounts):

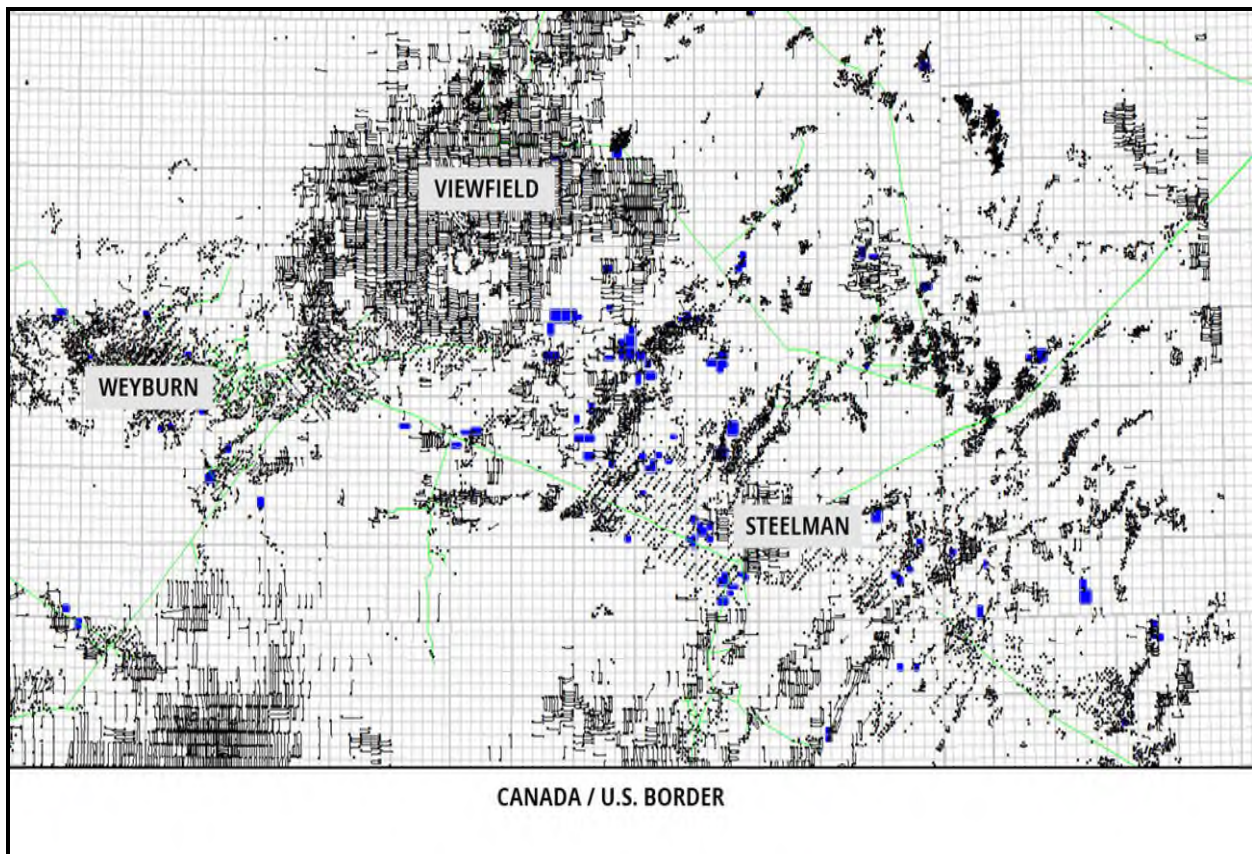
Longshore Resources Ltd.	Whitecap Resources Inc.
Anova Resources Inc.	Vermilion Energy Inc.
Tundra Oil & Gas Ltd.	Saturn Oil & Gas Inc.

Crescent Point Energy Corp.	Summerland Energy Inc.
Canadian Natural Resources Limited	Teine Energy Ltd.
Bonavista Energy Corporation	Triland Energy Inc.
ROK Resources Inc.	InPlay Oil Corp.
Ridgeback Resources Inc.	Surge Energy Inc.

Southeast Saskatchewan GORR Lands

Source Rock owns varying GORRs in approximately 20,000 gross acres of land located in southeast Saskatchewan (the "**S.E. Saskatchewan GORR Lands**"). The S.E. Saskatchewan GORR Lands produce predominately light oil from multiple formations, including but not limited to the Frobisher, Midale, Bakken, Tilston, Souris Valley and Lower Waterous-Alida. As at September 30, 2021, there were approximately 98 producing wellbores on the S.E. Saskatchewan GORR Lands and Q3 2021 production was approximately 55 boe/d. Source Rock also owns varying GORRs in five units in S.E. Saskatchewan. As at September 30, 2021, 13 gross new wells had been drilled on the S.E. Saskatchewan GORR Lands in 2021, all of which targeted the Frobisher formation. The S.E. Saskatchewan GORR Lands provide insulation from any potential Alberta and Western Saskatchewan oil price differential widening that may occur again in the future due to oil from these lands being sold at Cromer, Manitoba.

The following map depicts the majority of the S.E. Saskatchewan GORR Lands located in southeastern Saskatchewan, shaded in blue. Oil pipelines are denoted by green lines and wellbores are identified in black.



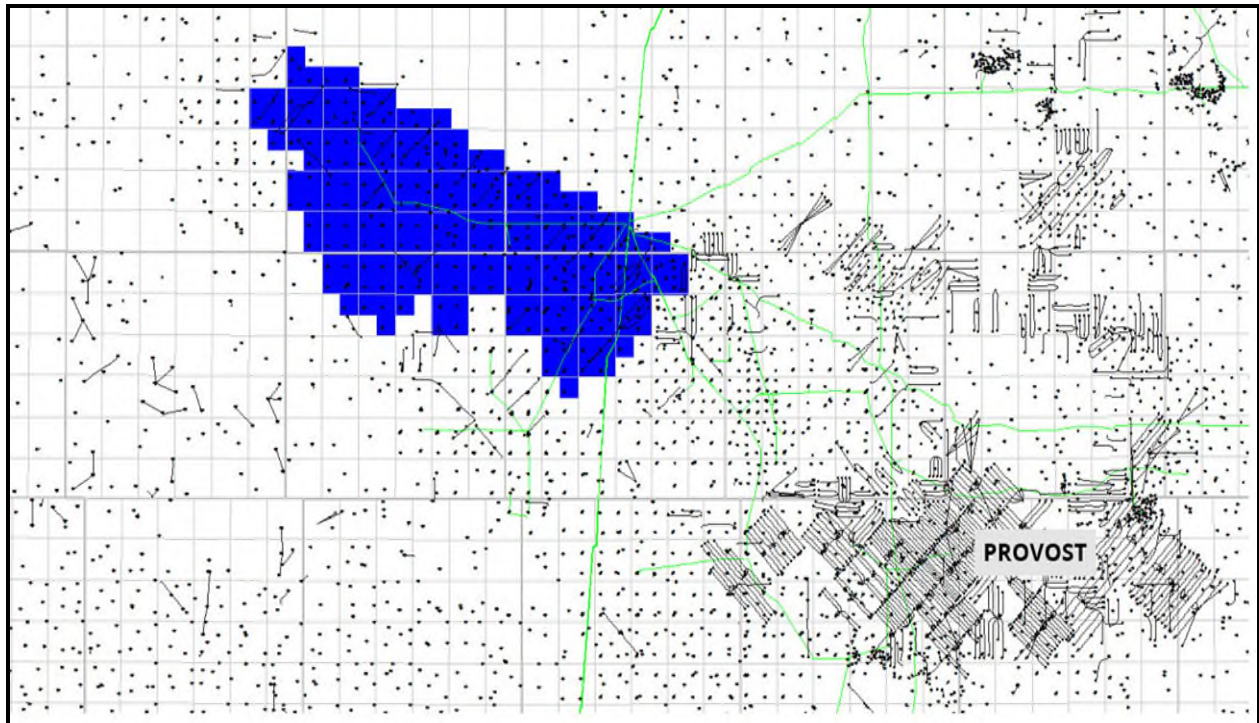
Strategic Southeast Saskatchewan Partnership

Source Rock owns a right, but not an obligation, to acquire a 2% GORR in all oil and gas mineral interests purchased, acquired or earned by a private southeast Saskatchewan entity (the "**Royalty Option**"). The purchase price for GORRs acquired pursuant to the Royalty Option is calculated based on a pre-determined metric that moves with the price of WTI (that is, the purchase price decreases when the WTI price is lower and increases when the WTI price is higher). The Royalty Option does not expire and does not have any geographic boundary.

Production Volume Royalty (East-central Alberta)

Source Rock's largest royalty interest in terms of current production and revenue is the PVR in the PVR Lands located in east-central Alberta. The PVR is predominately supported by production from the Hamilton Lake Unit. The Hamilton Lake Unit is operated by Longshore. On February 3, 2022, Source Rock received an industry wide dissemination from Sayer Energy Advisors ("**Sayer**") indicating that Longshore has engaged Sayer to assist with the sale of certain oil and natural gas interests that includes the PVR Lands.

The following map depicts the Hamilton Lake Unit located on lands in east-central Alberta, shaded in blue. Oil pipelines are denoted by green lines and wellbores are identified in black.



The PVR was acquired by Source Rock in 2015. From the date of acquisition to the end of September 2021, the PVR has provided Source Rock with \$9.17 million of royalty revenue. The chart below sets forth royalty revenue from the PVR as compared to total royalty revenue for the years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021.

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
PVR Revenue (\$)	711,588	1,896,692	636,856	1,801,497
Source Rock's Total Revenue (\$)	1,161,759	3,014,804	1,375,749	2,694,491
Percentage of Total Revenue	61%	63%	46%	67%

Although the PVR as a percentage of Source Rock's royalty production and revenue is anticipated to decrease in the coming years, it is still expected to contribute materially to Source Rock's overall business for several more years. See "*Description of the Business – Description of Royalty Assets – Production Volume Royalty Agreement*".

Production Volume Royalty Agreement

The PVR was acquired by Source Rock in 2015 pursuant to the Production Volume Royalty Agreement entered into between the Company and Toro (a predecessor corporation to Longshore). In consideration for Source Rock paying the cash purchase price of \$12 million, Toro granted to Source Rock a royalty interest, being the PVR, in the PVR Lands. Pursuant to the Production Volume Royalty Agreement, it was agreed that the PVR constitutes an "interest in land" that shall run with the Royalty Lands.

The PVR was reserved out of Toro's working interest in the PVR Lands, and consists of a royalty interest in the crude oil from the "Viking formation" (as defined by the Alberta Energy Regulator (the "**AER**") at any given time) within, upon or under the PVR Lands, without any deductions. The royalty interest was quantified in accordance with a production volume schedule set forth in the Production Volume Royalty Agreement, with the daily quantity of royalty production increasing on an annual basis, from 50 barrels per day in 2015 to 95 barrels per day in both 2021 and 2022 and then declining 20% year over year from the prior year's per day volumes from 2023 to 2034. On January 1, 2035, the payor of the PVR will have the option to purchase the PVR for a price of \$500,000 or convert it to a 0.50% GORR in the Hamilton Lake Unit.

Pursuant to the Production Volume Royalty Agreement, the amount of the PVR royalty production volume to which Source Rock is entitled is determined on a monthly basis based on the daily quantity of royalty production in effect at the time but is subject to the amount of royalty production actually produced in that month. If there is a shortfall such that the amount actually delivered is less than the entitlement pursuant to the production volume schedule, then the amount of the shortfall in royalty volumes will be carried forward and remain an entitlement to future royalty production. Notwithstanding the carry forward of the entitlement to future royalty volumes in the event of a shortfall, the payor of the PVR is not required to deliver such shortfall in royalty volumes for a particular month if the delivery of such shortfall of royalty volumes would have a material adverse effect on the payor's business and therefore would continue to be carried forward until such time as the payor can satisfy such amount out of production from the PVR Lands.

The Production Volume Royalty Agreement provides that the payor of the PVR will, in good faith, use reasonable commercial efforts to produce the crude oil from the PVR Lands in order to satisfy Source Rock's entitlement to monthly royalty volumes, inclusive of the carried forward amounts, as applicable; provided that, the payor is not required to conduct operations to produce from the PVR Lands if such operations would be uneconomic or result in a material adverse effect on the payor, acting reasonably and in good faith.

The payor of the PVR is entitled to sell or transfer all or a portion of the PVR Lands but must first obtain from the purchaser or transferee an instrument in writing acknowledging and confirming both the PVR as an "interest in land"

in the PVR Lands and Source Rock's rights and interests under the Production Volume Royalty Agreement, provided that if less than all of the PVR Lands are to be sold or transferred then the prior written consent of Source Rock is also required.

The payor of the PVR is not permitted to create or permit the existence of a security interest on any portion of the PVR Lands without first having obtained from the person in whose favour the security interest exists an acknowledgement that, among other things: (a) such person does not have any security interest or other interest in the PVR; (b) such person will not object to the parties asserting that the PVR is an "interest in land"; and (c) any enforcement of security against the PVR Lands by such person will not affect the PVR or the Production Volume Royalty Agreement.

Pursuant to the Production Volume Royalty Agreement, Source Rock's remaining entitlement to royalty volumes from the Hamilton Lake Unit is as follows:

- 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.

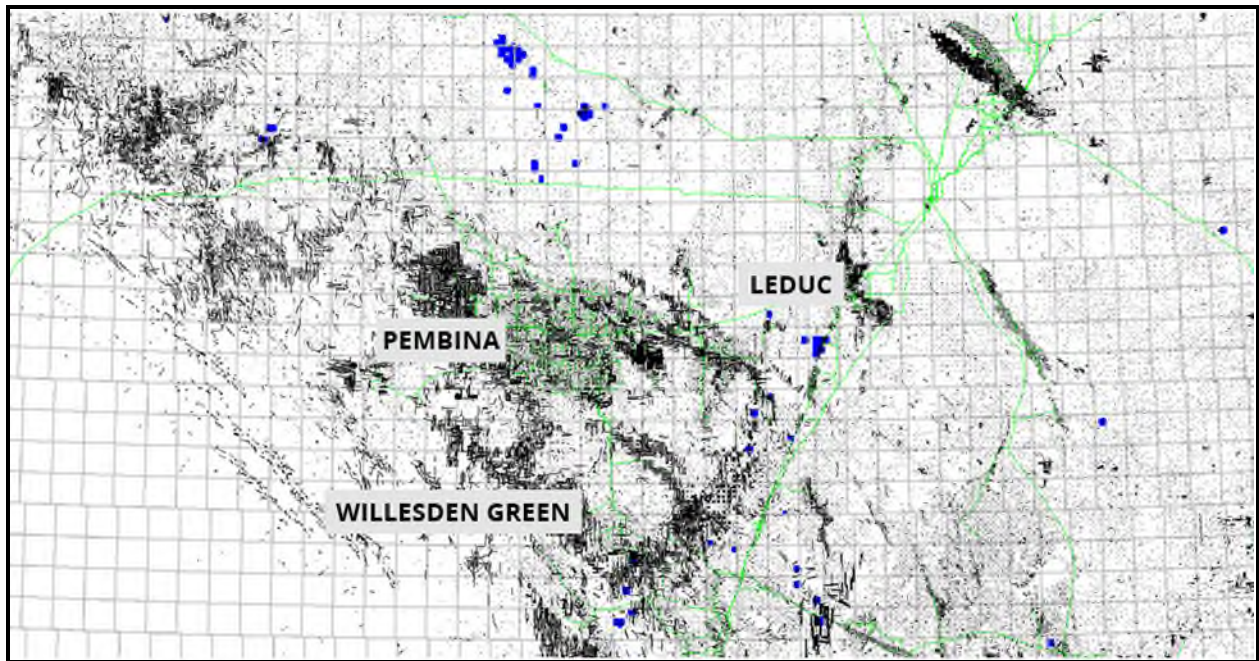
Temporary Revised PVR Terms

The Hamilton Lake Unit was shut-in from April 1, 2020 to September 15, 2020 due to the significant drop in oil prices that occurred. To facilitate having Longshore resume production at the Hamilton Lake Unit efficiently, Source Rock agreed to temporary revised terms relating to the PVR (the "**Temporary Revised Terms**"). As of January 1, 2022, the Temporary Revised Terms will no longer apply and Source Rock's entitlement will revert to the original terms of the Production Volume Royalty Agreement. As a result of the Hamilton Lake Unit being shut-in and the effect of the Temporary Revised Terms, Source Rock has an accrued right to 16,805 barrels of royalty production (the "**Accumulated Barrels**") pursuant to the terms of the Production Volume Royalty Agreement. The Accumulated Barrels remain a future right to royalty production from the PVR Lands that Source Rock is entitled to receive pursuant to the terms of Production Volume Royalty Agreement.

Alberta GORR Lands

Source Rock owns varying GORRs in approximately 40,000 gross acres of land located in west-central and east-central Alberta (the "**Alberta GORR Lands**"). The Alberta GORR Lands produce a mixture of oil, natural gas liquids and natural gas from multiple formations, including but not limited to the Ostracod, Cardium, Ellerslie, Glauconitic, Rex and Mannville. As at September 30, 2021, there were approximately 26 producing wellbores on the Alberta GORR Lands. There are also additional shut-in wellbores that were transferred to new owners in 2021 and therefore may resume producing in the future.

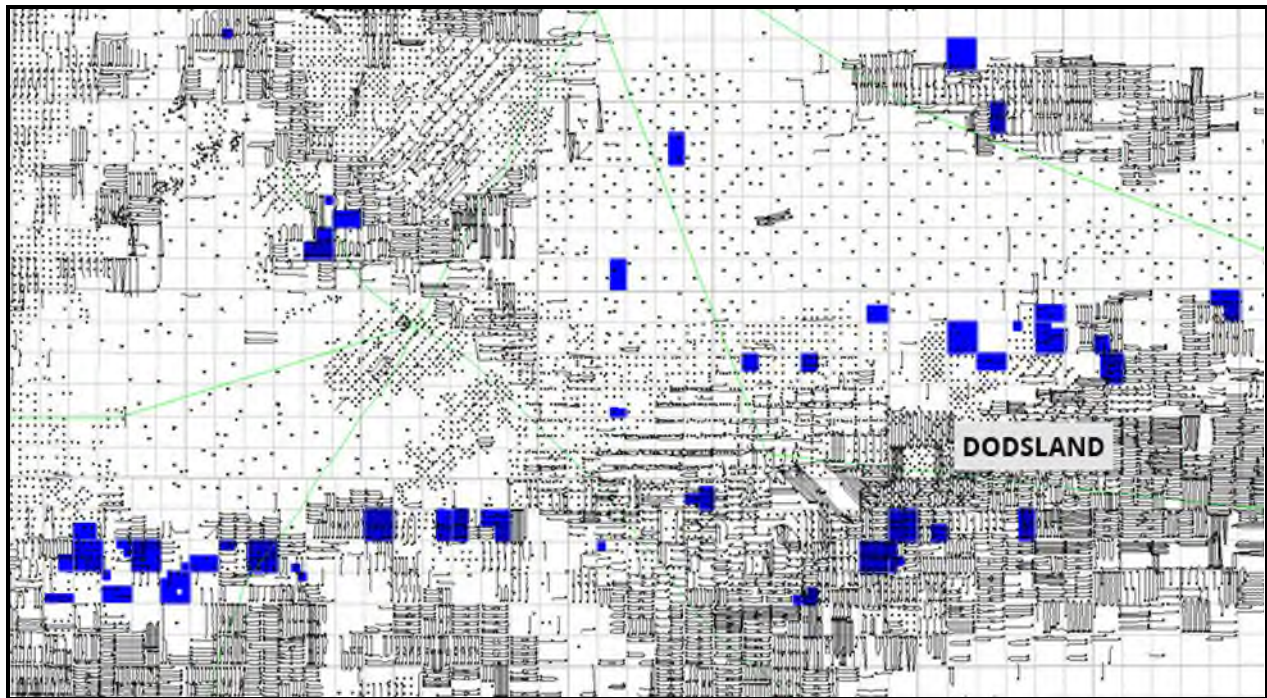
The following map depicts the majority of the Alberta GORR Lands shaded in blue. Oil pipelines are denoted by green lines and wellbores are identified in black.



West-Central Saskatchewan GORR Lands

Source Rock owns varying GORRs in approximately 15,000 gross acres of land in west-central Saskatchewan (the "**West-central Saskatchewan GORR Lands**"). The West-central Saskatchewan GORR Lands produce predominately light oil from the Viking and Mannville formations. As at September 30, 2021, there were approximately 151 producing wellbores on the West-central Saskatchewan GORR Lands. Source Rock also owns a GORR in one natural gas unit in west-central Saskatchewan. As at September 30, 2021, one gross new Viking oil well had been drilled on the West-central Saskatchewan GORR Lands in 2021.

The following map depicts the majority of the West-central Saskatchewan GORR Lands located in west-central Saskatchewan, shaded in blue. Oil pipelines are denoted by green lines and wellbores are identified in black.



Growth Strategy

Pursue Accretive Acquisitions of Additional Royalty Interests

Establishing Royalty Partnerships Through Niche Relationships

The majority of Source Rock's past royalty acquisitions have been newly created royalties in the developed and undeveloped mineral interests of exploration and production companies. Source Rock often takes a collaborative approach with such transactions whereby it concurrently creates areas of mutual interests, rights of first refusals and/or rights and options to acquire additional royalties in mineral rights acquired by the counterparties after the initial transaction.

Through such transactions Source Rock acts as a source of capital for the counterparties. "Royalty capital" has become an increasingly prevalent form of capitalization for oil and gas exploration and production companies in Canada. In recent years, the availability of debt on reasonable terms has diminished materially for Canadian oil and gas companies as several historically active lenders have changed their mandates and are backing away from providing debt facilities. Furthermore, raising capital through the issuance of equity has become challenging, especially considering valuations in the Canadian oil and gas industry are at or near all-time lows on a debt adjusted enterprise value to cash flow basis. As evidenced by recently announced transactions, raising capital through the granting of a royalty in mineral interests has become a more accepted and actively pursued form of capitalization for Canadian oil and gas companies.

Creating new royalties in the producing and non-producing mineral interests of exploration and production companies has been positive for expanding Source Rock's royalties because the approach typically provides the following benefits:

- a predictable base of royalty production and revenue;

- exposure to identifiable upside drilling locations without specifically ascribing a cost to each such location;
- drilling commitments relating to the royalty lands, which if not satisfied results in penalty payments;
- improved insight into the timing and technical results of drilling and operational activities;
- an easier to manage asset base for Source Rock, thus allowing for G&A costs to remain lower; and
- formal (and informal) future acquisition opportunities with the counterparty.

Source Rock's management considers numerous factors in assessing whether a newly created royalty is an attractive acquisition, however particular importance is placed on the following characteristics:

- immediate cash flow accretion;
- the counterparty being fiscally well-positioned;
- a low base decline on existing production;
- a long-life proven reserve profile;
- identifiable proven undeveloped drill locations; and
- the ability of the counterparty to commit to near term capital expenditures on the lands.

Acquisition of Existing Royalty Interests

Royalty interests are owned by a vast array of individuals and entities, and they can come about through various circumstances. Royalties typically exist from the farmout of mineral interests (by individual mineral rights owners or by companies) to an exploration and production company in exchange for a royalty. Royalties can also be granted as consideration for the services of industry professionals such as geologists, landmen and financing consultants.

Unlike ownership in oil and gas mineral rights in Canada, there is no database of royalty owners in oil and gas mineral interests. This dynamic creates a barrier of entry to competition with respect to acquiring royalties. Source Rock has been working to identify royalties for over eight years. This experience provides specific knowledge about the ownership of certain royalties in the WCSB, and in effect provides Source Rock with its own database of acquisition opportunities to pursue. Having this experience also creates an element of industry awareness regarding Source Rock's desire to acquire existing royalties. This awareness provides in-bound acquisition opportunities for Source Rock.

Acquisition of Fee Title & Leasing of Crown Mineral Interests for Farm-out

Source Rock may also acquire royalties by first acquiring undeveloped fee title or leasing Crown mineral interests, and then farming out the right to develop such mineral interests in exchange for a retained royalty. While Source Rock has had numerous discussions relating to this form of transaction in the past, this approach has not been a material portion of Source Rock's focus or business model. Despite this, such transactions remain another possible avenue for growth beyond creating new royalties in mineral interests owned by exploration and production companies and acquiring existing royalties. If such transactions are completed, Source Rock anticipates that they would take the form of partnerships with exploration and production companies whereby Source Rock pays for a portion of such fee title and/or Crown mineral leases and a development partner co-invests concurrently and commits to undertaking drilling operations on the lands.

Development of Existing Royalty Lands

Source Rock benefits from ongoing drilling activity on the Royalty Lands without expending any capital after its initial royalty purchase. Source Rock anticipates that drilling activity will remain consistent in the near term on portions of the Royalty Lands, particularly on certain portions of the S.E. Saskatchewan GORR Lands.

Royalty Industry Peer Landscape

There are relatively few entities in Canada focused on acquiring oil and gas royalties, and the publicly-held oil and gas royalty companies in Canada all have much larger market capitalizations than Source Rock. These entities tend to pursue royalty acquisitions that are larger than those targeted by Source Rock. This allows Source Rock to leverage its niche industry relationships to access royalty acquisitions that are below the target transaction size for these larger competitors.

INVESTMENT HIGHLIGHTS

Source Rock presents a unique opportunity to invest in a junior oil and gas royalty company in Canada. Source Rock believes it has a track-record of executing on its business model and presents the following key investment highlights:

- existing royalty revenue from light oil focused royalties in Saskatchewan and Alberta;
- over eight years of completing non-marketed royalty acquisitions, gaining industry knowledge about royalty acquisition opportunities, building relationships with potential royalty transaction counterparties and structuring royalty transactions;
- a history of positive funds from operations during all market cycles;
- a history of dividend payments despite volatile market conditions and commodity prices;
- an experienced management team and board of directors that is vested and aligned with shareholders;
- no exposure to drilling & operating costs, abandonment liabilities or reclamation expenses;
- a low-cost corporate structure that minimizes G&A to maximize funds from operations per share; and
- long-standing financial support from a large Canadian pension fund.

Existing Royalty Revenue from Light Oil Focused Royalties in Saskatchewan and Alberta

The Royalty Lands are primarily producing and prospective for light oil. Light oil exposure allows for a strong Netback despite periods of depressed prices (see "*Description of the Business – Description of Royalty Assets*"). The chart below sets forth production, royalty revenue and Netback for the years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021.

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Avg. Daily Production (boe/d)	170	159	94	129
Oil & Liquids Ratio	94	95	92	89
Royalty Revenue (\$)	1,161,759	3,014,804	1,375,749	2,694,491
Netback (\$) ⁽¹⁾	64.37	61.98	30.18	50.11

Note:

- (1) There is no standardized meaning for this metric. Refer to the disclosure under the heading "Important Advisory – Oil and Gas Information Presentation Advisories" for more information on this metric as used by Source Rock.

For the month of October 2021, Source Rock's royalty production and revenue were 160 boe/d (94% oil and NGLs) and \$431,700, respectively.

Over Eight Years of Identifying, Structuring and Executing on Non-Marketed Royalty Acquisitions

Source Rock has consistently acquired royalties since inception, despite a high degree of energy market volatility. Source Rock has almost entirely been focused on non-marketed royalty acquisitions, as compared to royalty opportunities marketed through formalized third-party processes. Source Rock has strong relationships in the oil and gas sector in the WCSB and leverages these relationships to identify and access non-marketed royalty acquisitions. This is important as it relates to Source Rock's ability to execute on its growth strategy given the competitive landscape for royalties in the WCSB (see "Description of the Business – Growth Strategy – Royalty Industry Peer Landscape").

Source Rock's management has over eight years of expertise relating to structuring and negotiating royalty transactions in the WCSB. In addition, Source Rock's network of niche industry relationships in the WCSB provide (i) royalty transaction access points; (ii) a transaction pipeline of in-bound royalty acquisition opportunities; and (iii) insight on the owners of existing royalties which may be available for acquisition.

History of Positive Funds from Operations During All Market Cycles

Despite multiple oil price crashes and very volatile energy markets since inception, Source Rock has consistently achieved positive funds from operations. Source Rock has achieved this by being debt free, focusing on light oil royalties and maintaining low corporate operating costs. The chart below sets forth funds from operations and funds from operations per share for the years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021.

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Funds from Operations ⁽¹⁾ (\$)	1,007,864	2,683,538	1,033,422	2,368,054
Per Share (\$)	0.034	0.091	0.036	0.086
Percentage of Revenue	87%	89%	75%	88%

Note:

- (1) This is a non-GAAP financial measure. Refer to the disclosure under the heading "Important Advisory – Non-GAAP Measures" for more information on this non-GAAP financial measure.

History of Dividend Payments Despite Volatile Market Conditions

Source Rock paid its first dividend of \$0.015 per share for the first quarter of 2014. Source Rock then paid the same quarterly dividend for 25 consecutive quarters until the onset of the COVID-19 pandemic, the oil price war between Saudi Arabia and Russia and the resulting crash in oil prices in the second quarter of 2020. As a result, Source Rock

did not pay a dividend for the second and third quarters of 2020. Following a modest recovery in oil prices in the latter half of 2020, Source Rock resumed paying a dividend by declaring a \$0.005 per share quarterly dividend for Q4 2020, and then reinstating in full its historical quarterly dividend of \$0.015 per share beginning with Q1 2021. Source Rock has now made this \$0.015 per share payment to Shareholders for four consecutive quarters (including the payment to be made as a return of capital in January 2022 to Shareholders of record on December 31, 2021 (the "Return of Capital")).

The chart below sets forth dividends paid and payout ratios for the years ended December 31, 2020 and 2019 and the three and nine months ended September 30, 2021. See "Dividends and Dividend Policy".

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Dividends Paid (\$)	440,307	1,025,576	863,815	1,642,258
Per Share (\$)	0.015	0.035	0.03	0.06
Payout Ratio⁽¹⁾	44%	38%	84%	69%

Note:

- (1) This is a non-GAAP ratio. Refer to the disclosure under the heading "Important Advisory – Non-GAAP Measures" for more information on this non-GAAP financial ratio.

Vested, Aligned and Experienced Management and Board of Directors

Source Rock's management and the board of directors own approximately 14% of the Common Shares on a non-diluted basis. Further, approximately 7% of the Common Shares are owned by the Founder, President and Chief Executive Officer.

Source Rock's management and board of directors collectively have approximately 150 years of combined experience in the Canadian oil and gas industry and capital markets. The careers of Source Rock's personnel have largely focused on engineering, geological, land, accounting and legal advisory services.

No Exposure to Drilling & Operating Costs, Abandonment Liabilities or Reclamation Costs

As a pure-play royalty business Source Rock does not own any operated or non-operated working interests in oil and gas wells. As a result, Source Rock does not have any exposure to the cost of: (i) drilling, producing and optimizing wells on the Royalty Lands; (ii) abandoning wellbores on the Royalty Lands; or (iii) remediating and completing reclamation work on the Royalty Lands. Following the acquisition of a royalty Source Rock does not have any future capital cost associated with owning the interest.

Low-Cost Operating Platform Allows for Sustainability, Scalability & Positive Funds from Operations Per Share

Source Rock strives to keep G&A low to maximize funds from operations. Since inception, the only fixed fee personnel that Source Rock has had are its: (i) President and Chief Executive Officer; and (ii) Chief Financial Officer (collectively, the "Executives"). Aside from the Executives, Source Rock has periodically used the services of other consultants on an as-needed hourly basis, including but not limited to personnel for land administration, production accounting, geological and engineering evaluation, marketing material preparation and website maintenance.

Key Institutional Shareholder

In July 2014, CN became a Shareholder. Since this initial investment, CN has participated in every financing that Source Rock has completed. Prior to the Offering, CN owns approximately 26% of the Common Shares.

ENVIRONMENTAL, SOCIAL/SUSTAINABILITY & GOVERNANCE PRINCIPLES

Source Rock recognizes the importance of having strong environmental, social/sustainable and governance ("ESG") principles and aims to continuously improve in all aspects of its ESG mandates.

Environmental

Source Rock only owns royalties in the WCSB, which is home to stringent environmental regulations and industry leading technology innovation with respect to reducing the environmental impact from oil and gas exploration and production. Source Rock does not have any field operations, so is not exposed to well abandonment obligations, facility de-commissioning liabilities or land remediation and reclamation requirements. Source Rock's royalty payors are contractually committed to undertaking operations in accordance with "good oilfield practices" and in compliance with all laws. In addition, Source Rock strives to align itself with reputable operators that are proven to be competent and strong stewards of environmental policies and best practices.

Social/Sustainability

Long-term sustainability is a key characteristic of Source Rock's business. To achieve this, Source Rock maintains a low-cost operating platform to ensure the business produces funds from operations. Source Rock has refrained from using debt in its business and as a result strengthens the sustainability profile of its operations. Executing on a such a mandate provides Source Rock with financial flexibility to contribute to worthwhile social causes when deemed reasonable to do so.

Governance

The Board of Directors is relatively large, being comprised of seven independent directors and the Chief Executive Officer and Founder. The Board of Directors provides access to a diverse array of skill-sets, including industry expertise and relationships, maximizes oversight of potential conflicts of interest, and ensures that the highest degree of ethical standards are followed. The large and diverse nature of the Board of Directors allows Source Rock to have almost entirely independent director representation on its committees (Audit Committee, Reserves Committee and Compensation and Corporate Governance Committee). Source Rock recognizes the importance of racial and gender diversity on the Board of Directors. Source Rock regularly evaluates whether any changes to the composition of the Board of Directors should be made and if suitable candidates are available and willing to the Board.

SOURCE ROCK RESERVES

Statement of Reserves Data and Other Oil and Natural Gas Information

The statement of reserves data and other oil and natural gas information set forth below is dated effective December 31, 2020 and the preparation date of the statement is December 20, 2021. The Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 are attached as Appendices "B" and "C" to this prospectus, respectively.

Disclosure of Reserves Data

The reserves data set forth below is based upon an evaluation by Trimble with an effective date of December 31, 2020 as contained in the Reserves Report. The reserves data summarizes the crude oil reserves of Source Rock and the net present values of future net revenue for these reserves using forecast prices and costs. The Reserves Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101 and CSA 51-324. Source Rock engaged Trimble to provide an evaluation of its proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of Source Rock's reserves are in the Provinces of Alberta and Saskatchewan.

Source Rock determined the future net revenue and present value of future net revenue after income taxes by utilizing Trimble's before income tax future net revenue and Source Rock's estimate of income tax. Source Rock's estimates of the after income tax value of future net revenue have been prepared based on before income tax reserves information and include assumptions and estimates of its tax pools and the sequences of claims and rates of claim thereon. The values shown may not be representative of future income tax obligations, applicable tax horizon or after tax valuation. The after tax net present value of Source Rock's oil and gas properties reflects the tax burden of its properties on a stand-alone basis. It does not provide an estimate of the value of Source Rock as a business entity, which may be significantly different. The financial statements of Source Rock for the year ended December 31, 2020 are included in this prospectus under Appendix "FS" – "Index to Financial Statements and Management's Discussion and Analysis" and should be consulted for additional information regarding taxes.

All evaluations of future net revenue are before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses.

It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to reserves estimated by Trimble represent the fair market value of those reserves. There is no assurance that the forecast price and cost assumptions contained in the Reserves Report will be attained and variations could be material. Other assumptions and qualifications relating to costs and other matters are summarized herein. Readers should review the definitions and information contained in "Glossary of Select Oil and Gas Terms" in conjunction with the following tables and notes. The recovery and reserve estimates described herein are estimates only. The actual reserves associated with Source Rock's properties may be greater or less than those calculated. See "Risk Factors".

The tables below summarize the data contained in the Reserves Report and, as a result, may contain slightly different numbers than such report due to rounding. Due to rounding, certain columns may not add exactly to the totals listed.

Summary of Reserves (Forecast Prices and Costs)

**Summary Of Oil And Natural Gas Reserves
As Of December 31, 2020
Forecast Prices And Costs⁽¹⁾**

Reserves Category	Reserves									
	Light and Medium Crude Oil		Heavy Crude Oil		Conventional Natural Gas		Natural Gas Liquids		Total BOE	
	Gross (mbbls)	Net (mbbls)	Gross (mbbls)	Net (mbbls)	Gross (mmcf)	Net (mmcf)	Gross (mbbls)	Net (mbbls)	Gross (mboe)	Net (mboe)
Proved:										
Developed Producing	-	257.1	-	0.9	-	34.3	-	2.5	-	266.2
Developed Non-Producing	-	3.3	-	-	-	19.0	-	0.2	-	6.6
Undeveloped	-	23.3	-	-	-	11.7	-	0.2	-	25.5
Total Proved	-	283.7	-	0.9	-	65.0	-	2.9	-	298.4
Probable	-	51.6	-	0.2	-	20.4	-	0.9	-	56.1
Total Proved Plus Probable	-	335.3	-	1.0	-	85.4	-	3.8	-	354.5

Note:

- (1) Under NI 51-101, gross reserves include only working interests before the deduction of royalties payable and do not include royalties receivable. Net reserves are comprised of working interests minus royalties payable plus royalties receivable. Unlike typical oil and natural gas production companies which hold working interests, all of the Company's interests are royalties. As a result, the Company does not have any gross reserves attributed to the Royalty Lands.

**Net Present Values Of Future Net Revenue
Before Income Taxes Discounted (%/year)
As Of December 31, 2020
Forecast Prices And Costs**

Reserves Category	0% (\$000s)	5% (\$000s)	10% (\$000s)	15% (\$000s)	20% (\$000s)
Proved:					
Developed Producing	17,560.6	14,195.9	11,905.1	10,262.2	9,036.1
Developed Non-Producing	290.7	231.8	191.4	162.5	141.1
Undeveloped	1,413.0	1,153.6	972.0	835.6	729.6
Total Proved	19,264.4	15,581.4	13,068.4	11,260.3	9,906.8
Probable	3,611.4	2,315.4	1,591.9	1,150.8	864.9
Total Proved Plus Probable	22,875.8	17,896.8	14,660.3	12,411.1	10,771.7

**Net Present Values Of Future Net Revenue
After Income Taxes Discounted (%/year)
As Of December 31, 2020
Forecast Prices And Costs**

Reserves Category	0% (\$000s)	5% (\$000s)	10% (\$000s)	15% (\$000s)	20% (\$000s)
Proved:					
Developed Producing	15,881.3	12,835.9	10,775.7	9,305.1	8,211.5
Developed Non-Producing	213.0	170.1	140.8	120.0	104.7
Undeveloped	1,038.2	844.3	710.9	611.4	534.2
Total Proved	17,132.5	13,850.3	11,627.4	10,036.5	8,850.3
Probable	2,844.5	1,779.2	1,203.4	860.6	642.1
Total Proved Plus Probable	19,977.0	15,629.5	12,830.9	10,897.0	9,492.4

**Total Future Net Revenue
(Undiscounted)
As Of December 31, 2020
Forecast Prices And Costs ⁽¹⁾**

Reserves Category	Revenue (\$000s)	Royalties (\$000s)	Operating Costs (\$000s)	Development Costs⁽¹⁾ (\$000s)	Abandonment And Reclamation Costs⁽¹⁾ (\$000s)	Future Net Revenue Before Income Taxes (\$000s)	Income Taxes (\$000s)	Future Net Revenue After Income Taxes (\$000s)
Total Proved	19,264.4	-	-	-	-	19,264.4	2,131.9	17,132.5
Total Proved plus Probable	22,875.8	-	-	-	-	22,875.8	2,898.8	19,977.0

Note:

- (1) Unlike typical oil and natural gas production companies which hold working interests, all of the Company's interests are royalties. As a result, there are no operating costs, development costs or abandonment and reclamation costs associated with the estimated future net revenue from the reserves attributed to the Royalty Lands because the Company does not hold working interests.

**Future Net Revenue
By Production Group
As Of December 31, 2020
Forecast Prices And Costs**

RESERVES CATEGORY	PRODUCTION GROUP	Future Net Revenue Before Income Taxes (discounted at 10%/year) (\$000s)	Unit Value Before Income Tax (discounted at 10%/year)
Proved	Light and Medium Crude Oil (including solution gas and by-products)	12,959.5	45.67
	Heavy Oil (including ultra heavy, solution gas and by-products)	36.5	42.34
	Conventional Natural Gas (including by-products)	72.3	3.44
	Total	13,068.4	43.80
Proved plus Probable	Light and Medium Crude Oil (including solution gas and by-products)	14,535.7	43.35
	Heavy Crude Oil (including ultra heavy, solution gas and by-products)	42.8	41.26
	Conventional Natural Gas (including by-products)	81.8	3.22
	Total	14,660.3	41.36

Note:

- (1) The unit value is calculated by dividing the discounted future net revenue for the principal product of the production group.

Pricing Assumptions

The forecast cost and price assumptions above assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. The following crude oil and natural gas benchmark reference pricing, inflation and exchange rates were utilized in the Reserves Report.

Summary Of Pricing And Inflation Rate Assumptions Forecast Prices And Costs ⁽¹¹⁾

Oil⁽¹⁾									
Year	WTI @ Cushing (\$US/bbl)	Edmonton Light⁽²⁾ (\$Cdn/bbl)	Hardisty Heavy Bow Riv⁽³⁾ (\$Cdn/bbl)	WCS⁽⁴⁾ (\$Cdn/bbl)	Hardisty Heavy⁽⁵⁾ (\$Cdn/bbl)	Cromer LSB⁽⁶⁾ (\$Cdn/bbl)	Inflation Rate⁽⁷⁾ %/Year	Exchange Rate⁽⁸⁾ (\$US/\$Cdn)	
2021	48.00	55.00	46.00	46.00	40.00	55.00	0.0	0.76	
2022	52.00	60.00	50.00	50.00	44.00	60.00	2.0	0.76	
2023	56.00	65.00	54.00	54.00	49.00	65.00	2.0	0.76	
2024	57.12	66.30	55.08	55.08	49.98	66.30	2.0	0.76	
2025	58.26	67.63	56.18	56.18	50.98	67.63	2.0	0.76	
Thereafter	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year			

Gas⁽⁹⁾									
Year	Henry Hub (\$US/ mmbtu)	AECO Spot (\$Cdn/ mmbtu)	B.C. Spot (\$Cdn/ mmbtu)	Cond.⁽¹⁾ (\$Cdn/bbl)	But.⁽¹⁰⁾ (\$Cdn/bbl)	Prop.⁽¹⁰⁾ (\$Cdn/bbl)	Sulph.⁽¹⁰⁾ (\$Cdn/lt)	Inflation Rate⁽⁷⁾ %/Year	Exchange Rate⁽⁸⁾ (\$US/\$Cdn)
2021	2.80	2.80	2.70	59.00	26.00	20.00	30.00	0.0	0.76
2022	2.90	2.70	2.60	64.00	35.00	23.00	30.00	2.0	0.76
2023	3.00	2.60	2.50	69.00	42.00	26.00	30.00	2.0	0.76
2024	3.06	2.65	2.55	70.38	42.84	26.52	30.60	2.0	0.76
2025	3.12	2.71	2.60	71.79	43.70	27.05	31.21	2.0	0.76
Thereafter	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year	+2.0%/year		

Notes:

- (2) Oil and Condensate are subject to quality differentials and transportation.
- (3) Light oil prices for 40.0 degrees API, 0.3% sulphur at Edmonton (Light Sweet Crude).
- (4) Bow River Blend at Hardisty oil prices for 20-24 degrees API (Medium Sour Crude).
- (5) Western Canada Select (WCS) prices at Hardisty (Heavy Sour Crude).
- (6) Heavy oil prices for 12 degrees API at Hardisty (Heavy Sour Crude).
- (7) Light oil prices for 35 degrees API at Cromer (Light Sour Blend).
- (8) Inflation rates for forecasting prices and costs.
- (9) Exchange rates used to generate the benchmark reference prices in this table.
- (10) Alberta gas prices are quoted at AECO (NOVA Inventory Transfer - NIT), B.C gas prices at Station #2.
- (11) Alberta reference price.
- (12) Operating and capital costs are forecast to escalate at 2.0%.

Weighted average historical prices realized by Source Rock for the year ended December 31, 2020, were \$43.24/bbl for light and medium crude oil, \$2.45/mcf for natural gas and \$16.73/bbl for NGLs.

Reserve Reconciliation

The reserves information presented in this prospectus has been summarized from the Reserves Report. As there was no evaluation report in respect of the Royalty Lands available to the Company for the year ended December 31, 2019, pursuant to the applicable provisions of NI 51-101, a reserves reconciliation is not required to be disclosed.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Proved undeveloped reserves are those reserves that can be estimated with a high degree of certainty to be recoverable where significant expenditure is required to render them capable of production. Probable undeveloped reserves are those additional reserves that are less certain to be recovered than proved reserves where significant expenditure is required to render them capable of production. The Reserves Report contains proved and probable undeveloped reserves that have been estimated in accordance with the procedures and standards contained in the COGE Handbook. The undeveloped reserves in the Reserves Report relate to locations that are within actively developed plays, supported by existing well control, and adjacent to existing production.

Source Rock anticipates that approximately 75% of the undeveloped reserves will be developed within the next five years; nevertheless, the development of the undeveloped reserves will be dependent on commodity prices and it may be more than five years until they are developed. The development of undeveloped reserves is not within the control of Source Rock as it only holds a royalty interest in such reserves and therefore does not have control or influence on the development of such reserves. See "Risk Factors".

Unlike typical oil and natural gas production companies which hold working interests, all of the Company's interests are royalties. As a result, the Company does not have any gross reserves attributed to the Royalty Lands and all reserves (including undeveloped reserves) are net reserves. As there was no evaluation report in respect of the Royalty Lands available to the Company for any year prior to the year ended December 31, 2020, no information has been provided relating to any prior financial years.

The following tables set forth the net proved undeveloped reserves and the net probable undeveloped reserves, each by product type, attributed to Source Rock for the year ended December 31, 2020 based on forecast prices and costs.

Proved Undeveloped Net Reserves

Year	Light and Medium Crude Oil (mbbls)		Heavy Crude Oil (mbbls)		Conventional Natural Gas (mmcf)		NGLs (mbbls)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2020	23.3	23.3	-	-	11.7	11.7	0.2	0.2

Probable Undeveloped Net Reserves

Year	Light and Medium Oil (mbbls)		Heavy Oil (mbbls)		Natural Gas (mmcf)		NGLs (mbbls)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
2020	39.2	39.2	-	-	8.3	8.3	0.3	0.3

Significant Factors or Uncertainties

Source Rock does not anticipate any significant economic factors or significant uncertainties will affect any particular components of its reserves data. However, while every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing economic or regulatory environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end crude oil and natural gas prices and reservoir performance. Such revisions can be either positive or negative. See "Risk Factors".

Future Development Costs

As funding for future development costs will be the responsibility of the working interest owners on the applicable properties, and as the Company does not hold any working interests in the Royalty Lands, the Company will not be responsible for any development costs on the Royalty Lands and cannot advise as to the sources and costs of funding future development or the impact thereof on disclosed reserves or future net revenue.

Other Oil and Gas Information

Oil and Gas Properties and Wells

The following table summarizes the gross number of wells located on the Royalty Lands as at December 31, 2020, all of which are located in Alberta and Saskatchewan. As the Company does not hold any working interests in the Royalty Lands, the net number of wells located on the Royalty Lands is nil.

	Natural Gas		Oil	
	Producing	Non-Producing ⁽¹⁾	Producing	Non-Producing ⁽¹⁾
Alberta	8	-	54	-
Saskatchewan	34	-	732	-
Total	42	-	786	-

Note:

- (1) The Company does not have information from third parties on non-producing wells located on the Royalty Lands because royalty revenues payable by third parties are based on producing wells located on the Royalty Lands and no information is provided with respect to non-producing wells.

Properties with No Attributed Reserves

All of the Royalty Lands, inclusive of those with no attributed reserves, are located in the WCSB. All of the Company's interests in the Royalty Lands are royalties. As the Company does not hold any working interests, the Company relies to some extent on information from third party royalty payors. Royalty revenues payable by third parties, and the reporting provided relating to such royalty revenues, are derived from the Royalty Lands that are producing and therefore have reserves attributed. Consistent reporting is not provided to the company for the Royalty Lands that are not producing (being those properties with no attributed reserves). These third parties are not always obligated to, and may not always, update the Company with respect to new information and developments relating to these properties with no attributed reserves.

As the Company does not hold any working interests in the Royalty Lands, the net acres associated with the Royalty Lands are nil. In addition, the Company is not responsible for, nor subject to, any work commitments. Similarly, the Company does not have the ability to control the expiration, surrender or continuation of rights to explore, develop and exploit any properties with no attributed reserves.

Tax Horizon

As at December 31, 2020, the Company had federal tax pools of \$14.1 million which included non-capital losses of approximately \$1.7 million. The statutory corporate income tax rate applicable to the Company is approximately 23%. A corporation's taxable income is based on total revenue, other income and expenses. The Company expects to pay cash taxes for the year ended 2021 and onward, with the anticipated amount of taxes being influenced by, among other factors, royalty production volumes, commodity prices, development activities on the properties in which it owns royalties, changes in tax laws, newly acquired tax pools via acquisitions of additional royalties, and the Company's other business activities.

Costs Incurred

There were no acquisition, development or exploration costs incurred in respect of the Royalty Lands for the year ended December 31, 2020, other than property acquisition costs of \$439,364 for unproved properties.

Production Estimates

The following table discloses for each product type the net volume of production estimated by Trimble for the year ended December 31, 2021 in the estimates of net proved and probable reserves disclosed above under the heading "Source Rock Reserves – Disclosure of Reserves Data".

Reserves Category	Light and Medium Crude Oil		Conventional Natural Gas		NGL		Barrels of oil Equivalent	
	Gross ⁽¹⁾⁽³⁾ (bbls/d)	Net ⁽²⁾⁽³⁾⁽⁴⁾ (bbls/d)	Gross ⁽¹⁾⁽³⁾ (mcf/d)	Gross ⁽¹⁾⁽³⁾ (mcf/d)	Net ⁽²⁾⁽³⁾ (bbls/d)	Net ⁽²⁾⁽³⁾ (bbls/d)	Gross ⁽¹⁾⁽³⁾ (boe/d)	Net ⁽²⁾⁽³⁾ (boe/d)
Proved	-	130	-	34	-	2	-	138
Probable	-	1	-	-	-	-	-	1
Total Proved Plus Probable	-	131	-	34	-	2	-	139

Notes:

- (1) All of the Company's interests in reserves are royalties with no associated working interests. As a result, there are no gross production associated with the Royalty Lands.
- (2) Net production represents the Company's royalties.
- (3) Including by-products but excluding solution gas.
- (4) The Company also owns a royalty on the production from one heavy oil well that is forecast to produce 1 bbl/d in 2021.

Other than the Hamilton Lake Unit, no field accounts for more than 20% of the production estimate. The production estimated by Trimble for the year ended December 31, 2021 for the Hamilton Lake Unit is 95 bbls/d of light and medium crude oil.

Production History

The following tables summarize certain information in respect of Source Rock's average royalty production, product prices received and production costs and the resulting netback from the Royalty Lands for the periods indicated below:

	Quarter Ended			
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Average Daily Royalty Production⁽¹⁾				
Light and Medium Crude Oil (bbl/d) ⁽²⁾	107.5	53.5	36.9	146.7
Heavy Crude Oil (bbl/d) ⁽²⁾	-	-	-	-
Conventional Natural Gas (mcf/d)	42.4	16.6	19.3	100.5
Combined (boe/d)	114.6	56.2	40.2	163.6
Average Product Price Received				
Light and Medium Crude Oil (\$/bbl) ⁽²⁾	45.64	43.16	24.00	44.29
Heavy Crude Oil (bbl/d) ⁽²⁾	-	-	0	-
Conventional Natural Gas (\$/mcf)	3.01	3.41	2.27	2.08
Combined Realized Price (\$/boe) ⁽³⁾	43.93	42.09	23.16	41.01

Notes:

- (1) Represents the Company's royalty share of production.
- (2) Includes solution gas and by-products.
- (3) Unlike typical oil and natural gas production companies which hold working interests, all of the Company's interests are royalties. As a result, (a) no royalties are payable with respect to the Company's share of royalty production, (b) the Company does not incur production or operating costs, and (c) the Company's "netback" as that term is defined in NI 51-101 is equivalent to its price received.

The Hamilton Lake Unit contributed approximately 38.2% of Source Rock's average royalty production for the year ended December 31, 2020. The production for the year ended December 31, 2020 for the Hamilton Lake Unit was 35.8 bbls/d of light and medium crude oil. For more information, see "*Description of the Business – Description of Royalty Assets – Production Volume Royalty (East-central Alberta)*".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of the Company for the year ended December 31, 2020 and for the three and nine months ended September 30, 2021 is included in this prospectus in Appendix "FS" – "*Index to Financial Statements and Management's Discussion and Analysis*".

DIVIDENDS AND DIVIDEND POLICY

Source Rock intends to use the majority of its funds from operations to pay dividends to Shareholders, targeting a payout ratio of 50-70%. The Board has established a dividend policy pursuant to which the Company intends to continue to pay an annual dividend in the amount of \$0.06 per Common Share on a quarterly basis (being \$0.015 per Common Share per quarter). Following Closing, the next scheduled dividend will be for the quarter ending March 31, 2022 and is expected to be paid on or about April 15, 2022 to Shareholders of record on March 31, 2022 in the amount of \$0.015 per Common Share.

Dividends are anticipated to be financed from internally-generated funds from operations. 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 Company; (ii) funding requirements for the Company's operations and future royalty acquisition opportunities; (iii) the satisfaction by the Company of liquidity and solvency tests under the ABCA; and (iv) if applicable, any provisions in agreements relating to indebtedness, as applicable, that restrict the declaration and payments of dividends. The Company currently pays dividends quarterly to Shareholders of record as of the last day of the last month of each quarter, which dividends are expected to be paid to Shareholders on or about the 15th day of the following month.

During the years ended December 31, 2020, December 31, 2019 and December 31, 2018, the Company paid \$863,816 (\$0.03 per Common Share), \$1,642,201 (\$0.06 per Common Share) and \$1,579,516 (\$0.06 per Common Share and \$1,556,903 net of the DRIP), respectively, in dividends to Shareholders.

During the three quarters ended September 30, 2021, the Company paid \$1,025,576 (\$0.035 per Common Share) in dividends to Shareholders. The payout ratio for dividends paid during the nine months ended September 30, 2021 was approximately 38% and for the three months ended September 30, 2021 was approximately 44%.

For the quarter ending December 31, 2021, the Company has approved a cash distribution of \$0.015 per Common Share to be paid on or before January 14, 2022 to Shareholders of record on December 31, 2021. This payment for the fourth quarter of 2021 has been structured as a return of capital instead of a dividend based on tax advice received from the Company's tax advisors. Future cash distributions to Shareholders, if, as and when declared by the Board, in its sole discretion, are expected to be in the form of dividends rather than additional payments in the form of a return of capital. Following this Q4 2021 payment, the Company will have paid \$1,766,215 (\$0.06 per Common Share) in cash distributions to Shareholders for the 2021 calendar year.

Cash dividends are not guaranteed. Although Source Rock intends to make dividends in the amount indicated to Shareholders, these cash dividends may be reduced or suspended. The actual amount distributed will depend on numerous factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, funding obligations, debt service requirements, and the satisfaction of solvency tests imposed by the ABCA for the declaration and payment of dividends, and other factors beyond the Company's control. See "*Risk Factors*".

On the Closing Date, provided that the Common Shares are listed on a designated stock exchange (which includes the TSXV), and subject to the qualifications further described under "*Eligibility for Investment*", each of the

Common Shares, including the Warrant Shares, and the Warrants would on that date be a qualified investment under the Tax Act for Deferred Plans.

DESCRIPTION OF SHARE CAPITAL AND SECURITIES BEING DISTRIBUTED

The following is a description of the rights, privileges, restrictions and conditions attaching to Source Rock's share capital.

Units

Each Unit is comprised of one Common Share and one half of one Warrant. Each Warrant entitles the holder to purchase one Warrant Share (being a Common Share issuable upon valid exercise of a Warrant) at an exercise price of \$1.25 per Warrant Share until the date that is 24 months following the Closing Date. Each Unit will separate into Common Shares and Warrants immediately upon issuance.

Common Shares

The Company is authorized to issue an unlimited number of Common Shares. The Common Shares have the rights, privileges, restrictions and conditions as described below.

Holders of Common Shares are entitled to receive notice of, and to vote at, every meeting of the shareholders of Source Rock and are entitled to have one vote thereat per Common Share held.

Holders of Common Shares are entitled to receive such dividends as the Board may from time to time, by resolution, declare, subject to the rights, privileges, restrictions and conditions attached to any Preferred Shares.

In the event of any liquidation, dissolution or winding up of Source Rock or upon any distribution of the assets of Source Rock among shareholders being made (other than by way of dividend out of monies properly applicable to the payment of dividends), the holders of Common Shares are entitled to share pro rata, subject to the rights, privileges, restrictions and conditions attached to the Preferred Shares.

Preferred Shares

The Company is authorized to issue an unlimited number of Preferred Shares, issuable in series. The Preferred Shares have the rights, privileges, restrictions and conditions as described below.

The Board may, by resolution, fix before issuance, the designation, rights, privileges, restrictions and conditions to attach to the Preferred Shares of each series, including voting rights, including, without limiting the generality of the foregoing, the rate, form, entitlement and payment of preferential dividends, the redemption price, terms, procedures and conditions of redemption (if any), voting rights and conversion rights (if any) and any sinking fund, purchase fund or other provisions attaching to the Preferred Shares of such series; and provided however, that no shares of any series shall be issued until the Board has filed an amendment to the articles of the Company with the Registrar of Corporations, Province of Alberta, or such designated person in any other jurisdiction in which the Company may be continued.

If any cumulative dividends or amounts payable on return of capital in respect of a series of shares are not paid in full, the shares of all series shall participate ratably in respect of accumulated dividends and return of capital.

The Preferred Shares are entitled to preference over the Common Shares of the Company and any other shares of the Company ranking junior to the Preferred Shares with respect to the payment of dividends, if any, and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, and may also be given such other preferences over the common shares of the Company and

any other shares of the Company ranking junior to the Preferred Shares as may be fixed by the resolution of the directors of the Company as to the respective series authorized to be issued.

The Preferred Shares of each series rank on a parity with the Preferred Shares of every other series with respect to priority in the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, exclusive of any conversion rights that may affect the aforesaid.

No dividends shall at any time be declared or paid on or set apart for payment on any shares of the Company ranking junior to the Preferred Shares unless all dividends, if any, up to and including the dividend payable for the last completed period for which such dividend shall be payable on each series of Preferred Shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such declaration or payment or setting apart for payment on such shares of the Company ranking junior to the Preferred Shares nor shall the Company call for redemption or redeem or purchase for cancellation or reduce or otherwise pay off any of the Preferred Shares (less than the total amount then outstanding) or any shares of the Company ranking junior to the Preferred Shares unless all dividends up to and including the dividend payable, if any, for the last completed period for which such dividends shall be payable on each series of the Preferred Shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such call for redemption, purchase, reduction or other payment.

Preferred Shares of any series may be purchased for cancellation or made subject to redemption by the Company out of capital pursuant to the provisions of the ABCA, if the directors so provide in a resolution of the Board relating to the issuance of such Preferred Shares, and upon such other terms and conditions as may be specified in the designations, rights, privileges, restrictions and conditions attaching to the Preferred Shares of such series as set forth in the said resolution of the Board and the amendment to the articles of the Company relating to the issuance of such series.

The holders of the Preferred Shares shall not, as such, be entitled as of right to subscribe for or purchase or receive any part of any issue of shares or bonds, debentures or other securities of the Company now or hereafter authorized.

No class of shares may be created or rights and privileges increased to rank in parity or priority with the rights and privileges of the Preferred Shares including, without limiting the generality of the foregoing, the rights of the Preferred Shares to receive dividends or to return of capital, without the approval of the holders of the Preferred Shares as required under the ABCA.

Warrants

The following summary of certain provisions of the Warrant Indenture contains the material attributes and characteristics of the Warrants but does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture, which will be available on SEDAR.

The Warrants issued under the Offering will be governed by the Warrant Indenture to be dated as of the Closing Date between the Company and TSX Trust Company (the "**Warrant Agent**"). The following description is subject to the detailed provisions of the Warrant Indenture. Reference should be made to the Warrant Indenture for the full text of attributes of the Warrants.

The Common Shares and Warrants will immediately separate following the closing of the Offering. Each Warrant will entitle the holder to acquire one Warrant Share at an exercise price of \$1.25 per Warrant Share until 5:00 p.m. (Calgary time) on the date that is 24 months from the Closing Date, subject to adjustments in certain events.

The Warrants and the Warrant Shares have not been and will not be registered under the U.S. Securities Act or any applicable state securities laws, and the Warrants will not be exercisable by or on behalf of a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state

securities laws is available and the Company has received an opinion of counsel of recognized standing or other evidence to such effect in form and substance reasonably satisfactory to the Company; provided, however, that a holder who is a "qualified institutional buyer" (as defined in Rule 144A under the U.S. Securities Act) at the time of exercise of the Warrants who purchased Units in the Offering to, or for the account or benefit of, persons in the United States or U.S. Persons will not be required to deliver an opinion of counsel or such other evidence in connection with the exercise of Warrants that are a part of those Units.

The Warrants may be issued in uncertificated form. Any Warrants issued in certificated form shall be evidenced by a warrant certificate in the form attached to the Warrant Indenture. All Warrants issued in the name of CDS may be in either a certificated or uncertificated form, such uncertificated form being evidenced by a book-entry position on the register of warrantholders to be maintained by the Warrant Agent at its principal offices in Toronto, Ontario.

The Warrant Indenture will provide that the share ratio and exercise price of the Warrants will be subject to adjustment in the event of a subdivision or consolidation of the Common Shares. The Warrant Indenture will also provide that if there is (a) a reclassification or change of the Common Shares, (b) any consolidation, amalgamation, arrangement or other business combination of the Company resulting in any reclassification, or change of the Common Shares into other shares, or (c) any sale, lease, exchange or transfer of the Company's assets as an entity or substantially as an entirety to another entity, then each holder of a Warrant which is thereafter exercised shall receive, in lieu of Warrant Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants prior to the event.

No adjustment in the exercise price or number of Warrant Shares will be required to be made unless the cumulative effect of such adjustment or adjustments would result in a change of at least 1% in the exercise price or a change in the number of Warrant Shares purchasable upon exercise by at least one one-hundredth ($1/100^{\text{th}}$) of a Common Share, as the case may be.

The Warrant Indenture will also provide that, during the period in which the Warrants are exercisable, the Company will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such events.

From time to time, the Company and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by "extraordinary resolution", which will be defined in the Warrant Indenture as a resolution either (a) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than $66\frac{2}{3}\%$ of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution, or (b) adopted by an instrument in writing signed by the holders of not less than $66\frac{2}{3}\%$ of the aggregate number of all the then outstanding Warrants.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or any other rights which a holder of Common Shares would have.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated share capitalization of the Company as at September 30, 2021, before and after giving effect to the Offering. This table must be read in conjunction with the Company's management's discussion and analysis and the Company's historical financial statements and accompanying notes contained in this prospectus.

	As at September 30, 2021 before giving effect to the Offering	As at September 30, 2021 after giving effect to the Offering ⁽⁴⁾⁽⁵⁾⁽⁶⁾
	(unaudited)	(unaudited)
Loan Capital⁽¹⁾	Nil	Nil
Share Capital		
Share Capital	\$28,984,321 ⁽⁷⁾	\$•
Common Shares ⁽²⁾⁽³⁾ (unlimited)	29,562,559	42,896,559
Warrants	Nil	6,667,000

Notes:

- (1) The Company does not have a credit facility or other indebtedness.
- (2) Does not include any Common Shares or Warrants comprising the Additional Units issuable or to be sold upon exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, there will be an aggregate of 44,896,659 Common Shares and 7,667,050 Warrants outstanding after giving effect to the completion of the Offering and the issue and sale of 2,000,100 Additional Units pursuant to the exercise of the Over-Allotment Option.
- (3) As at the date hereof, a total of 2,490,000 Common Shares are reserved for issuance on exercise of outstanding Options. See "*Options*" and "*Executive Compensation – Components of Compensation – Option Plan*".
- (4) Assumes purchasers on the President's List purchase an aggregate of 5,000,000 Units under the Offering. After deducting the Underwriters' Commission of \$585,036 and estimated expenses of the Offering of \$750,000 (after estimated tax effects). If the Over-Allotment Option is exercised in full, Share Capital will be \$• million. See "*Use of Proceeds*".
- (5) Assumes no exercise of Warrants.
- (6) On December 22, 2021, the Shareholders approved a reduction in the stated capital account maintained by the Corporation in respect of the Common Shares pursuant to subsection 38(1) of the ABCA by an aggregate amount equal to \$15,000,000 for the purposes of (i) effecting the Return of Capital, and (ii) providing the Company with additional flexibility to pay dividends in the future if, as and when declared by directors of the Company.

OPTIONS

The following table sets forth certain information in respect of Options that are outstanding as of the date hereof and that are anticipated to be outstanding at Closing. See also "*Executive Compensation – Components of Compensation – Option Plan*".

Group (Number in Group)	Common Shares Under Option (#)	Exercise Price per Common Share (\$)	Market Value of Common Shares Under Option ⁽¹⁾ (\$)	Expiration Date
Current and past executive officers of the Company (3)	1,375,000			
	450,000	\$1.00	•	June 30, 2022
	400,000	\$0.85	•	June 30, 2024
	525,000	\$0.40	•	September 30, 2025
Current and past directors of the Company, excluding current and past officers of the Company (7)	1,075,000			
	200,000	\$1.00	•	June 30, 2022
	475,000	\$0.85	•	June 30, 2024
	400,000	\$0.40	•	September 30, 2025
Consultants to the Company (1)	40,000			
	20,000	\$0.85	•	June 30, 2024
	20,000	\$0.40	•	September 30, 2025
Total	2,490,000			

Note:

- (1) The market value of the Common Shares underlying these Options on both the date of grant and the date of this prospectus is not reasonably ascertainable given that the Common Shares are not and have never been publicly listed or traded. The value presented is based on the Offering Price less the exercise price of each Option multiplied by the number of Common Shares under option.

PRIOR SALES

The following table summarizes the issuances of Common Shares or securities convertible into Common Shares in the 12 month period prior to the date hereof.

Date of Issuance	Number and Type of Securities	Issue or Exercise Price per Security (\$)	Aggregate Consideration Received (\$)
March 25, 2021 ⁽¹⁾	21,562 Common Shares	\$0.80	\$17,250
April 30, 2021 ⁽²⁾	85,000 Common Shares	\$1.00	\$85,000
July 6, 2021 ⁽¹⁾	168,750 Common Shares	\$1.00	\$168,750
July 6, 2021 ⁽¹⁾	40,000 Common Shares	\$1.00	\$40,000

Notes:

- (1) Common Shares issued as share-based compensation.
(2) Common Shares issued as partial consideration for royalty interests acquired in S.E. Saskatchewan.

The Common Shares are not traded or quoted on a marketplace and there is currently no public market for the Common Shares. See "*Risk Factors*".

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

The following table sets forth, as of the date of this prospectus, the number of securities of each class of securities of Source Rock held, to the knowledge of Source Rock, in escrow or that is subject to a contractual restriction on transfer and the percentage that number represents of the outstanding securities of that class.

Designation of Class	Number of Securities Held in Escrow or Subject to a Contractual Restriction on Transfer ⁽¹⁾⁽²⁾	Percentage of Class ⁽³⁾
Common Shares	11,815,879	40.0%
Options	1,000,000	40.2%

Notes:

- (1) Every director and officer of the Company will enter into an agreement with the Co-Lead Underwriters in which they have covenanted not to issue or sell, agree or offer to issue or sell, or enter into an arrangement to issue or sell, directly or indirectly, any Common Shares, any securities convertible or exchangeable into Common Shares, or any other voting or equity securities of the Company or any subsidiary of or successor to the Company, for a period of 180 days subsequent to the closing of the Offering unless: (i) they first obtain the prior written consent of the Co-Lead Underwriters, such consent not to be unreasonably withheld, conditioned or delayed; or (ii) there occurs a take-over bid or similar transaction involving a change of control of the Company.
- (2) In accordance with NP 46-201, all securities owned or controlled by the principals (as such term is defined in NP 46-201) of the Company holding more than 1% of the voting rights attached to the Common Shares immediately after giving effect to the Offering will be subject to escrow at Closing, being 10,942,602 Common Shares and 1,000,000 Options. As it is expected that the Company will be listed on Tier 1 of the TSXV on Closing, the securities subject to escrow will be released from escrow in accordance with the following: one-quarter of the escrowed securities on the listing date, one-third of the remaining escrowed securities 6 months following the listing date, one-half of the remaining escrowed securities 12 months following the listing date, and the remaining escrowed securities 18 months following the listing date.
- (3) On a non-diluted basis and assuming no exercise of the Over-Allotment Option.

PRINCIPAL SECURITYHOLDERS

To the knowledge of Source Rock, and based on existing information, as at the date hereof, there are no persons who beneficially own, or exercise control or direction over, directly or indirectly, over more than 10% of the Common Shares, as at the date hereof, except as follows:

Name	Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly	Percentage of Holder's Common Shares to all Common Shares Outstanding	Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly, Following the Completion of the Offering	Percentage of Holder's Common Shares to all Common Shares Outstanding, Following the Completion of the Offering
CN Canadian Master Trust Fund	7,687,400 ⁽¹⁾	26.0%	● ⁽¹⁾	●%

Note:

- (1) The information as to Common Shares beneficially owned, or controlled or directed, directly or indirectly, not being within the knowledge of the Company, has been derived from sources available to the Company.

USE OF PROCEEDS

Proceeds

Source Rock expects to receive approximately \$10.7 million in net proceeds from the Offering, after deducting the Underwriters' Commission payable by the Company to the Underwriters in connection with the Offering of approximately \$585,036 and the estimated expenses of the Offering of approximately \$750,000, assuming purchasers on the President's List purchase an aggregate of 5,000,000 Units under the Offering. Source Rock intends to use the net proceeds from the Offering for additional royalty acquisitions.

Business Objectives and Milestones

The principal purposes for the net proceeds from the Offering as described above are consistent with the Company's business objectives and strategic goals relating to the ownership and management of royalties in petroleum and natural gas assets. In particular, the Company's objectives in using the net proceeds from the Offering are to grow its production, land and reserves base and funds from operations per share. The success of the Company in meeting its objectives will depend on the availability of accretive acquisition opportunities, which cannot be determined in advance.

DIRECTORS AND EXECUTIVE OFFICERS

Summary Information

The following table sets forth certain summary information in respect of the Company's directors and executive officers as at the date of this prospectus.

Name, Province and Country of Residence	Position Held	Principal Occupation for the Last Five Years	Director Since	Common Share Ownership
Brad Docherty ⁽¹⁾ <i>Alberta, Canada</i>	President, Chief Executive Officer & Chairman	Mr. Docherty has been the President, Chief Executive Officer & Chairman of the Company since the date of incorporation. Mr. Docherty is also President and the sole Director of B.D. Corporate Services Inc., a management services company. Mr. Docherty is also Managing Director of Capitalize Consulting Corp., a private investment and business advisory company. Mr. Docherty was formerly the President, Chief Executive Officer and Director of Exito Energy II Inc. (" Exito II "), a capital pool company, prior to completion of its qualifying transaction in January 2018.	October 11, 2012	2,156,753 ⁽⁴⁾
John Bell ⁽¹⁾⁽²⁾ <i>Alberta, Canada</i>	Director	Mr. Bell has been the President and Chief Financial Officer of WCSB Blockchain Infrastructure Ltd. since February 2018. Mr. Bell was formerly Director of Finance of Tidewater Midstream and Infrastructure Ltd. since March 2015.	May 30, 2013	45,029
Jordan Kevol ⁽²⁾ <i>Alberta, Canada</i>	Director	Mr. Kevol has been the President of Blackspur Oil Corp. since May 2012.	January 29, 2014	1,098,449
Brody Loster <i>Alberta, Canada</i>	Director	Mr. Loster has been a Principal Geologist, P.Geol and Responsible Member for Vault 44.01 since June 2021. He was formerly the Manager of Geosciences of Baytex Energy Corp. (" Baytex ") until October 2020. Mr. Loster was formerly the Manager of Geosciences of Raging River Exploration Inc. (" Raging River ") from its inception until August 2018. Mr. Loster was also a Director of Exito II from inception to January 2018.	May 30, 2013	153,213
Gary McMurren ⁽¹⁾⁽³⁾ <i>Alberta, Canada</i>	Director	Mr. McMurren has been the Vice President, Engineering of Southern Energy Corp. since December 2018. Mr. McMurren was formerly the Vice President, Engineering of Gulf Pine Energy Partners, LP from its inception to December 2018.	May 30, 2013	101,189 ⁽⁵⁾
Dean Potter ⁽³⁾ <i>Alberta, Canada</i>	Director	Mr. Potter has been the Executive Chairman of Burgess Creek Exploration Inc. since September 2015 and CEO since November 1, 2019. Mr. Potter is also the President of DPX Inc., a private company active in petroleum exploration and development.	July 5, 2018	45,882

Name, Province and Country of Residence	Position Held	Principal Occupation for the Last Five Years	Director Since	Common Share Ownership
Scott Rideout ⁽²⁾ <i>Alberta, Canada</i>	Director	Mr. Rideout has been the Vice President, Land of Headwater Exploration Inc. since March 2020. Mr. Rideout was formerly the Vice President, Land of Baytex from August 2018 to February 2020. Prior thereto, Mr. Rideout was Vice President, Land of Raging River from July 2014 to August 2018.	May 30, 2013	82,126 ⁽⁶⁾
Shaun Thiessen ⁽²⁾⁽³⁾ <i>Alberta, Canada</i>	Director	Mr. Thiessen was the Vice President, Land and Business Development of Astra Oil Corp. from January 2015 to its sale in August 2021. Prior thereto, Mr. Thiessen was Director, Land of PrairieSky Royalty Ltd. from May 2014 to December 2014.	December 15, 2015	87,306
Sean Clausen <i>Alberta, Canada</i>	Chief Financial Officer	Mr. Clausen has been an independent financial consultant since July 2013. In addition, Mr. Clausen has been the Vice President of Finance at True North Solutions since September 2020. Mr. Clausen was formerly the Corporate Controller at CanElson Drilling from July 2010 to June 2013.	N/A	265,635
Lucas Tomei <i>Alberta, Canada</i>	Corporate Secretary	Mr. Tomei has been a partner of Dentons Canada LLP since February 2015.	N/A	92,898 ⁽⁷⁾

Notes:

- (1) Member of the Audit Committee. Mr. Bell is the Chair of the Audit Committee.
- (2) Member of the Compensation and Corporate Governance Committee. Mr. Rideout is the Chair of the Compensation and Corporate Governance Committee.
- (3) Member of the Reserves Committee. Mr. McMurren is the Chair of the Reserves Committee.
- (4) Includes Common Shares held by B.D. Corporate Services Inc., an Alberta corporation wholly-owned by Mr. Docherty.
- (5) Includes Common Shares held by an Alberta corporation wholly-owned by Mr. McMurren's spouse.
- (6) Includes Common Shares held by Mr. Rideout's spouse.
- (7) Includes Common Shares held by Mr. Tomei's spouse.

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholder meeting called for the election of directors, or on such other date as they may be removed according to the ABCA. Each director will devote the amount of time as is required to fulfill his obligations to the Company. The Company's officers are appointed by and serve at the discretion of the Board of Directors.

Committees of the Board of Directors

The Company currently has an Audit Committee, a Reserves Committee and a Compensation and Corporate Governance Committee. See "*Audit Committee*" and "*Statement of Corporate Governance Practises*".

Share Ownership by Directors and Officers

As a group, the Company's officers and directors beneficially own or exercise control or direction over, directly or indirectly, 4,128,479 Common Shares representing approximately 14.0% of the issued and outstanding Common Shares prior to giving effect to the Offering.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions***Cease Trade Orders***

Other than as described below, to the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such persons) is, as of the date of this prospectus, or was within ten years before the date of this prospectus, a director, chief executive officer or chief financial officer of any company (including the Company), that: (a) was subject to a cease trade order (including a management cease trade order), an

order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**"), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

John Bell was the chief financial officer and Lucas Tomei was the corporate secretary of Artisan Energy Corporation ("**Artisan**") when the Alberta Securities Commission issued a cease trade order against Artisan on May 5, 2016. Artisan subsequently made an assignment into bankruptcy on June 22, 2016.

Bankruptcies

Other than as described above, to the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such persons), or Shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company: (a) is, as of the date of this prospectus, or has been within the ten years before the date of this prospectus, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or Shareholder.

Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company (nor any personal holding company of any of such persons), or Shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Certain officers and directors of the Company are also officers and/or directors of other companies engaged in the oil and gas business generally. As a result, situations may arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

EXECUTIVE COMPENSATION

Introduction

The Company was not a reporting issuer at any time during the most recently completed financial period. As a result, certain information required by Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers* ("**Form 51-102F6V**") has been omitted pursuant to Section 1.3(8)(b) of Form 51-102F6V.

The following discussion describes the significant elements of the compensation program for the "named executive officers" ("NEOs") of the Company, as such term is defined in Form 51-102F6V. The discussion below also reflects certain contemplated changes to the Company's compensation program that would be implemented in connection with, and contingent upon, the completion of this Offering. The NEOs of the Company are Brad Docherty (Chief Executive Officer) and Sean Clausen (Chief Financial Officer).

To achieve the Company's strategic business and financial objectives, the Company needs to attract, retain and motivate a highly talented executive team.

The Company has designed its executive compensation program to achieve the following objectives:

- provide competitive compensation opportunities in order to attract and retain talented, high-performing and experienced executive officers, whose knowledge, skills and performance are critical to the Company's success;
- motivate the Company's executive team to achieve the Company's strategic business and financial objectives, including growing the Company's asset base through the acquisition of royalties that are intended to provide future cash flows, and maintaining strong financial capacity to fund asset growth;
- align the interests of the Company's executive officers with those of the shareholders by tying a significant portion of compensation directly to the long-term value and growth of the Company's business;
- create a strong pay for performance relationship; and
- provide incentives that encourage appropriate levels of risk-taking by the Company's executive team.

Historically, the Company has offered its executive officers a base level of cash compensation and a variable annual bonus amount. The Company has also offered its executive officers equity compensation in the form of incentive stock options. For its directors, the Company has historically offered equity compensation in the form of stock options and other share compensation.

While the Company believes that its compensation program remains effective at attracting and maintaining executive officer and director talent, the Company intends to continue evaluating its compensation practices on an ongoing basis to ensure the Company is providing competitive compensation opportunities. The Company intends to review the compensation of its executives and directors on an annual basis. As part of this review process, the Company expects to be guided by the philosophy and objectives outlined above, as well as other factors that may become relevant as the Company competes in the market.

Compensation-Setting Process

In assessing the compensation of its executive officers, the Company sets qualitative goals relating to the business strategy and operations of the Company, which goals are re-evaluated on an annual basis. The compensation payable is currently determined by the Board (based on recommendations from the compensation committee (now the Compensation and Corporate Governance Committee)). The Company's executive compensation program is based on comparisons of similar type and size companies. Both individual and corporate performances are also taken into account.

As of the date hereof, the Company's directors have not established any peer group benchmark or performance goals to be achieved or met by the NEOs, however, such NEOs are expected to carry out their duties in an effective and efficient manner so as to advance the business objectives of the Company. The satisfactory discharge of such duties is subject to ongoing monitoring by the Company's directors, at least annually.

Components of Compensation

Upon completion of the Offering, the compensation of the Company's executive officers is expected to continue to include three main components: (i) base salary; (ii) variable annual bonus; and (iii) long-term equity incentives, initially consisting of incentive stock options granted from time to time under the Option Plan. Perquisites and benefits are not expected to be a significant element of compensation for the Company's executive officers. The

compensation of the Company's directors is expected to continue to consist of long-term equity incentives, initially consisting of incentive stock options granted from time to time under the Option Plan. The compensation of the directors and executive officers will be determined by the Board (based on recommendations from the Compensation and Corporate Governance Committee).

Base Salary

Base salary is provided as a fixed source of compensation for the Company's executive officers. Base salaries will be determined on an individual basis taking into account the scope of the executive officer's responsibilities, their prior experience and their position relative to relevant peers in the market. Base salaries will be reviewed annually and may be increased if warranted, or necessary to maintain market competitiveness. In addition, base salaries can be adjusted upwards throughout the year to reflect promotions or other increases in the scope or breadth of an executive officer's role or responsibilities.

Variable Annual Bonus

The variable annual bonus will be subject to various qualitative or quantitative performance criteria relating to the business strategy and operations of the Company, as determined by the Board. The amount awarded by the Board will be payable in cash, equity or a combination of cash and equity in the sole discretion of the Board.

Option Plan

The material features of the Option Plan are summarized below.

Purpose and Administration of the Option Plan

The purpose of the Option Plan is to advance the interests of the Company by encouraging the directors, officers, employees and consultants of the Company, and of its subsidiaries and affiliates, if any, to acquire Common Shares, thereby increasing their proprietary interest in the Company, encouraging them to remain associated with the Company and furnishing them with additional incentive in their efforts on behalf of the Company in the conduct of its affairs.

The Option Plan is administered by the Compensation and Corporate Governance Committee pursuant to rules of procedure fixed by the Board. The Compensation and Corporate Governance Committee makes recommendations to the Board regarding the structure and implementation of the Option Plan and the awards and grants under the Option Plan.

Granting of Options

The Compensation and Corporate Governance Committee has the authority to designate existing or proposed directors, officers, employees and consultants of the Company or its subsidiaries, and employees of a person or company which provides management services to the Company or its subsidiaries ("**Management Company Employees**"), to be eligible for selection to participate in the Plan (such persons hereinafter collectively referred to as "**Participants**"). Subject to compliance with applicable requirements of the TSXV, Participants may elect to hold options granted to them in an incorporated entity wholly owned by them and such entity shall be bound by the Option Plan in the same manner as if the options were held by the Participant.

The Option Plan provides that:

- the number of Common Shares subject to an Option granted to any one Participant shall be determined by the Board, but no one Participant shall be granted an Option which exceeds the maximum number permitted by the TSXV, regardless of whether the Company is listed on the TSXV;

- the aggregate number of Common Shares issuable upon the exercise of all Options granted under the Option Plan shall not exceed 10% of the issued and outstanding Common Shares from time to time;
- no single Participant may be granted Options to purchase a number of Common Shares equaling more than 5% of the issued Common Shares of the Company in any one 12-month period unless the Company has obtained disinterested shareholder approval in respect of such grant and otherwise meets any applicable TSXV requirements;
- Options shall not be granted if the exercise thereof would result in the issuance of more than 2% of the issued Common Shares of the Company in any 12-month period to any one consultant of the Company (or any of its subsidiaries); and
- Options shall not be granted if the exercise thereof would result in the issuance of more than 2% of the issued Common Shares of the Company in any 12-month period to persons employed to provide investor relations activities; Options granted to consultants performing investor relations activities will contain vesting provisions such that vesting occurs over at least 12 months with no more than ¼ of the Options vesting in any 3-month period.

Any increase in the Outstanding Common Shares (whether as a result of the exercise of Options or otherwise) will result in an increase in the number of Common Shares that may be issued on exercise of Options outstanding at any time and any decrease in the number of Options outstanding, due to the exercise of Options, will make new grants available under the Option Plan.

The Common Shares that are reserved for issuance on exercise of Options granted pursuant to the Option Plan that are cancelled, terminated or expire prior to the exercise of all or a portion thereof are available for a subsequent grant of Options pursuant to the Option Plan to the extent that any Common Shares issuable thereunder are not issued under such cancelled, terminated or expired Options.

Vesting

Subject to any vesting restrictions imposed by the TSXV, if applicable, the Board may, in its sole discretion, determine the time during which Options shall vest and the method of vesting, or that no vesting restriction shall exist.

Exercise Price

The exercise price (the "**Exercise Price**") of the Common Shares subject to each Option shall be determined by the Board, subject to any applicable TSXV approval, at the time any option is granted. In no event shall such Exercise Price be lower than the exercise price permitted by the TSXV, if applicable.

Once the Exercise Price has been determined by the Board, accepted by the TSXV, if applicable, and the Option has been granted, the Exercise Price of an Option may be reduced upon receipt of Board approval, provided that in the case of Options held by insiders of the Company (as defined by applicable Canadian securities laws), the Exercise Price of an Option may be reduced only if disinterested shareholder approval is obtained.

Option Terms

Subject to any vesting restrictions imposed by the Board, Options may be exercised in whole or in part at any time and from time to time during the Option period. Except under certain exceptions as set forth in the Option Plan, no Option may be exercised unless the Participant is at the time of such exercise a director, officer, consultant or employee of the Company or any of its subsidiaries, or a Management Company Employee of the Company or any of its subsidiaries. The exercise of any Option will be contingent upon receipt by the Company at its head office of a written notice of exercise, specifying the number of Common Shares with respect to which the Option is being exercised, accompanied by cash payment, certified cheque or bank draft for the full purchase price of such Common

Shares with respect to which the Option is exercised. No Participant or his legal representatives, legatees or distributees will be, or will be deemed to be, a holder of any Common Shares unless and until the certificates for Common Shares issuable pursuant to Options under the Option Plan are issued to him or them under the terms of the Option Plan.

In addition, each Option provides that:

- Ceasing to be a Director, Officer, Consultant or Employee – Subject to certain exceptions contained in the Option Plan, if a Participant shall cease to be a director, officer, consultant, employee of the Company, or its subsidiaries, or ceases to be a Management Company Employee, for any reason (other than death), such Participant may exercise his Option to the extent that the Participant was entitled to exercise it at the date of such cessation, provided that such exercise must occur within 90 days after the Participant ceases to be a director, officer, consultant, employee or a Management Company Employee, subject to extension at the discretion of the Board; and
- Death of Participant – Notwithstanding certain provisions contained in the Option Plan, in the event of the death of a Participant, the Option previously granted to him shall be exercisable only within one year after such death and then only, (i) by the person or persons to whom the Participant's rights under the Option shall pass by the Participant's will or the laws of descent and distribution, and (ii) if and to the extent that such Participant was entitled to exercise the Option at the date of his death.

Each Option and all rights thereunder shall be expressed to expire on the date set out in the option agreement and shall be subject to earlier termination as provided in the Option Plan, provided that in no circumstances shall the duration of an Option exceed the maximum term permitted by the TSXV, if applicable. For greater certainty, if the Company is listed on the TSXV, the maximum term may not exceed ten years.

Should the expiry date of an Option fall within a Black Out Period (as defined in the Option Plan) or within nine business days following the expiration of a Black Out Period, such expiry date of the Option shall be automatically extended without any further act or formality to that date which is the tenth business day after the end of the Black Out Period, such tenth business day to be considered the expiry date for such Option for all purposes under the Option Plan. The ten business day period referred to in this paragraph may not be extended by the Board.

Option Agreements

A written agreement shall be entered into between the Company and each Participant to whom an Option has been granted under the Option Plan, which such agreement shall set out the number of Common Shares under Option, the exercise price, the vesting dates, the expiry date and such other terms as the Board or special committee may determine to be necessary or desirable, all of which shall be in accordance with the provisions of the Option Plan (the "**Option Agreement**"). The Option Agreement will be substantially in the form attached as Schedule "A" to the Option Plan or in such other form as the Board may from time to time approve and may be executed and delivered for and on behalf of the Company by any one of the President, Chief Financial Officer or Corporate Secretary or such other officer or director of the Company as the Board may authorize.

Necessary Approvals

The ability of a Participant to exercise Options and the obligation of the Company to issue and deliver Common Shares in accordance with the Plan is subject to any approvals which may be required from Shareholders and any regulatory authority having jurisdiction over the securities of the Company. If any Common Shares cannot be issued to any Participant for whatever reason, the obligation of the Company to issue such Common Shares shall terminate and any Option Exercise Price paid to the Company will be returned to the Participant.

Amendment and Termination of the Option Plan

Subject to any applicable approval of the TSXV, the Board may, at any time, suspend or terminate the Option Plan. Subject to any applicable approval of the TSXV and the provisions set out below, the Board may also at any time amend or revise the terms of the Option Plan or any Option granted thereunder; provided that no such amendment or revision shall result in a material adverse change to the terms of any Options theretofore granted under the Plan, unless shareholder approval, or disinterested shareholder approval, as the case may be, is obtained for such amendment or revision.

Shareholder approval will not be required for any amendment to the Option Plan or any Options granted thereunder except for any amendment or modification that:

- (a) increases the number of Common Shares reserved for issuance under the Option Plan;
- (b) reduces the exercise price of an Option held by an "insider" (as that term is defined in the *Securities Act* (Alberta)) of the Company other than as provided for in the Option Plan;
- (c) extends the term of an Option beyond the expiry date;
- (d) extends eligibility to participate in the Option Plan to persons not currently eligible to participate;
- (e) permits an Option to be transferred other than for normal estate settlement purposes;
- (f) extends the expiry date of an Option beyond 10 years from its grant date (other than as provided for in the Option Plan);
- (g) permits awards, other than Options, to be made under the Option Plan; or
- (h) the TSXV, if applicable, requires shareholder or disinterested shareholder approval.

Employment and Consulting Agreements

The Company is party to an executive employment agreement with Brad Docherty (the "**Docherty Agreement**"), pursuant to which Mr. Docherty provides his services as President and Chief Executive Officer. The Docherty Agreement provides for an annual salary of \$240,000, less statutory deductions, payable in accordance with the Company's usual payroll practices. Mr. Docherty is also eligible to participate in the Company's bonus program, benefit plan and long-term incentive plan or plans, each as may be amended from time to time.

The Docherty Agreement continues for an indefinite term, until terminated either:

- (a) by Mr. Docherty:
 - (i) at any time and for any reason by providing a minimum of 30 days' advance written notice to the Company; or
 - (ii) by providing 30 days' advance written notice to the Company within 90 days following a change of control ("**Change of Control Notice**"). Upon receipt of a Change of Control Notice by the Company and subject to the expiry of the 30 days' written notice, Mr. Docherty shall be entitled to receive the following payments within ten business days of the expiry of such written notice period:
 - A. payment of any remuneration that has accrued and is unpaid up to the date of termination (the "**Termination Date**");

- B. payment of earned but unpaid bonus amounts;
- C. all accrued vacation pay and reimbursable expenses owing up to and including the Termination Date; and
- D. a lump sum payment representing: (1) Mr. Docherty's salary as at the time of the termination for a period of 24 months (the "**Severance Period Salary**"); and (2) an additional amount equal to 25% of the Severance Period Salary to compensate Mr. Docherty for the loss of eligibility for bonuses and benefits,

A, B, C and D collectively, the "**Termination Payments**"; or

(b) by the Company:

- (i) for just cause at any time, without notice and without any payment to Mr. Docherty whatsoever; or
- (ii) without just cause at any time by providing written notice of the Termination Date to Mr. Docherty, and in such event the Company shall pay Mr. Docherty the Termination Payments within ten business days of the Termination Date.

The Company is also party to an amended and restated management services agreement with Sean Clausen (the "**Clausen Agreement**"), pursuant to which Mr. Clausen provides his services as Chief Financial Officer. The Clausen Agreement provides for a monthly fee of \$6,500 (the "**Service Fee**") payable to Mr. Clausen. The Company has the right to review the Service Fee on a quarterly basis and if it determines that it is warranted based on the performance of Mr. Clausen, the Company is entitled to lower the Service Fee on thirty days' written notice to Mr. Clausen.

In the sole discretion of the Board, if a change of control is announced, agreed to by the Company or completed during the term of the Clausen Agreement, then Mr. Clausen shall be entitled to a success fee of up to 12 months of the Service Fee (the "**Success Fee**") payable immediately prior to the closing of the transaction giving rise to the change of control.

The Clausen Agreement continues for an indefinite term, until terminated in one of the following ways:

- (a) by either the Company or Mr. Clausen upon giving 90 days' written notice to the other party (the "**Notice Period**"), or as otherwise mutually agreed to between the parties, with such agreement to be evidenced in writing. Except for the payments described in (i) and (ii) below, Mr. Clausen shall not be entitled to any payments following the termination of the Clausen Agreement:
 - (i) the Service Fee during the Notice Period; and
 - (ii) the Success Fee in the event there is a change of control which is announced, agreed to by the Company or completed within the six months following the termination of the Clausen Agreement; or
- (b) by either the Company or Mr. Clausen being in default of the Clausen Agreement, being in the event of either:
 - (i) a breach or failure to observe or perform any of such party's material obligations under the Clausen Agreement and, within 30 days after such party's receipt of a notice from the other party specifying the nature of such breach or failure, such party failing to cure such breach or failure, or failing to provide satisfactory evidence that such breach or failure will be cured or remedied within a reasonable period of time or after providing such satisfactory evidence thereafter failing to diligently pursue such cure or remedy; or

(ii) such party:

- A. becoming insolvent;
- B. being subject to any proceeding, voluntary or involuntary, with a view to postponing or rescheduling its debts generally or of distributing its assets among its creditors under the provisions of the *Bankruptcy and Insolvency Act* (Canada), the *Companies Creditors' Arrangement Act* (Canada), or any other applicable laws for the benefit of creditors;
- C. being liquidated;
- D. being wound up either voluntarily or under an order of a court of competent jurisdiction;
- E. making a general assignment for the benefit of its creditors; or
- F. otherwise taking any action that acknowledges that it is insolvent.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

The Company is not aware of any individuals who are either current or former executive officers, directors or employees of the Company or any of its subsidiaries and who have indebtedness outstanding as at the date hereof (whether entered into in connection with the purchase of securities of the Company or otherwise) that is owing to: (i) the Company or any of its subsidiaries, or (ii) another entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

AUDIT COMMITTEE

The following is a description of the Audit Committee, in respect of which the Company is relying upon the exemption in 6.1 of NI 52-110 relating to the composition of the Audit Committee.

Audit Committee Charter

The Board has adopted a written charter for the Audit Committee, which sets out the Audit Committee's responsibility for (among other things) reviewing the Company's financial statements and the Company's public disclosure documents containing financial information and reporting on such review to the Board, ensuring the Company's compliance with legal and regulatory requirements, overseeing qualifications, engagement, compensation, performance and independence of the Company's external auditors, and reviewing, evaluating and approving the internal control and risk management systems that are implemented and maintained by management. A copy of the Audit Committee charter is attached to this prospectus as Appendix "A" – *Audit Committee Charter*.

Composition of the Audit Committee and Relevant Education and Experience

The Audit Committee consists of Messrs. Bell (Chair), McMurren and Docherty. Each of the members of the Audit Committee is considered "financially literate" and each of Messrs. Bell and McMurren is considered "independent" within the meaning of NI 52-110. Mr. Docherty is not independent as he is the President and Chief Executive Officer.

The Company believes that each of the members of the Audit Committee possesses: (a) an understanding of the accounting principles used by the Company to prepare its financial statements; (b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one

or more individuals engaged in such activities; and (d) an understanding of internal controls and procedures for financial reporting.

Pre-Approval Policies and Procedures for the Engagement of Non-Audit Services

The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiaries by its external auditors, or the external auditors of subsidiaries of the Company. The Audit Committee may delegate to one or more members the authority to pre-approve non-audit services, subject to the overriding principle that the external auditors not be permitted to be retained by the Company to perform internal audit outsourcing services or financial information systems services; provided that notwithstanding the above, the foregoing pre-approval of non-audit services may be delegated to a member of the Audit Committee, with any decisions of the member with the delegated authority presented to the Audit Committee at the next scheduled meeting.

External Audit Service Fees

The following table summarizes the fees paid by the Company to its auditors, MNP LLP, for external audit and other services during the periods indicated.

Year	Audit Fees⁽¹⁾ (\$)	Audit-Related Fees (\$)	Tax Fees⁽²⁾ (\$)	All Other Fees (\$)
2020	19,950	-	2,100	-
2019	14,700	-	2,100	-

Notes:

- (1) Represents the aggregate fees billed by the Company's external auditor for audit fees.
 (2) Represents the aggregate fees billed in the last fiscal year by the Company's external auditor for tax compliance.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Board of Directors

All of Source Rock's directors, other than Mr. Docherty, are independent.

The Board has determined that Mr. Docherty is not independent as he is the President and Chief Executive Officer. Mr. Docherty is also the Chairman of the Board. Although Mr. Docherty is not independent, the Board is of the view that the Board functions independently of management and that the Board is organized properly, functions effectively and meets its obligations and responsibilities.

The Company's independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. However, at the end of or during each Board meeting, the members of the Company's management who are present at such meeting may be asked to leave the meeting, as required, so that the independent directors can discuss any necessary matters without management being present.

None of the directors of the Company are presently directors of other issuers that are reporting issuers (or the equivalent).

Other Committees

In addition to the Audit Committee and Compensation and Corporate Governance Committee, the Board has a Reserves Committee, as described below.

Reserves Committee

The members of the Reserves Committee are Gary McMurren (Chair), Dean Potter and Shaun Thiessen. All of the members of the Reserves Committee are independent. The Reserves Committee's mandate includes:

- considering the adequacy of procedures for disclosure of reserves related information to regulatory authorities and investors;
- reviewing the procedures for providing information to the independent reserves evaluators;
- ensuring that there is an avenue for communication between each of the independent reserves evaluators, senior management and the Board;
- maintaining a clear understanding with the independent reserves evaluators that they must maintain an open and transparent relationship with the Reserves Committee and that the ultimate accountability of the independent reserves evaluators is to the Reserves Committee for the reserves processes and related reserves disclosures;
- reviewing compliance with applicable securities laws, regulations and policies;
- making appropriate reports and recommendations to the Board concerning the disclosure of oil and gas reserves data;
- annually reviewing the selection and engagement of the independent reserves evaluators;
- annually reviewing and approving the expected fees of the independent reserves evaluators; and
- reviewing the annual reserves estimates of the Company and its affiliates prior to public disclosure, including: (i) reviewing the scope of work of the independent reserves evaluators, (ii) reviewing the reserves estimates of the independent reserves evaluators, (iii) reviewing any material change to the reserves of the Company, (iv) meeting separately with management and with the independent reserves evaluators with respect to such estimates, (v) determining whether any restrictions affect the ability of the independent reserves evaluators to report on the reserves data without reservation, (vi) determining whether appropriate written consents have been obtained from the independent reserves evaluators named in the disclosure documents, as applicable, (vii) conducting such interim reviews of internal reserves estimates as it sees fit to direct from time to time, (viii) reviewing all matters relating to the preparation, disclosure and/or filing of information related to the reserves, and (ix) making recommendations to the Board with respect to the content, filing and release of such disclosure, as applicable.

Orientation and Continuing Education

Source Rock does not currently have a formal orientation and educational program for new recruits to the Board, however, it provides such orientation and education on an informal basis. The Board believes that this is a practical and effective approach in light of its particular circumstances, including its size, the limited turnover of the directors and the experience and expertise of the members of the Board.

No formal continuing education program currently exists for the Company's directors; however, directors are encouraged to attend, enrol in or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters. Each director has the responsibility for ensuring that he maintains the skill and knowledge necessary to meet his obligations as a director.

Ethical Business Conduct

The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law, as well as the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest, have been sufficient to ensure that the Board operates independently of management and in the best interests of the Company. Under such corporate legislation, a director is required to act honestly and in good faith with a view to the best interests of the Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in

comparable circumstances, and disclose to the Board the nature and extent of any interest of such director in any material contract or material transaction, whether made or proposed to be made, if the director is a party to the contract or transaction, is a director or officer (or an individual acting in a similar capacity) of a party to the contract or transaction or has a material interest in a party to the contract or transaction. The director must then abstain from voting on the contract or transaction unless the contract or transaction: (i) is an arrangement by way of security for money lent to or obligations undertaken by the director, or by a body corporate in which the director has an interest, for the benefit of the Company or an affiliate of the Company; (ii) relates primarily to their remuneration as a director, officer, employee or agent of the Company or an affiliate of the Company; (iii) is for indemnity or insurance for the benefit of the director in connection with the Company; or (iv) is with an affiliate of the Company. If the director abstains from voting after disclosure of their interest, the directors approve the contract or transaction and the contract or transaction was reasonable and fair to the Company at the time it was entered into, then the contract or transaction is not invalid and the director is not accountable to the Company for any profit realized from the contract or transaction. Otherwise, the director must have acted honestly and in good faith, the contract or transaction must have been reasonable and fair to the Company and the contract or transaction must be approved by the shareholders by a special resolution after receiving full disclosure of its terms in order for the director to avoid liability or the contract or transaction being found invalid.

Nomination of Directors

The Compensation and Corporate Governance Committee is responsible for identifying and overseeing the recruitment of nominees for election to the Board. At present, the Board does not have a process by which it identifies new candidates for Board nomination but rather the identification of new candidates is done on an informal and ad hoc basis.

In addition, the Company's by-laws also include advance notice provisions (the "**Advance Notice Provisions**") designed to: (i) facilitate an orderly and efficient annual meeting or, where the need arises, special meeting, process; (ii) ensure that all Shareholders receive adequate notice of director nominations and sufficient information with respect to all nominees; and (iii) allow Shareholders to register an informed vote having been afforded reasonable time for appropriate deliberation. As a whole, the Advance Notice Provisions are intended to provide Shareholders, directors and management of the Company with a clear framework for nominating directors. In particular, under the Advance Notice Provisions, a Shareholder wishing to nominate a director is required to give the Company notice, in the prescribed form, within the prescribed notice periods. These notice periods include: (i) in the case of an annual meeting of Shareholders (including annual and special meetings), not less than 90 days nor more than 120 days prior to the first anniversary date of the Company's annual meeting of Shareholders for the preceding year; provided, however, that if an annual meeting of Shareholders is to be held on a date that is more than 30 days before or more than 60 days after such anniversary date, notice may be made not later than the 10th day following the date on which the first public announcement of the date of the meeting was made; and (ii) in the case of a special meeting (which is not also an annual meeting) of Shareholders called for any purpose which includes electing directors, not later than the 15th day following the day on which the first public announcement of the date of the special meeting of Shareholders was made.

Board Assessments

The Compensation and Corporate Governance Committee is responsible for assessing the effectiveness of the Board as a whole, each committee of the Board, and the contribution of each individual director.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Dentons Canada LLP, counsel to the Company, and McCarthy Tétrault LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations under the Tax Act as of the date of this Prospectus generally applicable to purchasers of Units pursuant to the Offering. For purposes of this summary, references to Common Shares include the Warrant Shares unless otherwise indicated. This summary is applicable to a purchaser who, at all relevant times for purposes of the Tax Act, (i) beneficially owns each Common Share and Warrant acquired pursuant to the Offering and each Warrant Share on exercise of a

Warrant, (ii) holds the Common Shares and Warrants, and will hold the Warrant Shares, as capital property, and (iii) deals at arm's length with, and is not affiliated with, the Company or the Underwriters. Each of the Common Shares and Warrants generally will be considered capital property to a purchaser unless either the purchaser holds or uses or is deemed to hold or use such Common Shares or Warrants in the course of carrying on a business of buying and selling securities or the purchaser has acquired or has been deemed to acquire the Common Shares or Warrants in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to a purchaser: (i) that is a "financial institution" as defined in the Tax Act for the purpose of the "mark-to-market" provisions of the Tax Act; (ii) that is a "specified financial institution" as defined in the Tax Act; (iii) an interest in which is or would constitute a "tax shelter investment" as defined in the Tax Act; (iv) that has made a "functional currency" election under the Tax Act to determine its Canadian tax results in a currency other than Canadian currency; (v) that is exempt from tax under Part I of the Tax Act; (vi) that has entered or will enter into a "derivative forward agreement" or "synthetic disposition arrangement" (each as defined in the Tax Act) in respect of Common Shares or Warrants; (vii) that would receive dividends on Common Shares under or as part of a "dividend rental arrangement" as defined in the Tax Act; (viii) that is a partnership; or (ix) that has acquired or will acquire any Common Shares upon the exercise of an employee stock option. **Such purchasers should consult their own tax advisors.**

This summary is based on the Tax Act in force as at the date hereof taking into account all specific proposals to amend the Tax Act that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and upon counsel's understanding of the current administrative policies of the Canada Revenue Agency (the "**CRA**") published in writing prior to the date hereof. No assurance can be given that the Proposed Amendments will be enacted or otherwise implemented in their current form, if at all. If the Proposed Amendments are not enacted or otherwise implemented in their current form, the tax consequences may not be as described below in all cases. Other than the Proposed Amendments, this summary does not take into account or anticipate any change in law, administrative practice or assessing practice, whether by legislative, regulatory, administrative, governmental or of any jurisdiction outside of Canada, nor does it take into account provincial or territorial tax laws of Canada or tax laws of any jurisdiction outside of Canada.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular purchaser or potential purchaser, and no representations with respect to the tax consequences to any purchaser or potential purchaser are made herein. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective purchasers of Units should consult their own tax advisors having regard to their own particular circumstances.

Allocation of Offered Unit Cost

A purchaser who acquires Units pursuant to this Offering will be required to allocate the purchase price paid for each Unit on a reasonable basis between the Common Share and the one-half of one Warrant comprising each such Unit in order to determine their respective costs to such purchaser for the purposes of the Tax Act. For its purposes, the Company has advised counsel that it intends to allocate \$● of the Offering Price per Unit to each Common Share and \$● to each one-half of one Warrant. The Company believes that such allocations are reasonable, however such allocations are not binding on the CRA or on a purchaser.

The adjusted cost base to a purchaser of a Common Share comprising part of a Unit acquired pursuant to this Offering will be determined by averaging the cost of such Common Share with the adjusted cost base to such purchaser of all other Common Shares (if any) held by the purchaser as capital property immediately prior to the acquisition. The adjusted cost base to a purchaser of a Warrant comprising part of a Unit acquired pursuant to this Offering will be determined by averaging the cost of such Warrant with the adjusted cost base to such purchaser of all other Warrants (if any) held by the purchaser as capital property immediately prior to the acquisition.

Exercise of Warrants

The exercise of a Warrant to acquire a Warrant Share will not constitute a disposition of property for the purposes of the Tax Act, and, consequently, no gain or loss will be realized by a holder of a Warrant upon the exercise of such Warrant to acquire a Warrant Share. When a Warrant is exercised, the holder's cost of the Warrant Share acquired thereby will be equal to the adjusted cost base of the Warrant to such holder, plus the exercise price paid for the Warrant Share. For the purpose of computing the adjusted cost base to a holder of each Warrant Share acquired on the exercise of a Warrant, the cost of such Warrant Share must be averaged with the adjusted cost base to such holder of all other Common Shares (if any) held by the holder as capital property immediately prior to the exercise of the Warrant.

Holders Resident in Canada

This portion of the summary is generally applicable to a purchaser who, at all relevant times, for purposes of the Tax Act and any applicable income tax convention is, or is deemed to be, resident in Canada (a "**Resident Holder**").

Certain Resident Holders whose Common Shares might not otherwise qualify as capital property may, in certain circumstances, be entitled to make, or may have already made, an irrevocable election under subsection 39(4) of the Tax Act. This election may deem any Common Shares (and any other "Canadian security", as defined in the Tax Act) owned by such Resident Holder to be capital property in the taxation year in which the election is made and in all subsequent taxation years. This election does not apply to the Warrants. Resident Holders whose Common Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

Expiry of Warrants

In the event of the expiry of an unexercised Warrant, a Resident Holder generally will realize a capital loss equal to the holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the heading "*Taxation of Capital Gains and Capital Losses*".

Dividends on Common Shares

Taxable dividends received or deemed to be received on a Resident Holder's Common Shares will be included in the Resident Holder's income as taxable dividends received from a taxable Canadian corporation. The normal gross up and dividend tax credit rules applicable to taxable dividends received from a taxable Canadian corporation, including the enhanced dividend tax credit in respect of "eligible dividends" designated by the Company, will apply to taxable dividends received or deemed to be received by a Resident Holder who is an individual (other than certain trusts). There may be limitations on the ability of the Company to designate dividends as eligible dividends. The amount of a dividend received by a Resident Holder who is an individual (other than certain trusts), but not the amount of the gross-up, may be subject to alternative minimum tax. Resident Holders who are individuals should consult their own tax advisors in this regard.

In the case of a Resident Holder that is a corporation, the amount of any such taxable dividend that is included in its income for a taxation year will generally be deductible in computing its taxable income for that taxation year. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. A Resident Holder that is a corporation should consult its own tax advisors having regard to its own particular circumstances.

A Resident Holder that is a "private corporation" or "subject corporation", each as defined in the Tax Act, will generally be liable to pay an additional tax (refundable in certain circumstances) under Part IV of the Tax Act on dividends received or deemed to be received on the Common Shares to the extent such dividends are deductible in computing the Resident Holder's taxable income for the year.

Dispositions of Common Shares or Warrants

A Resident Holder who disposes of, or is deemed to dispose of, a Common Share (other than a disposition to the Company that is not a sale in the open market in the manner in which shares would normally be purchased by any member of the public in an open market) or a Warrant (other than on the exercise of a Warrant) will realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition exceed (or are exceeded by) the adjusted cost base of such security and any reasonable expenses incurred by the purchaser for the purposes of making such disposition. The tax treatment of capital gains and capital losses is described below under the heading "*Taxation of Capital Gains and Capital Losses*".

Generally, the cost for tax purposes of a Common Share will be the amount paid to acquire such share and reasonable costs associated with the acquisition. The adjusted cost base to a Resident Holder of a Common Share will generally be the average adjusted cost base of all Common Shares held by such Resident Holder as capital property at a particular time. Any tax consequences arising from a subsequent disposition of a Common Share will be measured by reference to the adjusted cost base of the Common Shares based on this averaging rule.

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "**taxable capital gain**") must be included in computing the income of a Resident Holder for the year in which the disposition takes place, while one-half of any capital loss (an "**allowable capital loss**") will be required to be deducted against taxable capital gains realized by the Resident Holder in the same taxation year. Allowable capital losses not deducted in the year in which they arise may be deducted by a Resident Holder from taxable capital gains realized in any of the three (3) preceding years, or any subsequent year, subject to the detailed provisions of the Tax Act in that regard. Taxable capital gains realized by a Resident Holder who is an individual (other than certain trusts) may give rise to alternative minimum tax depending on the Resident Holder's circumstances. Resident Holders who are individuals should consult their own tax advisors in this regard.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by a Resident Holder that is a corporation may, in certain circumstances, be reduced by the amount of dividends received or deemed to have been received by it on such Common Shares to the extent and under the circumstances specified in the Tax Act. Similar rules may apply where a Resident Holder that is a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares or where a partnership or trust, of which a corporation is a member or a beneficiary, is a member of a partnership or a beneficiary of a trust that owns Common Shares. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional tax (refundable in certain circumstances) on its "aggregate investment income" (as defined in the Tax Act) for the year, which is defined to include an amount in respect of taxable capital gains arising from the disposition of a Common Share or Warrant.

Holders Not Resident In Canada

This portion of the summary only applies to a purchaser of Units who, at all relevant times, for purposes of the Tax Act: (i) is not, and is not deemed to be, resident in Canada; and (ii) does not, and is not deemed to, use or hold Common Shares or Warrants in the course of a business carried on or deemed to be carried on in Canada (a "**Non-Resident Holder**"). This summary does not apply to a Non-Resident Holder that carries on, or is deemed to carry on, an insurance business in Canada and elsewhere or an "authorized foreign bank" (as defined in the Tax Act) and such holders should consult their own tax advisors.

Dividends on Common Shares

Dividends paid or credited or deemed under the Tax Act to be paid or credited by the Company to a Non-Resident Holder on the Common Shares will generally be subject to Canadian withholding tax on the gross amount of the dividend at the rate of 25%, subject to any reduction in the rate of withholding to which the Non-Resident Holder is

entitled under any applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. For example, where a Non-Resident Holder is a resident of the United States, is fully entitled to the benefits under the *Canada-United States Income Tax Convention* (1980) (the "**Treaty**") and is the beneficial owner of the dividend, the applicable rate of Canadian withholding tax is generally reduced to 15%. This rate is reduced to 5% in the case of a Non-Resident Holder that is the beneficial owner of the dividend and that is a corporation that owns beneficially at least 10% of the voting stock of the Company.

Dispositions of Common Shares and Warrants

A Non-Resident Holder who disposes of, or is deemed to dispose of, a Common Share (other than a disposition to the Company that is not a sale in the open market in the manner in which shares would normally be purchased by any member of the public in an open market) or a Warrant (other than upon the exercise thereof) will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on such disposition or deemed disposition, and capital losses arising on such disposition or deemed disposition will not be recognized under the Tax Act, unless the Common Share or Warrant constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition, and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention between Canada and the country in which the Non-Resident Holder is resident.

Generally, a Common Share will not constitute taxable Canadian property of a Non-Resident Holder provided that the Common Shares are listed on a "designated stock exchange" for the purposes of the Tax Act (which currently includes Tier 1 of the TSXV) at the time of disposition of such security, unless at any time during the 60-month period immediately preceding the disposition the following two conditions are met concurrently: (i) at least 25% of the issued shares of any class or series of the capital stock of the Company were owned by one or any combination of (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm's length, or (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; and (ii) more than 50% of the fair market value of such shares was derived, directly or indirectly, from one or any combination of real or immovable property situated in Canada, "Canadian resource property" (as defined in the Tax Act), "timber resource property" (as defined in the Tax Act), or options in respect of, interests in, or for civil law rights in, such properties, whether or not such property exists. In the case of the Warrants, a Warrant would generally be "taxable Canadian property" to a Non-Resident Holder at a particular time if, at any time in the previous 60-month period: (a) the Non-Resident Holder held Warrants that provided such Non-Resident Holder with the right to acquire 25% or more of the outstanding common shares of the Company or the Non-Resident Holder and other persons and/or partnerships held shares of the Company at that time that satisfy the requirement in paragraph (i) above; and (b) the requirement in paragraph (ii) is satisfied at that time. Notwithstanding the foregoing, a Common Share or Warrant may also be deemed to be taxable Canadian property to a Non-Resident Holder under other provisions of the Tax Act. Non-Resident Holders should consult their own tax advisors as to whether their Common Shares or Warrants constitute "taxable Canadian property" in their own particular circumstances.

In cases where a Non-Resident Holder disposes or is deemed to dispose of a Common Share or Warrant that is "taxable Canadian property" to that Non-Resident Holder, and the Non-Resident Holder is not entitled to an exemption under an applicable income tax convention, the consequences described above under the heading "*Holders Resident in Canada – Expiry of Warrants, Dispositions of Common Shares or Warrants, and Taxation of Capital Gains and Capital Losses*" will generally be applicable to such disposition. Such Non-Resident Holders should consult their own tax advisors.

ELIGIBILITY FOR INVESTMENT

In the opinion of Dentons Canada LLP, counsel to the Company, and McCarthy Tétrault LLP, counsel to the Underwriters, based on the current provisions of the Tax Act, the regulations thereunder and the proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada), prior to the date hereof, each of the Common Shares, the Warrant Shares and the Warrants if issued on the Closing Date, would be as of the Closing Date qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("**RRSP**"), a deferred profit sharing plan, a registered retirement income fund ("**RRIF**"), a

registered education savings plan ("**RESP**"), a registered disability savings plan ("**RDSP**"), and a tax-free savings account ("**TFSA**") as those terms are defined in the Tax Act (collectively, the "**Deferred Plans**"), provided that:

- i. in the case of the Common Shares and Warrant Shares, such shares are as of the Closing Date listed on a "designated stock exchange" as defined in the Tax Act (which currently includes Tier 1 of the TSXV); and
- ii. in the case of Warrants, the Warrant Shares are listed on a "designated stock exchange" on the Closing Date and the Company is not a "connected person" under such Plans. For this purpose, a "connected person" is defined as a person who is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the particular Plan and any person who does not deal at arm's length with that person.

Notwithstanding the foregoing, the holder of a RDSP or TFSA, the subscriber of a RESP or annuitant under a RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Common Shares, the Warrant Shares or the Warrants, if such securities are a "prohibited investment" for the TFSA, RRSP, RESP, RDSP or RRIF for purposes of the Tax Act. The Common Shares, the Warrant Shares and the Warrants will generally be a "prohibited investment" if the holder of a RDSP or TFSA, the subscriber of a RESP or annuitant under a RRSP or RRIF, as the case may be, (i) does not deal at arm's length with the Company for purposes of the Tax Act, or (ii) has a "significant interest" (within the meaning of the Tax Act) in the Company. In addition, the Common Shares, the Warrant Shares or the Warrants will generally not be a "prohibited investment" if such securities are "excluded property" (as defined in the Tax Act) for the TFSA, RRSP, RESP, RDSP or RRIF.

Individuals who hold or intend to hold Common Shares, Warrant Shares or Warrants in a TFSA, RRSP, RESP, RDSP or RRIF should consult their own tax advisors as to whether such securities will be a "prohibited investment" in their particular circumstances.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement dated ●, 2022 among the Company and the Underwriters, the Company has agreed to sell and the Underwriters have severally agreed to purchase, on Closing, an aggregate of 13,334,000 Units, each at a price of \$0.90 per Unit payable in cash to the Company against delivery of the Units.

Pursuant to the terms of the Underwriting Agreement, the Company has agreed to pay to the Underwriters a commission equal to 6.0% of the gross proceeds of the Offering, other than any proceeds raised from the President's List, for which the commission payable to the Underwriters shall be equal to 3.0% of such aggregate gross proceeds from members of the President's List, and will reimburse the Underwriters for their reasonable expenses in connection with the Offering. The Underwriting Agreement also provides that Source Rock will indemnify the Underwriters and their directors, officers, employees and agents against certain liabilities and expenses.

The obligations of the Underwriters are several and neither joint nor joint and several, and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriting Agreement provides that the Underwriters must take up and pay for all of the Units by ●, 2022 if any of the Units are purchased under the Underwriting Agreement. However, the Underwriters are not required to take or pay for the Additional Units covered by the Over-Allotment Option described below.

The Units are offered subject to a number of conditions, including receipt and acceptance of the Units by the Underwriters and the Underwriters' right to reject orders in whole or in part and compliance by the Company with industry standard closing conditions.

The Underwriters propose to offer the Units initially at the Offering Price specified on the cover page of this prospectus. After the Underwriters have made a reasonable effort to sell all of the Units at the price specified on the cover page, the Offering Price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Units is less than the gross purchase price paid by the

Underwriters to the Company for the Units. In connection with the Offering, certain of the Underwriters or securities dealers may distribute prospectuses electronically.

The Offering is being made in each of the provinces of Canada other than Québec through those Underwriters or their affiliates who are registered to offer the Units for sale in such provinces and such other registered dealers as may be designated by the Underwriters. Subject to applicable law, the Underwriters may offer the Units outside of Canada.

The Units have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold in the United States, except in transactions exempt from registration under the U.S. Securities Act and under the securities laws of any applicable state. Except as permitted in the Underwriting Agreement and as expressly permitted by applicable laws of the United States, the Underwriters have agreed that they will not sell the Units within the United States except in accordance with Rule 144A of the U.S. Securities Act and in compliance with applicable U.S. state securities laws. The Underwriting Agreement permits the Underwriters to resell the Common Shares to "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act) in the United States, provided such sales are made in accordance with Rule 144A under the U.S. Securities Act and applicable U.S. state securities laws. Moreover, the Underwriting Agreement provides that the Underwriters will sell Units outside the United States only in accordance with Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Units within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirement of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirement of the U.S. Securities Act.

The Company has applied to list the Common Shares and Warrants distributed under this prospectus on the TSXV under the symbols "SRR" and "SRR.WT", respectively. Listing will be subject to the Company fulfilling all the listing requirements of the TSXV.

As at the date hereof, Source Rock does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside of Canada and the United States of America (other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.). The sale of a substantial number of the Common Shares in the public market after the Offering, or the perception that such sales may occur, could adversely affect the prevailing market price of the Common Shares.

The Closing is expected to occur on February 15, 2022 or such other date as Source Rock and the Underwriters may agree.

Over-Allotment Option

The Company has granted to the Underwriters the Over-Allotment Option, exercisable in whole or in part, at any time on or before the date that is 30 days following the date of closing of the Offering. The Over-Allotment Option may be exercised by the Underwriters to acquire: (i) Additional Units at the Offering Price; (ii) Additional Common Shares at a price of \$● per Additional Common Share; (iii) Additional Warrants at a price of \$● per Additional Warrant; or (iv) any combination of Additional Units, Additional Common Shares, and Additional Warrants, so long as the aggregate number of Common Shares and Warrants which may be issued under the Over-Allotment Option does not exceed 2,000,100 Common Shares and 1,000,050 Warrants. If the Underwriters exercise the Over-Allotment Option in full, the total Price to the Public, Underwriters' Commission and Net Proceeds to the Company will be \$13,800,690, \$693,041 and \$13,107,649, respectively, assuming purchasers on the President's List purchase 5,000,000 Units under the Offering. This prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Additional Units, including any Common Shares and/or Warrants issued or sold pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Units, Common Shares and/or Warrants forming part of the Underwriters' over-allocation position acquires those securities under this prospectus, regardless of

whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may over-allocate or effect transactions which stabilize or maintain the market price of the Common Shares and Warrants at levels other than those which otherwise might prevail on the open market, including:

- stabilizing transactions;
- short sales;
- purchases to cover positions created by short sales;
- imposition of penalty bids; and
- syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing a decline in the market price of the Common Shares and Warrants while the Offering is in progress. These transactions may also include making short sales of the Common Shares or Warrants, which involve the sale by the Underwriters of a greater number of Common Shares or Warrants than they are required to purchase in the Offering. Short sales may be "covered short sales", which are short positions in an amount not greater than the Over-Allotment Option, or may be "naked short sales", which are short positions in excess of that amount. The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares or Warrants in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares or Warrants available for purchase in the open market compared with the price at which they may purchase Common Shares or Warrants through the Over-Allotment Option. The Underwriters must close out any naked short position by purchasing Common Shares or Warrants in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares or Warrants in the open market that could adversely affect purchasers who purchase in the Offering.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares or Warrants. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares or Warrants. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the applicable stock exchange, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares and Warrants may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares or Warrants are listed, in the over-the-counter market, or otherwise.

Restrictions on Further Sales

Pursuant to the Underwriting Agreement, the Company has agreed, subject to certain specified exceptions, not to issue or sell, agree or offer to issue or sell, or enter into an arrangement to issue or sell, directly or indirectly, any Common Shares or Warrants, any securities convertible or exchangeable into Common Shares, or any other voting or equity securities of the Company or any subsidiary of or successor to the Company, for a period of 180 days subsequent to the Closing of the Offering, without the prior written consent of the Co-Lead Underwriters, which consent shall not be unreasonably withheld or delayed, except: (i) pursuant to transactions contemplated by the Offering, including the creation and issuance of the Common Shares, Warrants and Common Shares underlying the Warrants; (ii) the grant of Options or other security-based compensation arrangement of the Company existing on

the Closing Date; (iii) the issuance of securities of the Company upon the conversion, exercise or exchange of convertible, exercisable or exchangeable securities or rights existing on the Closing Date or upon the exercise, redemption or settlement of Options or other security-based compensation subsequently granted as permitted herein; (iv) the issuance of securities of the Company in connection with the acquisition by the Company or any of its subsidiaries of the securities, business, property or other assets of another person; and (v) the issuance of securities of the Company in connection with joint ventures, commercial relationships, debt financings, charitable contributions or other strategic corporate transactions, and the issuance of any such securities pursuant to any such agreement; provided that in the case of clauses (iv) and (v), the aggregate number of Common Shares that the Company may sell or issue or agree to sell or issue pursuant to clauses (iv) and (v) shall not exceed an aggregate 20% of the total number of Common Shares issued and outstanding on a fully-diluted basis immediately following the completion of the Offering.

Every director and officer of the Company will enter into an agreement with the Co-Lead Underwriters in which they covenanted not to issue or sell, agree or offer to issue or sell, or enter into an arrangement to issue or sell, directly or indirectly, any Common Shares or Warrants, any securities convertible or exchangeable into Common Shares, or any other voting or equity securities of the Company or any subsidiary of or successor to the Company, for a period of 180 days subsequent to the closing of the Offering unless: (i) they first obtain the prior written consent of the Co-Lead Underwriters, such consent not to be unreasonably withheld, conditioned or delayed; or (ii) there occurs a take-over bid or similar transaction involving a change of control of the Company. See "*Escrowed Securities and Securities Subject To Contractual Restriction On Transfer*".

MARKET FOR SECURITIES

There is no market through which the Common Shares or Warrants may be sold and purchasers may not be able to resell the Common Shares or Warrants purchased under this prospectus. See "*Risk Factors*".

INDUSTRY CONDITIONS

Companies operating in the oil and gas industry in Canada are subject to extensive regulation and control of operations (including with respect to land tenure, exploration, development, production, refining and upgrading, transportation, and marketing) as a result of legislation enacted by various levels of government; and with respect to the pricing and taxation of petroleum and natural gas through legislation enacted by, and agreements among, the federal and provincial governments of Canada, all of which should be carefully considered by investors in the Western Canadian oil and gas industry. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

The assets and operations of oil and gas producers are regulated by administrative agencies that derive their authority from legislation enacted by the applicable level of government. Regulated aspects of the Company's and its royalty payors' upstream oil and natural gas business include all manner of activities associated with the exploration for and production of oil and natural gas, including, among other matters: (i) permits for the drilling of wells; (ii) technical drilling and well requirements; (iii) permitted locations and access of operation sites; (iv) operating standards regarding conservation of produced substances and avoidance of waste, such as restricting flaring and venting; (v) minimizing environmental impacts, including by reducing emissions; (vi) storage, injection and disposal of substances associated with production operations; and (vii) the abandonment and reclamation of impacted sites. To conduct oil and natural gas operations and remain in good standing with the applicable federal or provincial regulatory scheme, producers must comply with applicable legislation, regulations, orders, directives and other directions (all of which are subject to governmental oversight, review and revision, from time to time). Compliance in this regard can be costly and a breach of the same may result in fines or other sanctions.

Outlined below are some of the principal aspects of the legislation, regulations, agreements, orders, directives and a summary of other pertinent conditions that impact the oil and gas industry in Western Canada, specifically in the provinces of Alberta and Saskatchewan, where the Royalty Lands are located. While these matters do not affect the Company's operations in any manner that is materially different than the manner in which they affect other

similarly-sized royalty industry participants with similar assets and operations, investors should consider such matters carefully.

Pricing and Marketing in Canada

Crude Oil

Oil producers are entitled to negotiate sales contracts directly with purchasers. As a result, macroeconomic and microeconomic market forces determine the price of oil. Worldwide supply and demand factors are the primary determinant of oil prices, but regional market and transportation issues also influence prices. The specific price that a producer receives will depend, in part, on oil quality, prices of competing products, distance to market, availability of transportation, value of refined products, supply/demand balance and contractual terms of sale.

Since early 2020, worldwide oversupply of oil, a lack of available storage capacity and decreased demand due to COVID-19 have had a significant impact on the price of oil. In an effort to stabilize global oil markets, the Organization of the Petroleum Exporting Countries and a number of other oil producing countries announced an agreement to cut oil production by approximately 10 million bbls/d in April 2020. This agreement contributed to rebalancing global oil markets by achieving approximately 99.5% compliance with the agreed upon production adjustment commitments. However, economic recovery has slowed due to a resurgence of COVID-19 and newly emerging virus variants in major economies.

Natural Gas

Negotiations between buyers and sellers determines the price of natural gas sold in intra-provincial, interprovincial and international trade. The price received by a natural gas producer depends, in part, on the price of competing natural gas supplies and other fuels, natural gas quality, distance to market, availability of transportation, length of contract term, weather conditions, supply/demand balance and other contractual terms of sale.

Transportation Constraints and Market Access

One constraint to the export of oil and natural gas is the deficit of transportation capacity to transport production from Western Canada to the United States and other international markets. Although certain pipeline and other transportation and export projects are underway, many proposed projects have been cancelled or delayed due to regulatory hurdles, court challenges and economic and other socio-political factors. Due, in part, to growing production and a lack of new and expanded pipeline and rail infrastructure capacity, producers in Western Canada have experienced low commodity pricing relative to other markets over the last several years.

Pipelines

Producers negotiate with pipeline operators to transport their products to market on a firm, spot or interruptible basis depending on the specific pipeline and the specific substance. Transportation availability is highly variable across different jurisdictions and regions. This variability can determine the nature of transportation commitments available, the number of potential customers and the price received.

Under the Canadian Constitution, the development and operation of interprovincial and international pipelines fall primarily within the federal government's jurisdiction and, under the *Canadian Energy Regulator Act ("CERA")*, permission to construct and operate major new interprovincial and international oil and gas pipelines requires a federal regulatory review and Cabinet approval before those projects can proceed. However, recent years have seen a perceived lack of policy and regulatory certainty in this regard such that, even when projects are approved, they often face delays. Those delays can be attributed to various factors, including but not limited to actions taken by provincial and municipal governments, which retain the ability to make laws that incidentally affect pipeline construction and operation. Legal opposition related to issues such as Indigenous rights and title, the government's duty to consult and accommodate Indigenous peoples and the sufficiency of all relevant environmental review processes can also lead to significant project delays. Export pipelines from Canada to the United States face

additional unpredictability as such pipelines also require approvals from several levels of government in the United States.

Specific Pipeline Updates

The Enbridge Line 3 Replacement from Hardisty, Alberta, to Superior, Wisconsin, previously expected to be in-service in late 2019, has faced significant delays due to permitting difficulties in the United States. However, final permits for that project were issued in December 2020. Enbridge completed the upgrade and expansion of Line 3 throughout 2021 and Line 3 entered service in October 2021.

The Trans Mountain Pipeline expansion received federal Cabinet approval in November 2016. Following a period of political opposition in British Columbia, the federal government acquired the Trans Mountain Pipeline in August 2018. The Trans Mountain Pipeline successfully navigated multiple legal challenges and is continuing to challenge alleged attempts by local municipalities to delay the project using building permit processes. The Trans Mountain Pipeline Expansion Project commenced construction in late 2019 and it is expected to be in-service in December 2022.

On March 31, 2020, TC Energy Company ("**TC Energy**") announced it would proceed with the Keystone XL Pipeline. TC Energy also announced that the Government of Alberta had made a US \$1.1 billion equity investment in the project and would guarantee a US \$4.2 billion project level credit facility. While construction on the Keystone XL Pipeline started in April 2020, the project experienced significant legal and regulatory barriers in the United States, including the cancellation of a presidential permit that allowed the pipeline to operate across the international border on January 20, 2021. Following a review of its options, TC Energy announced the termination of the Keystone XL Pipeline Project on June 9, 2021.

In November 2020, the Governor of Michigan revoked a critical easement that allowed Enbridge to construct and operate its Line 5 Pipeline below the Straits of Mackinac and ordered that the 68-year old pipeline be closed by May of 2021. Enbridge filed a federal complaint in late November 2020 in the United States District Court for the Western District of Michigan seeking an injunction to prevent the termination of the easement and ignored the May 2021 shutdown deadline. As of December 2021, Enbridge is attempting to have litigation in Michigan courts consolidated with the federal proceedings.

Marine Tankers

The *Oil Tanker Moratorium Act*, which was enacted in June 2019, imposes a ban on tanker traffic transporting crude oil or persistent crude oil products in excess of 12,500 metric tonnes to and from ports located along British Columbia's north coast. The ban effectively prevents pipelines being built to, and export terminals being located on, the coast of British Columbia at any point north of Vancouver Island.

Crude Oil and Bitumen by Rail

Following two train derailments that led to fires and oil spills in Saskatchewan, the federal government announced in February 2020 that trains hauling more than 20 cars carrying dangerous goods, including oil and diluted bitumen, would be subject to reduced speed limits. The order was updated in April 2020 and will remain in place until permanent rule changes are approved.

Natural Gas

Natural gas prices in Alberta have been constrained in recent years due to increasing North American supply, limited access to markets and limited storage capacity. Companies that secure firm access to infrastructure to transport their natural gas production out of Western Canada may be able to access more markets and obtain better pricing. Companies without firm access may be forced to accept spot pricing in Western Canada for their natural gas, which in the last several years has generally been depressed relative to other markets.

Required repairs or upgrades to existing pipeline systems in Western Canada have also led to reduced capacity and apportionment of access, the effects of which have been exacerbated by storage limitations. However, in September 2019, the Canada Energy Regulator ("**CER**") approved a policy change by TC Energy on its NOVA Gas Transmission Ltd. ("**NGTL**") pipeline system (the "**NGTL System**") to prioritize deliveries into storage. The change stabilized supply and pricing, particularly during periods of maintenance on the system. TC Energy received Government of Canada approval for an expansion to the NGTL System in October 2020. NGTL is progressing construction activities on its system expansion project. Different aspects of that project came online throughout 2021 and all components are expected to be completed by April 2022.

International Trade Agreements

Canada is party to a number of international trade agreements with other countries around the world that generally provide for, among other things, preferential access to various international markets for certain Canadian export products. Examples of such trade agreements include the Comprehensive Economic and Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and, most prominently, the United States Mexico Canada Agreement (the "**USMCA**"), which replaced the former North American Free Trade Agreement ("**NAFTA**") on July 1, 2020. Because the United States remains Canada's primary trading partner and the largest international market for the export of oil and natural gas from Canada, the implementation of the USMCA could have an impact on Western Canada's oil and gas industry at large, including the Company's business.

While the proportionality rules in Article 605 of NAFTA previously prevented Canada from implementing policies that limit exports to the United States and Mexico relative to the total supply produced in Canada, the USMCA does not contain the same proportionality requirements. This may allow Canadian producers to develop a more diversified export portfolio than was possible under NAFTA, subject to the construction of infrastructure allowing more Canadian production to reach eastern Canada, Asia and Europe.

Land Tenure

Mineral Rights

With the exception of Manitoba, each provincial government in Western Canada owns most of the mineral rights to the oil and natural gas located within their respective provincial borders. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences and permits (collectively, "**leases**") for varying terms, and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments in lieu thereof. The provincial governments in Western Canada conduct regular land sales where oil and natural gas companies bid for the leases necessary to explore for and produce oil and natural gas owned by the respective provincial governments. These leases generally have fixed terms, but they can be continued beyond their initial terms if the necessary conditions are satisfied.

In response to COVID-19, the governments of Alberta and Saskatchewan announced measures to extend or continue Crown leases that may have otherwise expired in the months following the implementation of pandemic response measures.

All of the provinces of Western Canada have implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a disposition. In addition, Alberta has a policy of "shallow rights reversion" which provides for the reversion to the Crown of mineral rights to shallow, non-productive geological formations for new leases and licences.

In addition to Crown ownership of the rights to oil and natural gas, private ownership of oil and natural gas (i.e. freehold mineral lands) also exists in Western Canada. Rights to explore for and produce privately owned oil and natural gas are granted by a lease or other contract on such terms and conditions as may be negotiated between the owner of such mineral rights and companies seeking to explore for and/or develop oil and natural gas reserves.

An additional category of mineral rights ownership includes ownership by the Canadian federal government of some legacy mineral lands and within Indigenous reservations designated under the *Indian Act* (Canada). Indian Oil and Gas Canada ("**IOGC**") manages subsurface and surface leases in consultation with applicable Indigenous peoples, for the exploration and production of oil and natural gas on Indigenous reservations. Until recently, oil and natural gas activities conducted on Indigenous reserve lands were governed by the *Indian Oil and Gas Act* (the "**IOGA**") and the *Indian Oil and Gas Regulations, 1995*. In 2009, Parliament passed *An Act to Amend the Indian Oil and Gas Act*, amending and modernizing the IOGA (the "**Modernized IOGA**"); however the amendments were delayed until the federal government was able to complete stakeholder consultations and update the accompanying Regulations (the "**2019 Regulations**"). The Modernized IOGA and the 2019 Regulations came into force on August 1, 2019 and further regulations are currently being developed. The Company does not have any royalty interests on Indigenous reserve lands.

Surface Rights

To develop oil and natural gas resources, producers must also have access rights to the surface lands required to conduct operations. For Crown lands, surface access rights can be obtained directly from the government. For private lands, access rights can be negotiated with the landowner. Where an agreement cannot be reached, however, each province has developed its own process that producers can follow to obtain and maintain the surface access necessary to conduct operations throughout the lifespan of a well, including notification requirements and providing compensation to affected persons for lost land use and surface damage.

Royalties and Incentives

General

Each province has legislation and regulations in place to govern Crown royalties and establish the royalty rates that producers must pay in respect of the production of Crown resources. The royalty regime in each province is in addition to applicable federal and provincial taxes and is a significant factor in the profitability of oil sands projects and oil and natural gas production. Royalties payable on production from lands where the Crown does not hold the mineral rights are negotiated between the mineral freehold owner and the lessee, though certain provincial taxes and other charges on production or revenues may be payable.

Producers and working interest owners of oil and natural gas rights may create additional royalties or royalty-like interests, such as overriding royalties, production volume royalties, net profits interests and net carried interests, through private transactions, the terms of which are subject to negotiation.

Occasionally, the provincial governments in Western Canada create incentive programs for the oil and gas industry. These programs often provide for volume-based incentives, royalty rate reductions, royalty holidays or royalty tax credits and may be introduced when commodity prices are low to encourage exploration and development activity. Governments may also introduce incentive programs to encourage producers to prioritize certain kinds of development or utilize technologies that may enhance or improve recovery of oil and natural gas, or improve environmental performance.

The federal government also creates incentives and other financial aid programs intended to assist businesses operating in the oil and gas industry. Recently, these programs, including, but not limited to, programs that provide direct financial support to companies operating in the oil and gas industry and/or targeted funding for various initiatives related to industry diversification and environmental matters, including those programs created in response to the COVID-19 pandemic such as the various short-term loan programs and the Canada Emergency Wage Subsidy, for example, have been administered through federal agencies such as the Business Development Bank of Canada, Natural Resources Canada, Export Development Canada, Innovation, Science and Economic Development Canada and, in some cases, the Canada Revenue Agency.

Alberta

Crown Royalties

In Alberta, oil and natural gas producers are responsible for calculating their royalty rate on an ongoing basis. The Crown's royalty share of production is payable monthly and producers must submit their records showing the royalty calculation.

In 2016, the Government of Alberta adopted a modernized Crown royalty framework (the "**Modernized Framework**") that applies to all conventional oil (i.e., not oil sands) and natural gas wells drilled after December 31, 2016 that produce Crown-owned resources. The previous royalty framework (the "**Old Framework**") will continue to apply to wells producing Crown-owned resources that were drilled prior to January 1, 2017 until December 31, 2026, following which time they will become subject to the Modernized Framework. The *Royalty Guarantee Act* (Alberta), came into effect on July 18, 2019, and provides that no major changes will be made to the current oil and natural gas royalty structure for a period of at least 10 years.

Royalties on production from wells subject to the Modernized Framework are determined on a "revenue-minus-costs" basis. The cost component is based on a drilling and completion cost allowance formula that relies, in part, on the industry's average drilling and completion costs, determined annually by the AER, and incorporates information specific to each well such as vertical depth and lateral length.

Under the Modernized Framework, producers initially pay a flat royalty of 5% on production revenue from each producing well until payout, which is the point at which cumulative gross revenues from the well equals the applicable drilling and completion cost allowance. After payout, producers pay an increased royalty of up to 40% that will vary depending on the nature of the resource and market prices. Once the rate of production from a well is too low to sustain the full royalty burden, its royalty rate is gradually adjusted downward as production declines, eventually reaching a floor of 5%.

Under the Old Framework, royalty rates for conventional oil production can be as high as 40% and royalty rates for natural gas production can be as high as 36%. Similar to the Modernized Framework, these rates vary based on the nature of the resource and market prices. The natural gas royalty formula also provides for a reduction based on the measured depth of the well, as well as the acid gas content of the produced gas.

Oil sands production in Alberta is also subject to a royalty regime. Prior to payout of an oil sands project, the royalty is payable on gross revenues and, depending on market prices, the applicable rates are capped at 9%. After payout, the royalty payable is the greater of the gross revenue royalty (described above) and a net revenue royalty based on rates that range from 25%-40%.

In addition to royalties, producers of oil and natural gas from Crown lands in Alberta are also required to pay annual rentals to the Government of Alberta.

Freehold Royalties and Taxes

Royalty rates for the production of privately owned oil and natural gas are negotiated between the producer and the resource owner.

The Government of Alberta levies annual freehold mineral taxes for production from freehold mineral lands. On average, the tax levied in Alberta is 4% of revenues reported from freehold mineral title properties and is payable by the registered owner of the mineral rights.

Saskatchewan

Crown Royalties

Crown royalties payable on the production of oil and natural gas in Saskatchewan are paid on a well-by-well basis. Producers of oil and natural gas receive royalty invoices from the Government on a monthly basis.

The Crown royalty payable on oil production is paid on a well-by-well basis and depends on a number of variables, including the type and vintage of oil, the quantity of oil produced in a given month, the average wellhead price and certain price adjustment factors. Based on these factors, the base royalty rate ranges from 5%-20% and the marginal royalty rate ranges from 25%-45%. The Crown royalty payable on natural gas production is determined by a sliding scale based on the monthly provincial average gas price published by the Government of Saskatchewan, the quantity produced in a given month, the type and classification of the natural gas, the finished drilling date of the well and certain price adjustment factors. Based on these factors, the base royalty rate ranges from 0%-20% and the marginal royalty rate ranges from 30%-45%.

Freehold Royalties and Taxes

Royalty rates for the production of privately owned oil and natural gas are negotiated between the producer and the resource owner. In addition, producers must pay a freehold production tax, calculated by first determining the Crown royalty rate, and then subtracting a calculated production tax factor that depends on the classification of the petroleum substance produced. Additionally, a mineral rights tax is charged to mineral rights holders paid on an annual basis at the rate of \$1.50 per acre owned regardless of whether or not there is production from the lands.

Resource Surcharge

In addition to royalties, certain entities operating in Saskatchewan must pay a tax, known as a "**Resource Surcharge**", on the value of resources sales. The Resource Surcharge rate is 3% of the sales value of all oil and natural gas produced from wells drilled in Saskatchewan before October 1, 2002, and 1.7% for any wells drilled thereafter.

Regulatory Authorities and Environmental Regulation

General

The oil and gas industry in Canada and the United States is currently subject to environmental regulation under a variety of federal, provincial, state, territorial, and municipal laws and regulations, all of which are subject to governmental review and revision from time to time. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. The regulatory regimes set out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well, facility and pipeline sites. Compliance with such regulations can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability, and the imposition of material fines and penalties. In addition, future changes to environmental legislation, including legislation related to air pollution and GHG emissions (typically measured in terms of their global warming potential and expressed in terms of carbon dioxide equivalent ("**CO₂e**")), may impose further requirements on operators and other companies in the oil and gas industry.

Canada

Canadian environmental regulation is the responsibility of both the federal and provincial governments. While provincial governments and their delegates are responsible for most environmental regulation, the federal government can regulate environmental matters where they impact matters of federal jurisdiction or when they arise

from projects that are subject to federal jurisdiction, such as interprovincial transportation undertakings, including pipelines and railways, and activities carried out on federal lands.

On August 28, 2019, the *Impact Assessment Act* (the "IAA") replaced the *Canadian Environmental Assessment Act, 2012*.

The enactment of the CERA and the IAA introduced a number of important changes to the regulation of federally regulated major energy projects and their associated environmental assessments. The CER has jurisdiction over matters such as the environmental and economic regulation of interprovincial and international oil and gas pipelines, electricity transmission infrastructure and certain offshore energy projects. The CERA tasks CER hearing commissioners with reviewing applications for the development, construction and operation, decommissioning and abandonment of such projects.

The IAA relies on a designated project list as a trigger for a federal assessment. Projects included on the designated project list will generally require an impact assessment administered by the Impact Assessment Agency of Canada ("IAAC") or, in the case of certain pipelines, a joint review panel comprised of members from the CERA and the IAAC. The impact assessment requires consideration of the project's potential adverse effects and the overall societal impact that a project may have, both of which may include a consideration of, among other items, environmental and socio-economic factors, climate change, and impacts to Indigenous rights. At the conclusion of the impact assessment review process, the federal decision maker (the Minister of Environment or federal Cabinet) makes a final public interest determination about whether to approve the project in light of the impact assessment findings. Designated projects specific to the oil and gas industry include pipelines that require more than 75km of new right of way and pipelines located in national parks, large scale *in situ* oil sands projects not regulated by provincial greenhouse gas ("GHG") emissions caps and certain refining, processing and storage facilities. The Government of Alberta, supported by the governments of Ontario and Saskatchewan, has challenged the constitutionality of the IAA and requested that the federal legislation be invalidated by the Alberta Court of Appeal on the basis that it encroaches on provincial jurisdiction. A decision on that litigation is pending.

Alberta

The AER is the principal regulator responsible for all energy resource development in Alberta. It derives its authority from the *Responsible Energy Development Act* and a number of related statutes including the *Oil and Gas Conservation Act* (the "OGCA"), the *Oil Sands Conservation Act*, the *Pipeline Act*, and the *Environmental Protection and Enhancement Act*. The AER is responsible for ensuring the safe, efficient, orderly and environmentally responsible development of hydrocarbon resources, including allocating and conserving water resources, managing public lands, and protecting the environment. The AER's responsibilities exclude the functions of the Alberta Utilities Commission and the Land and Property Rights Tribunal as well as the Alberta Ministry of Energy's responsibility for mineral tenure.

The Government of Alberta relies on regional planning to accomplish its resource development goals. Its approach to natural resource management provides for engagement and consultation with stakeholders and the public and examines the cumulative impacts of development on the environment and communities. While the AER is the primary regulator for energy development, several other governmental departments and agencies may be involved in land use issues, including the Alberta Ministry of Environment and Parks, the Alberta Ministry of Energy, the Aboriginal Consultation Office and the Land Use Secretariat.

The Government of Alberta's land-use policy sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of seven region-specific land-use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans.

The AER monitors seismic activity across Alberta to assess the risks associated with, and instances of, earthquakes induced by hydraulic fracturing. Hydraulic fracturing involves the injection of water, sand or other proppants and

additives under pressure into targeted subsurface formations to fracture the surrounding rock and stimulate oil and natural gas production. In recent years, hydraulic fracturing has been linked to increased seismicity in the areas in which hydraulic fracturing takes place, prompting regulatory authorities to investigate the practice further.

The AER has developed monitoring and reporting requirements that apply to all oil and natural gas producers working in certain areas where the likelihood of an earthquake is higher, and implemented the requirements in *Subsurface Order Nos. 2, 6, and 7*. The regions with seismic protocols in place are Fox Creek, Red Deer, and Brazeau (the "**Seismic Protocol Regions**"). Oil and natural gas producers in each of the Seismic Protocol Regions are subject to a "traffic light" reporting system that sets thresholds on the Richter scale of earthquake magnitude. The thresholds vary among the Seismic Protocol Regions and trigger a sliding scale of obligations from the oil or natural gas producers operating there. Such obligations range from no action required, to informing the AER and invoking an approved response plan, to ceasing operations and informing the AER. The AER has the discretion to suspend operations while it investigates following a seismic event until it has assessed the ongoing risk of earthquakes in a specific area and/or may require the operator to update its response plan. The AER may extend these requirements to other areas of Alberta if necessary, subject to the results of its ongoing province-wide monitoring.

Saskatchewan

The Saskatchewan Ministry of Energy and Resources is the primary regulator of oil and natural gas activities in the province. The *Oil and Gas Conservation Act* (the "**SKOGCA**") is the statute governing the regulation of resource development operations in the province, along with *The Oil and Gas Conservation Regulations, 2012* and *The Petroleum Registry and Electronic Documents Regulations*. The Government of Saskatchewan has implemented a number of operational requirements, including an increased demand for record-keeping, increased testing requirements for injection wells and increased investigation and enforcement powers, and procedural requirements including those related to Saskatchewan's participation as partner in the Petrinex Database.

Liability Management Rating Program

Alberta

As the lifecycle regulator for energy resource activities, the AER oversees closure requirements, including the abandonment and reclamation of wells, well sites, facilities, facility sites, and pipelines. Historically, the AER discharged this role through its Liability Management Rating Program (the "**AB LMR Program**"). The AB LMR Program relied on the ratio of a company's assets and liabilities (the "**Liability Management Ratio**" or "**LMR**") to assess whether the company would be able to address closure obligations. Where a company's liabilities exceeded their assets (resulting in a Liability Management Ratio of less than 1.0), the AER could require the company to post security to bring the ratio to 1.0. The AB LMR Program was developed during a period of rapid growth in the province when companies were focused on well and infrastructure expansion. In recent years, it became clear that the AB LMR Program needed to be updated to reflect declining production and aging infrastructure.

As a result of the Supreme Court of Canada's decision in *Orphan Well Association v Grant Thornton* (also known as the "**Redwater**" decision), receivers and trustees can no longer avoid the AER's legislated authority to impose abandonment orders against licensees or to require a licensee to pay a security deposit before approving a licence transfer when any such licensee is subject to formal insolvency proceedings. This means that insolvent estates can no longer disclaim assets that have reached the end of their productive lives (and therefore represent a net liability) in order to deal primarily with the remaining productive and valuable assets without first satisfying any abandonment and reclamation obligations associated with the insolvent estate's assets. In April 2020, the Government of Alberta passed the Liabilities Management Statutes Amendment Act, which places the burden of a defunct licensee's abandonment and reclamation obligations first on the defunct licensee's working interest partners, and second, the AER may order the orphan fund ("**Orphan Fund**") established under the OGCA to assume care and custody and accelerate the clean-up of wells or sites which do not have a responsible owner. These changes will come into force on proclamation.

As a result of the changing landscape and new direction from the Redwater decision, in July 2020, the Government of Alberta began implementing changes to its liability management policy. In particular, in July 2020, the Government of Alberta released a new Liability Management Framework ("**AB LMF**") which includes a series of mechanisms and requirements to improve and expedite reclamation efforts and to require industry to better manage clean-up of oil and gas wells, pipelines and facilities. Notably, the AB LMF provided policy direction allowing the AER to take "Licensee Special Action" to assist operators in managing their assets and maintaining operations under certain circumstances. The AB LMF also confirmed that the previous Liability Management Ratio that existed under the AB LMR Program would be replaced with a new "Licensee Capability Assessment System" that provides a more comprehensive assessment of a Licensee's ability to meet its regulatory obligations. Finally, the AB LMF introduced the "Inventory Reduction Program", whereby the AER would establish individual and industry-wide targets for closure activity in order to help reduce inactive well and facility inventories.

The Government of Alberta followed the announcement of the AB LMF with amendments to the *Oil and Gas Conservation Rules* and the *Pipeline Rules* in late 2020. The changes to these rules fall into three broad categories: (i) they introduce "closure" as a defined term, which captures both abandonment and reclamation; (ii) they expand the AER's authority to initiate and supervise closure; and (iii) they permit qualifying third parties on whose property wells or facilities are located to request that licensees prepare a closure plan.

The AB LMF provided Government of Alberta policy direction on managing energy sector closure requirements. The AER implements and administers that policy through directives. In April 2021, the AER made changes to *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals* ("**Directive 067**") in order to increase scrutiny the AER applies to ensure that authorization for oil and gas development is only granted to responsible parties. Those changes include additional requirements for industry to provide updated financial information when making certain applications to the AER and throughout the energy development lifecycle. As a result of the changes to Directive 067, the AER may revoke or restrict a company's eligibility to hold AER licences if the AER determines that the licensee poses an "unreasonable risk", taking into account a broad range of financial and operational considerations.

On December 1, 2021, the AER published a new *Directive 088: Licensee Life-Cycle Management* ("**Directive 088**") and supporting guidance information to further support implementing the AB LMF. Among other things, Directive 088 establishes the AER's authority to conduct a holistic licensee assessment to inform regulatory decisions about a given licensee, including by conducting a "Licensee Capability Assessment." Directive 088 also establishes the "Licensee Management Program" contemplated in the AB LMF which enables the AER to proactively monitor licensees to identify those at risk of not meeting their regulatory obligations and to use appropriate regulatory tools to address that risk. Finally, Directive 088 establishes the Inventory Reduction Program and allows the AER to set licensee-specific and industry-wide closure targets.

Complementing the AB LMF program and associated directives, Alberta's OGCA establishes the Orphan Fund to help pay the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline included in the AB LMR Program if a licensee or working interest participant becomes insolvent or is unable to meet its obligations. The Orphan Fund was originally conceived to be funded by licensees in the AB LMR Program who contribute to a levy administered by the AER. However, given the increase in orphaned oil and natural gas assets, the Government of Alberta has loaned the Orphan Fund approximately \$335 million to carry out abandonment and reclamation work. In response to the COVID-19 pandemic, the Government of Alberta also covered \$113 million in levy payments that licensees would otherwise have owed to the Orphan Fund, corresponding to the levy payments due for the first six months of the AER's fiscal year. A separate orphan levy applies to persons holding licences for large facilities. Collectively, these programs, the AB LMF, and associated directives are designed to minimize the risk to the Orphan Fund posed by the unfunded liabilities of licensees and to prevent the taxpayers of Alberta from incurring costs to suspend, abandon, remediate and reclaim wells, facilities or pipelines.

In addition, to address abandonment and reclamation liabilities in Alberta, the AER implements, from time to time, programs intended to encourage the decommissioning, remediation and reclamation of inactive or marginal oil and natural gas infrastructure. Beginning in 2015, for example, the AER oversaw the Inactive Well Compliance Program, a five-year program intended to address the growing inventory of inactive and noncompliant wells in Alberta. More recently, the AER announced a voluntary area-based closure ("**ABC**") program in 2018. The ABC

program is designed to reduce the cost of abandonment and reclamation operations through industry collaboration and economies of scale. Parties seeking to participate in the program must commit to an inactive liability reduction target to be met through closure work of inactive assets.

Saskatchewan

The Saskatchewan Ministry of Energy and Resources administers the Licensee Liability Rating Program (the "**SK LLR Program**"). The SK LLR Program is designed to assess and manage the financial risk that a licensee's well and facility abandonment and reclamation liabilities pose to the orphan fund (the "**Oil and Gas Orphan Fund**") established under the SKOGCA. The Oil and Gas Orphan Fund takes on the obligation of carrying out the abandonment and reclamation of wells and facilities contained within the SK LLR Program when the Saskatchewan Ministry of Energy and Resources confirms there is no legally responsible or financially able party to deal with the abandonment and/or reclamation responsibilities. On August 19, 2016, the Saskatchewan Ministry of the Economy released a notice to all operators introducing interim measures in response to the Redwater decision. Among other things, the Ministry announced that it considers all licence transfer applications non-routine as it does not strictly rely on the standard LLR calculation in evaluating deposit requirements. Further updates were published in Directive PNG025, which replaced Guideline PNG025.

Federal and Provincial Support for Liability Management

As part of an announcement of federal relief for Canada's oil and gas industry in response to COVID-19, the federal government pledged \$1.72 billion to clean up orphan and inactive wells in Alberta and Saskatchewan. However, these funds are being administered by regulatory authorities in each province. In Alberta, the Ministry of Energy is disbursing its \$1 billion share of the federally provided funds through the Site Rehabilitation Program. In addition to the funds administered by the respective provincial governments, the federal government announced a \$200 million loan to Alberta's Orphan Fund. In Saskatchewan, \$400 million in federal funding will be allocated through the Accelerated Site Closure Program ("**ASCP**"). The first phase of the ASCP will make \$100 million available to eligible service companies to conduct abandonment and reclamation work. Further tranches of the ASCP, up to \$300 million, will be made available in the future.

Climate Change Regulation

Climate change regulation at each of the international, federal, provincial and state levels has the potential to significantly affect the future of the oil and gas industry. These impacts are uncertain and it is not possible to predict what future policies, laws and regulations will entail. Any new laws and regulations (or additional requirements to existing laws and regulations) could have a material impact on the Company's acquisition strategy and funds from operations.

Canada

Canada has been a signatory to the United Nations Framework Convention on Climate Change (the "**UNFCCC**") since 1992. Since its inception, the UNFCCC has instigated numerous policy changes with respect to climate governance. On April 22, 2016, 197 countries, including Canada, signed the Paris Agreement, committing to prevent global temperatures from rising more than 2° Celsius above pre-industrial levels and to pursue efforts to limit this rise to no more than 1.5° Celsius. To date, 189 of the 197 parties to the UNFCCC have ratified the Paris Agreement, including Canada. On November 13, 2021, 197 countries, including Canada, signed the Glasgow Climate Pact, reaffirming the commitments made by signatories of the Paris Agreement.

The Government of Canada has pledged to cut its emissions by 30% from 2005 levels by 2030 and has indicated at various times that it may implement policy changes to exceed this target. Specific details have not yet been announced.

The Government of Canada released the Pan-Canadian Framework on Clean Growth and Climate Change ("**Pan-Canadian Framework**") in 2016, which sets out four main pillars that would support achieving Canada's Paris

Agreement targets, including (1) pricing carbon pollution, (2) complementary measures to further reduce emissions across the economy, (3) measures to adapt to the impacts of climate change and build resilience, and (4) actions to accelerate innovation, support, clean technology, and create jobs.

As contemplated in the Pan-Canadian Framework, on June 21, 2018, the federal government enacted the *Greenhouse Gas Pollution Pricing Act* (the "**GGPPA**"), which came into force on January 1, 2019. This regime has two parts: an output-based pricing system for large industry and a regulatory fuel charge. This system applies in provinces and territories that request it and in those that do not have their own emissions pricing systems in place that meet the federal standards. This ensures that there is a uniform price on emissions across the country. Under current federal plans, this price will escalate by \$10 per year until it reaches a price of \$50/tonne of CO₂e in 2022. On December 11, 2020, however, the federal government announced its intention to continue the annual price increases beyond 2022, such that, commencing in 2023, the benchmark price per tonne of CO₂e will increase by \$15 per year until it reaches \$170/tonne of CO₂e in 2030. Starting April 1, 2021, the minimum price permissible under the GGPPA is \$40/tonne of CO₂e.

Alberta, Saskatchewan, and Ontario challenged the constitutionality of the GGPPA through separate proceedings in their respective Courts of Appeal. Following split decisions by the provincial appellate courts, the appeals were consolidated and heard by Supreme Court of Canada. On March 5, 2021, the Supreme Court issued its decision upholding the GGPPA as a valid exercise of federal legislative jurisdiction.

On April 26, 2018, the Canadian federal government passed the *Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds (Upstream Oil and Gas Sector)* (the "**Federal Methane Regulations**"). The Federal Methane Regulations seek to reduce emissions of methane from the oil and natural gas sector, and came into force on January 1, 2020. By introducing a number of new control measures, the Federal Methane Regulations aim to reduce unintentional leaks and the intentional venting of methane and ensure that oil and natural gas operations use low-emission equipment and processes. Among other things, the Federal Methane Regulations limit how much methane upstream oil and natural gas facilities are permitted to vent. The federal government anticipates that these actions will reduce annual GHG emissions by about 20 megatonnes by 2030.

The Canadian federal government has enacted the *Multi-Sector Air Pollutants Regulation* under the authority of the *Canadian Environmental Protection Act, 1999*, which regulates certain industrial facilities and equipment types, including boilers and heaters used in the upstream oil and gas industry, to limit the emission of air pollutants such as nitrogen oxides and sulphur dioxide.

As part of its efforts to provide relief to Canada's oil and gas industry in light of the COVID-19 pandemic, the federal government announced a \$750 million Emissions Reduction Fund intended to support pollution reduction initiatives, including methane. Funds disbursed through this program will primarily take the form of repayable contributions to onshore and offshore oil and gas firms.

Consistent with the policy direction set out in the Pan-Canadian Framework, the Government of Canada also developed a Clean Fuel Standard that would require primary suppliers of liquid fossil fuels (i.e. fuel producers and importers) to reduce the emissions intensity of liquid fossil fuels produced in or imported into Canada. In December 2020, the Government published a draft Clean Fuel Regulation in the Canada Gazette. The Clean Fuel Regulation is expected to be published in its final form in early 2022, and will likely take effect by late 2022. The draft Clean Fuel Regulation establishes a regulatory framework for the creation of "credits" through certain activities such as emission reduction projects, fuel-switching projects, and the production of green fuels. Fossil fuel producers (e.g. refiners) and importers are required to purchase those credits annually in order to lower the effective emissions intensity of their fuels by specified amounts each year.

Through a 2020 Speech from the Throne (also referred to as a "Throne Speech"), the federal government indicated that it would make a number of investments that will help it achieve net-zero emissions by 2050, including investments intended to: (i) improve transit options; (ii) make zero-emissions vehicles more affordable; (iii) expand electric vehicle charging infrastructure across the country; (iv) launch a fund that will help attract investments in the development of zero-emissions technology, including a corporate tax cut of 50% for companies participating in this

initiative; (v) develop a Clean Power Fund that will, in part, help regions transition to cleaner sources of power generation; and (vi) support continued investment in the development and implementation of renewable and clean energy technologies.

At the 26th Conference of the Parties to the UNFCCC, held in Glasgow between October 31 and November 13, 2021, Canada presented a strengthened climate plan and committed to an enhanced emissions reduction target of between 40 and 45 percent below 2005 levels by 2030. Following the 2021 federal election, the Government of Canada delivered a new Throne Speech in November 2021 which reiterated its intent to take action that would "go further, faster" to fight climate change. Among other things, the federal government pledged to cap and cut oil and gas sector emissions while accelerating on the path to 100 percent net zero electricity. Details on the implementation of these policy commitments evolve over time and are likely to continue to do so for the foreseeable future.

On November 19, 2020, the federal government introduced the *Canadian Net-Zero Emissions Accountability Act* in Parliament. That Act was passed by Parliament, received Royal Assent on June 29, 2021 and binds the Government of Canada to a process intended to help Canada achieve net-zero emissions by 2050. It also establishes rolling five-year emissions-reduction targets and requires the government to develop plans to reach each target. The federal government is required to support those efforts by creating a Net-Zero Advisory Body and by publishing annual reports that describe how departments and Crown corporations are considering the financial risks and opportunities of climate change in their decision-making.

Alberta

In December 2016, the *Oil Sands Emissions Limit Act* came into force, establishing an annual 100 megatonne limit for GHG emissions from all oil sands sites, but the regulations necessary to enforce the limit have not yet been developed.

In June 2019, the federal fuel charge took effect in Alberta. In accordance with the GGPPA, the fuel charge payable in Alberta is currently \$40/tonne, increasing to \$50/tonne of CO₂e on April 1, 2022. In December 2019, the federal government deemed Alberta's *Technology Innovation and Emissions Reduction Regulation* ("**TIER**") as being equivalent to the output-based pricing system for large industrial emitters under the GGPPA, meaning that TIER applies to such emitters in Alberta instead of the GGPPA output based framework. TIER came into effect on January 1, 2020 and replaces the previous *Carbon Competitiveness Incentives Regulation*.

TIER applies to emitters that emit more than 100,000 tonnes of CO₂e per year in 2016 or any subsequent year. The initial target for most TIER-regulated facilities is to reduce emissions intensity by 10% as measured against that facility's individual benchmark, with a further 1% reduction in each subsequent year. The facility-specific benchmark does not apply to all facilities, such as those in the electricity sector, which are compared against the good-as-best-gas standard. Similarly, for facilities that have already made substantial headway in reducing their emissions, a different "high-performance" benchmark is available. Under TIER, certain facilities in high-emitting or trade exposed sectors can opt-in to the program in specified circumstances if they do not meet the 100,000 tonne threshold. To encourage compliance with the emissions intensity reduction targets, TIER-regulated facilities must provide annual compliance reports and facilities that are unable to achieve their targets may either purchase credits from other facilities, purchase carbon offsets, or pay a levy to the Government of Alberta.

The Government of Alberta aims to lower annual methane emissions by 45% (relative to 2014 levels) by 2025. The Government of Alberta enacted the *Methane Emission Reduction Regulation* on January 1, 2020, and the AER simultaneously released an updated edition of *Directive 060: Upstream Petroleum Industry Flaring, Incinerating, and Venting* ("**Directive 060**"). The release of the updated Directive 060 complements a previously released update to *Directive 017: Measurement Requirements for Oil and Gas Operations* that took effect in December 2018. Together, these Directives will support Alberta in achieving its 2025 goal. In November 2020, the Government of Canada and the Government of Alberta announced an equivalency agreement regarding the reduction of methane emissions such that the Federal Methane Regulations will not apply in Alberta.

Saskatchewan

In May 2009, the Government of Saskatchewan announced *The Management and Reduction of Greenhouse Gases Act* (the "**MRGGA**") to regulate GHG emissions in the province. The government subsequently released *Prairie Resilience: A Made-in-Saskatchewan Climate Change Strategy* ("**Prairie Resilience**"), outlining its strategy to reduce GHG emissions by 12 million tonnes by 2030.

Under the MRGGA, facilities that have annual GHG emissions in excess of 50,000 tonnes are regulated to meet the province's reduction targets. The following regulations were enacted throughout 2018: *The Management and Reduction of Greenhouse Gases (General and Electricity Producer) Regulations*, *The Management and Reduction of Greenhouse Gases (Reporting and General) Regulations*, and *The Management and Reduction of Greenhouse Gases (Standards and Compliance) Regulations*. These Regulations establish reporting requirements and impose various emissions limits for those emitters that fall within the program.

On January 1, 2019, *The Oil and Gas Emissions Management Regulations* (the "**Saskatchewan O&G Emissions Regulations**") came into effect. The Saskatchewan O&G Emissions Regulations apply to licensees of oil facilities that may generate more than 50,000 tonnes of CO₂e per year, obliging each licensee to propose an emissions reduction plan in accordance with an annual emissions limit with the goal of achieving annual emissions reductions of 40 to 45% by 2025. The Saskatchewan O&G Emissions Regulations aim to reduce 4.5 million tonnes of CO₂e emissions by 2025, with a total reduction of 38.2 million tonnes of CO₂e by 2030.

In April 2019, Saskatchewan produced its first annual report on climate resilience. The report measures the Province's progress on goals set out under *Prairie Resilience*. Among these goals is the aim of increasing the role of renewable energy in the provincial energy mix to 50% by 2030.

To facilitate its emissions reduction efforts, the Government of Saskatchewan has implemented *Directive PNG017: Measurement Requirements for Oil and Gas Operations*, which came into force in December 2019 and was amended in April 2020, and *Directive PNG036: Venting and Flaring Requirements*, which came into force in April 2020. Together with the Saskatchewan O&G Emissions Regulations, these directives enable the Government of Saskatchewan to regulate emissions reductions within the province. In November 2020, the Government of Canada and the Government of Saskatchewan announced that they had finalized an equivalency agreement regarding the reduction of methane emissions such that the Federal Methane Regulations will not apply in Saskatchewan.

Indigenous Rights

Constitutionally mandated government-led consultation with and, if applicable, accommodation of, Indigenous groups impacted by regulated industrial activity, as well as proponent-led consultation and accommodation or benefit sharing initiatives, play an increasingly important role in the Western Canadian oil and gas industry. In addition, Canada is a signatory to the *United Nations Declaration of the Rights of Indigenous Peoples* ("**UNDRIP**") and the principles set forth therein may continue to influence the role of Indigenous engagement in the development of the oil and gas industry in Western Canada. In June 2021, the federal government passed the *United Nations Declaration on the Rights of Indigenous Peoples Act* ("**UNDRIP Act**"). The UNDRIP Act establishes a process whereby the Government of Canada will take all measures necessary to ensure the laws of Canada are consistent with the principles of UNDRIP and to implement an action plan to address UNDRIP's objectives. Moving forward, the Government of Canada intends to consult on the development of an action plan to implement the Act between 2022 and 2023.

RISK FACTORS

An investment in the Units is speculative and involves a high degree of risk that should be considered by potential purchasers. A potential investor should carefully consider the following risk factors in addition to the other information contained in this prospectus before purchasing Units. The Company's business is subject to, directly or indirectly, many of the risks normally encountered in the oil and gas industry and the risks attributable to holding royalties in particular. In addition, the Company's business is subject to risks resulting from the

Company's early stage of development including having the majority of its royalty production and revenue coming from a relatively small number of royalties and royalty payors.

The risks set out below are not the only ones the Company is facing. There are additional risks and uncertainties that the Company does not currently know about or that the Company currently considers immaterial which may also impair the Company's business and cause the price of the Common Shares to decline. An investment in the Units is suitable only for those purchasers who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investment.

Weakness and Volatility in the Oil and Natural Gas Industry

Market events and conditions, including global excess of oil and natural gas supply, recent actions taken by the Organization of the Petroleum Exporting Countries, sanctions against Iran and Venezuela, slowing growth in China and emerging economies, weakening global relationships, conflict between the U.S. and Iran, isolationist and punitive trade policies, U.S. shale production, sovereign debt levels, ongoing credit and liquidity concerns, and political upheavals in various countries including growing anti-fossil fuel sentiment, have caused significant volatility in commodity prices. See "*Risk Factors – Political Uncertainty*" and "*Risk Factors – Impact of Pandemics*". These events and conditions have caused a significant reduction in the valuation of oil and natural gas companies and a decrease in confidence in the oil and natural gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. See "*Risk Factors – Royalty Regimes*", "*Risk Factors – Regulatory*", "*Risk Factors – Environmental*" and "*Risk Factors – Climate Change*". In addition, the difficulties encountered by midstream proponents to obtain on a timely basis the necessary approvals to build pipelines, liquefied natural gas plants and other facilities to provide better access to markets for the oil and natural gas industry from the WCSB has led to additional downward price pressure on oil and natural gas produced in Western Canada. The resulting price differential between Western Canadian Select crude oil, and Brent and West Texas Intermediate crude oil has created uncertainty and reduced confidence in the oil and natural gas industry in Western Canada. See "*Industry Conditions – Transportation Constraints and Market Access*".

Lower commodity prices may also affect the volume and value of the Company's reserves, rendering certain reserves uneconomic. In addition, lower commodity prices restrict the Company's funds from operations resulting in less capital being available to fund acquisition opportunities and dividend payments. Consequently, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year-over-year basis. See "*Risk Factors – Reserves Estimates*". Lower commodity prices could also have the effect of requiring a write down of the carrying value of the Company's oil and natural gas assets on its balance sheet and the recognition of an impairment charge in its income statement. Given the current market conditions and the lack of confidence in the Canadian oil and natural gas industry, the Company may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and highly dilutive terms. See "*Risk Factors – Additional Funding Requirements*".

Prices, Markets and Marketing

Numerous factors beyond the Company's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced, or discovered by the Company. The ability of royalty payors to market oil and natural gas may depend upon their ability to acquire capacity on pipelines that deliver natural gas to commercial markets or contract for the delivery of crude oil by rail. Deliverability uncertainties related to the distance of the reserves of royalty payors from pipelines, railway lines, processing and storage facilities; operational problems affecting pipelines, railway lines and processing and storage facilities; and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Company and its royalty payors.

Prices for oil and natural gas are also subject to the availability of foreign markets and possibly a royalty payor's ability to access such markets. A material decline in prices could result in a reduction in the Company's revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced

production of oil or natural gas and a reduction in the volumes and the value of the Company's reserves. The Company's royalty payors might also elect not to produce from certain wells at lower prices. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its reserves, borrowing capacity, revenues, profitability and funds from operations and may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for, and project the return on, acquisitions and development and exploitation projects.

See *"Industry Conditions – Transportation Constraints and Market Access"* and *"Risk Factors – Weakness and Volatility in the Oil and Natural Gas Industry"*.

Impact of Pandemics

Pandemics, epidemics or outbreaks of an infectious disease in Canada or worldwide, including COVID-19 or any other similar illnesses, could have an adverse impact on the Company's results, business, financial condition or liquidity.

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The COVID-19 pandemic has negatively impacted the Canadian, U.S., and global economies; disrupted Canadian, U.S., and global supply chains; disrupted financial markets; contributed to a decrease in interest rates; resulted in ratings downgrades, credit deterioration and defaults in many industries; forced the closure of many businesses, led to loss of revenues, increased unemployment and bankruptcies; and necessitated the imposition of quarantines, physical distancing, business closures, travel restrictions, and sheltering-in-place requirements in Canada, the U.S., and other countries. If the pandemic is prolonged, including through subsequent waves, or if additional variants of COVID-19 emerge which are more transmissible or cause more severe disease, or if other diseases emerge with similar effects, the adverse impact on the economy could worsen. Moreover, it remains uncertain how the macroeconomic environment, and societal and business norms will be impacted following this COVID-19 pandemic. Unexpected developments in financial markets, regulatory environments, or consumer behaviour may also have adverse impacts on the Company's results, business, financial condition or liquidity, for a substantial period of time.

The Company is also exposed to human capital risks due to issues related to health and safety matters, and other environmental stressors as a result of measures implemented in response to the COVID-19 pandemic, as well as the potential for the Company's key executives to be unable to work effectively, because of illness, quarantines, sheltering-in-place arrangements, government actions or other restrictions in connection with the pandemic.

The extent to which the COVID-19 pandemic continues to impact the Company's results, business, financial condition or liquidity will depend on future developments in Canada, the U.S. and globally, including the development and widespread availability of efficient and accurate testing options, and effective treatment options or vaccines. Despite the approval of certain vaccines by the regulatory bodies in Canada and the U.S., the ongoing evolution of the development and distribution of an effective vaccine also continues to raise uncertainty.

Reliance on Third Parties

The Company relies on other companies drilling and producing from lands in which the Company owns royalties. The Company has very limited ability to exercise influence over the decision of companies to drill and produce from such lands in which the Company owns royalties. The Company's return on lands in which it owns royalties depends upon a number of factors that may be outside of the Company's control, including, but not limited to, the capital expenditure budgets (including the timing and amount of expenditures) and financial resources of the operators who have a working interest in such lands, the operator's expertise, the approval of other participants, the selection of

technology and risk management practices, the ability to efficiently produce the resources from such lands and commodity prices.

In addition, due to the volatile commodity prices, many companies, including companies that may have a working interest in the lands in which the Company owns a royalty, may encounter financial difficulty, which could affect their ability to fund and pursue capital expenditures on such lands. In addition, weak commodity prices might result in companies choosing to defer capital spending or shutting-in existing production. Any reduction in the drilling and production from lands in which the Company owns a royalty will negatively affect the Company's funds from operations and financial results.

Any financial difficulty of companies which own the working interests in lands in which the Company owns a royalty may affect the Company's ability to collect royalty payments, especially if such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency. In addition, to the extent any companies which own the working interests in lands in which the Company owns a royalty go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency it is possible that the Company's royalty in such lands may not be recognized as an "interest in land" and as such the Company's royalty in such lands may not survive such bankruptcy or insolvency proceedings.

Third Party Credit Risk

The Company may be exposed to third party credit risk from working interest owners of lands in which the Company owns a royalty. In the event such entities fail to meet their contractual or other obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, the PVR forms a substantial part of the Company's production and revenue. Any failure by the counterparty to the PVR to meet its contractual or other obligations under the Production Volume Royalty Agreement would have a material adverse effect on the Company's business, financial condition and results of operations.

Failure to Realize Anticipated Benefits of Acquisitions

A key part of the Company's growth strategy involves identifying and pursuing the acquisition of new royalties. The Company's ability to grow depends in part on its ability to acquire new royalties that increase its funds from operations per share. The acquisition component of the Company's growth strategy is based, in large part, on its expectation of ongoing acquisitions from industry participants. Achieving the benefits of acquisitions depends in part on integrating and monitoring the acquired royalties and corresponding royalty lands and the Company's ability to adequately conduct due diligence on the royalties and corresponding royalty lands in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth and development opportunities from the royalties. Acquisitions involve a number of other risks that may adversely affect the Company's ability to achieve the anticipated benefits of such acquisitions, including: diversion of management's attention; disruption to the Company's ongoing business; unanticipated expenses, events or circumstances; and the assumption of disclosed and undisclosed liabilities.

While it is the Company's practice to conduct due diligence investigations into royalties being acquired, it is possible that due diligence may fail to uncover all material risks in the business or royalties being acquired, thereby resulting in a dispute. The discovery of any material liabilities subsequent to an acquisition, as well as the failure of an acquisition to perform according to expectations, could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, if returns are lower than anticipated from acquisitions, the Company may not be able to increase funds from operations per share, and the market value of the Common Shares and Warrants may decline.

Reliance on Key Personnel

The Company's success is significantly dependent on certain key personnel, being the Chief Executive Officer and Chief Financial Officer. The loss of the services of such key personnel may have a material adverse effect on the

Company's business and financial condition. The Company does not intend to have any key person insurance in effect for the Company on Closing. In addition, the competition for qualified personnel in Alberta, and, in particular, the oil and natural gas industry, is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of management.

Use of Proceeds may Differ from what is Set Out in the Prospectus

Management of the Company will have discretion in the actual application of the proceeds, and may elect to allocate proceeds differently from that described under the heading "*Use of Proceeds*" herein if it believes that it would be in the best interests of the Company to do so. The results and effectiveness of the application of the proceeds of the Offering are uncertain. The failure by management of the Company to apply these funds effectively could have a material adverse effect on the business of the Company.

Interest in Land & Take-in-Kind

All agreements that the Company has entered into that create a new royalty stipulate that the royalty so acquired by the Company is an "interest in land" and as such is separate and distinct from the interest of the royalty payor. In addition, all of these new royalty agreements provide the Company with the right, but not the obligation, to take its share of production in kind rather than have the royalty payor sell the Company's royalty production on behalf of the Company as agent for the Company. These provisions serve to mitigate the counter party risk attributable to any financial difficulty of the royalty payors under these agreements. The previously discussed provisions may not exist in certain of the royalty agreements previously entered into by other royalty recipients who subsequently sold their respective interest as a royalty recipient to the Company.

Exploration, Development and Production Risk

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability, and the ability of its royalty payors to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, the Company's existing reserves, and the production from them, will decline over time as a result of production from such reserves and the decline rate associated therewith. A future increase in the Company's reserves will depend on both the ability of the Company's royalty payors to explore and develop the Royalty Lands and the Company's ability to select and acquire additional suitable royalties. There is no assurance that the Company will be able to continue to find new royalties to acquire. Moreover, management of the Company may determine that current markets, terms of acquisition or pricing conditions make additional acquisitions uneconomic. There is also no assurance that the Company or its royalty payors will acquire or develop, respectively, further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells or from wells that are productive but do not produce sufficient petroleum or natural gas substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision, effective maintenance operations and the development of enhanced oil recovery technologies can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and funds from operations levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment and cause personal injury or threaten wildlife.

Oil and natural gas production operations are also subject to geological and seismic risks, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. While the Company, as a royalty owner, would not suffer losses directly from the aforementioned risks, the occurrence of any of these risks could have a material adverse effect on the Company's royalty payors' business, financial condition and results of operations, and consequently could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Title to Assets

The Company's actual title to and interest in the Royalty Lands, and any newly acquired royalty lands may vary from the Company's records. In addition, there may be valid legal challenges or legislative changes that affect the Company's title to its petroleum and natural gas interests, which could impair the Company's activities and result in a reduction of the revenue received by the Company.

If a defect exists in the chain of title, or a legal challenge or legislative change arises, it is possible that the Company may lose all, or a portion of, the royalties to which the title defect relates. This may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Market Price of Common Shares and Warrants

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to the Company's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, and/or current perceptions of the oil and natural gas market. In recent years, the volatility of commodities has increased due, in part, to the implementation of computerized trading and the decrease of discretionary commodity trading. In addition, the volatility, trading volume and share price of issuers have been impacted by increasing investment levels in passive investment funds that track major indices, as such investment funds only purchase securities included in such indices. Also, in certain jurisdictions, institutions, including government sponsored entities, have determined to decrease their ownership in oil and natural gas entities which may impact the liquidity of certain securities and put downward pressure on the trading price of those securities. Similarly, the market price of the Common Shares and Warrants of the Company could be subject to significant fluctuations in response to variations in the Company's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the Common Shares and Warrants of the Company will trade cannot be accurately predicted.

Dilution

The Board may issue an unlimited number of Common Shares without any vote or action by the Shareholders, subject to the rules of any stock exchange on which the Company's securities may be listed from time to time. The Company intends to make future acquisitions or enter into financings or other transactions involving the issuance of securities. If the Company issues any additional equity, the percentage ownership of existing shareholders will be reduced and diluted and the price of the Common Shares and Warrants could decline.

Competition for Acquisitions

The Company's acquisition strategy is dependent to a significant extent on the ability of the Company to identify suitable royalties to acquire. The Company faces competition for acquisitions primarily from other royalty companies, family offices, investment funds, and operating companies acting as strategic buyers. Many of these

competitors are substantially larger and have considerably greater financial, technical and marketing resources than are available to the Company. Some of these competitors may also have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of acquisitions and to offer terms that the Company is unable or unwilling to match. Due to the upfront capital intensive nature of acquiring royalties, in order to finance acquisitions the Company will need to compete for equity capital from institutional investors and other equity providers, and its ability to consummate acquisitions will be dependent on such capital continuing to be available. Increases in interest rates could also make it more difficult to consummate acquisitions because the Company's competitors may have a lower cost of capital which may enable them to bid higher prices for royalties. These factors may create competitive disadvantages for the Company with respect to acquisition opportunities.

The Company cannot provide any assurance that the competitive pressures it faces will not have a material adverse effect on its business, financial condition and results of operations or that management will be able to identify and make acquisitions on its behalf that are consistent with the Company's growth strategy or that generate attractive returns for Shareholders. The Company may lose acquisition opportunities if it does not match prices, structures and terms offered by competitors, if it is unable to access sources of equity. Alternatively, the Company may experience decreased rates of return and increased risks of loss if it match prices, structures and terms offered by competitors.

Political Uncertainty

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During its tenure, the former American administration withdrew the United States from the Trans-Pacific Partnership and passed sweeping tax reform, which, among other things, significantly reduced U.S. corporate tax rates. This has affected the competitiveness of other jurisdictions, including Canada. The former U.S. administration also took action to reduce regulation, which affected relative competitiveness of other jurisdictions.

In addition, the United States Mexico Canada Agreement (the "**USMCA**"), which replaced the former North American Free Trade Agreement ("**NAFTA**") was ratified on July 1, 2020 and may impact the Company's business. See "*Industry Conditions – International Trade Agreements*".

The Biden administration in the U.S. has indicated that it will roll-back certain policies of the former administration, and canceled the presidential permit that had allowed the Keystone XL Pipeline to operate across Canadian and American borders. While it is unclear which other legislation or policies of the former Trump administration will be rolled-back and if such roll-backs will be a priority of the new administration in light of the ongoing COVID-19 pandemic, any future actions taken by the new U.S. administration could have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and natural gas companies, including the Company.

In addition to the changing political landscape in the United States, the impacts of the United Kingdom's exit from the European Union are slowly emerging and some impacts may not become apparent for some time. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. Conflict and political uncertainty also continues to progress in the Middle East. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement, it could increase costs for goods and services required for the Company's royalty payor's operations, reduce access to skilled labour for both the Company and the Company's royalty payors, negatively impact the Company's and the Company's royalty payors business, operations, financial conditions, and negatively impact the market value of the Common Shares and Warrants.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and natural gas industry including the balance between economic development and environmental policy.

The United Conservative Party government in Alberta is supportive of the Trans Mountain Pipeline expansion project and, although there has been notable opposition from the government of British Columbia, the federal Government remains in support of the project. Continued uncertainty and delays have led to decreased investor confidence, increased capital costs and operational delays for producers and service providers operating in the jurisdictions where the Company is active. See *"Industry Conditions – Transportation Constraints and Market Access"*.

The federal Government was re-elected in 2021, but in a minority position. The ability of the minority federal government to pass legislation will be subject to whether it is able to come to agreement with, and garner the support of, the other elected parties, most of whom are opposed to the development of the oil and natural gas industry. The minority federal government will also be required to rely on the support of the other elected parties to remain in power, which provides less stability and may lead to an earlier subsequent federal election. Lack of political consensus, at both the federal and provincial level, continues to create regulatory uncertainty, the effects of which become apparent on an ongoing basis, particularly with respect to carbon pricing regimes, curtailment of transportation and export capacity, and may affect the business of participants in the oil and natural gas industry.

The oil and natural gas industry has become an increasingly politically polarizing topic in Canada, which has resulted in a rise in civil disobedience surrounding oil and natural gas development—particularly with respect to infrastructure projects.

See *"Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation"*, *"Industry Conditions – Transportation Constraints and Market Access"* and *"Industry Conditions – International Trade Agreements"*.

Project Risks

The ability of the Company's royalty payors to execute operationally and market oil and natural gas depends upon numerous factors beyond the Company's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the availability of, and the ability to acquire, water supplies needed for drilling, hydraulic fracturing, and waterfloods or the Company's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement and severe weather events, including fire, drought and flooding;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour;
- political uncertainty;
- environmental and Indigenous activism that potentially results in delays or cancellations of projects; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Company's royalty payors could be unable to execute operationally on time, on budget, or at all.

Gathering and Processing Facilities, Pipeline Systems and Rail

The Company's royalty payors deliver their products through gathering and processing facilities, pipeline systems and, in certain circumstances, by rail. The amount of oil and natural gas that the Company's royalty payors can

produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of firm pipeline capacity, production limits and limits on availability of capacity in gathering and processing facilities continues to affect the oil and natural gas industry and limits the ability to transport produced oil and natural gas to market. However, in early 2020, the Supreme Court of Canada and the Federal Court of Appeal both dismissed challenges to Cabinet's approval of the Trans Mountain Pipeline expansion, and construction on the pipeline expansion is underway. See "*Industry Conditions – Transportation Constraints and Market Access*". In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability of oil and natural gas companies to export oil and natural gas, and could result in the Company's inability to realize the full economic potential of its products or in a reduction of the price offered for the Company's production. Unexpected shut-downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Company's production, operations and financial results. As a result, producers have considered rail lines as an alternative means of transportation. Announcements and actions taken by the federal government and the provincial governments of British Columbia, Alberta and Quebec relating to approval of infrastructure projects may continue to intensify, leading to increased challenges to interprovincial and international infrastructure projects moving forward. In August 2019, the *Canadian Energy Regulator Act* and the *Impact Assessment Act* came into force, resulting in changes to the federal regulation and associated environmental assessments of major projects. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation*". The impact of the new federal regulatory scheme on proponents, and the timing for receipt of approvals, of major projects is unclear.

In January 2021, U.S. President Biden canceled the presidential permit that had allowed the Keystone XL Pipeline to operate across Canadian and American borders and in June 2021 the operator of the pipeline formally terminated the project

The Company's royalty production is processed through facilities owned by third parties and over which the Company does not have control. From time to time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a material adverse effect on the Company's results of operations. Midstream and pipeline companies may take actions to maximize their return on investment, which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

Reserves Estimates

There are numerous uncertainties inherent in estimating reserves, and the future revenue attributed to such reserves. The reserves and associated revenue information set forth in this document are estimates only. Generally, estimates of economically recoverable oil and natural gas reserves (including the breakdown of reserves by product type) and the future net revenue from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- historical production from properties;
- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. The Company's actual production, revenues and taxes with respect to its reserves will vary from estimates and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Company's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net revenue as summarized herein. Actual future net revenues will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

The reserve evaluation is based in part on the assumed success of operational activities on the Company's royalty lands. The reserves and estimated revenue to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in the Company's reserves since that date.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Company's business, financial condition, results of operations and cash flow by decreasing the Company's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

Regulatory

The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Company's royalty payors' costs, either of which may have a material adverse effect on the Company's business, financial condition, results of operations, cash flow and opportunities to acquire additional royalties. Further, the ongoing third--party challenges to regulatory decisions or orders has reduced the efficiency of the regulatory regime, as the implementation of the decisions and orders has been delayed resulting in uncertainty and interruption to business of the oil and natural gas industry. See *"Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation"* and *"Risk Factors – Liability Management"*.

In order to conduct oil and natural gas operations, the Company's royalty payors will require regulatory permits, licenses, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that the Company's royalty payors will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that they may wish to undertake. See *"Industry Conditions – Regulatory Authorities and Environmental Regulation – Liability Management Rating Programs"*.

Royalty Regimes

There can be no assurance that the governments in the jurisdictions in which the Company owns royalties will not adopt new royalty regimes, or modify the existing royalty regimes, which may have an impact on the economics of the Company's or its royalty payors' operations. An increase in Crown royalties could reduce the Company's royalty

payors' revenue from lands in which the Company owns royalties and could make future royalty acquisitions, or the Company's or its royalty payors' existing operations, less economic. See *"Industry Conditions – Royalties and Incentives"*.

Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase the Company's royalty payors' costs of compliance and doing business, as well as delay the development of oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas reserves that the Company's royalty payors are ultimately able to produce from the lands in which the Company owns royalties.

Disposal of Fluids Used in Operations

The safe disposal of the hydraulic fracturing fluids (including the additives) and water recovered from oil and natural gas wells is subject to ongoing regulatory review by the federal and provincial governments, including its effect on fresh water supplies and the ability of such water to be recycled, amongst other things. While it is difficult to predict the impact of any regulations that may be enacted in response to such review, the implementation of stricter regulations may increase the costs of compliance for the Company's royalty payors.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, the initiation and approval of new oil and natural gas projects, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. New environmental legislation at the federal and provincial levels may increase uncertainty among oil and natural gas industry participants as the new laws are implemented, and the effects of the new rules and standards are felt in the oil and natural gas industry. See *"Industry Conditions – Regulatory Authorities and Environmental Regulation"*.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company's royalty payors to incur costs to remedy such discharge. Although the Company believes that its royalty payors will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Carbon Pricing Risk

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. In Canada, the federal government implemented legislation aimed at ensuring that large industrial emitters and other consumers of fuel pay a charge to account for any GHG emissions associated with such emissions or fuel consumption. The federal carbon pricing system applies in provinces and territories that request it to be

implemented or are without their own system that meets federal standards. The federal government has also introduced regulations aimed at incentivising the use of clean fuels, in turn reducing GHG emissions. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation*".

Any taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the operating expenses of the Company's royalty payors, which may have a material adverse effect on the Company's revenue.

Liability Management

Alberta and Saskatchewan have developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder is unable to satisfy its regulatory obligations. Changes to the AB LMR Program were implemented in 2021. In July 2020, the Government of Alberta announced that the AB LMR and associated programs will be replaced by the AB LMF. Other changes to the requirements of liability management programs may result in significant increases to the Company's compliance obligations. The impact and consequences of the Supreme Court of Canada's Redwater decision on the AER's rules and policies, lending practices in the crude oil and natural gas sector and on the nature and determination of secured lenders to take enforcement proceedings are expected to evolve as the consequences of the decision are evaluated and considered by regulators, lenders and receivers/trustees. As a result of the Redwater decision, the Government of Alberta implemented the *Liabilities Management Statutes and Amendment Act*, which places the financial burden of a defunct licensee's abandonment and reclamation obligations on the working interest partners of the defunct Licensee and may order the AER's Orphan Fund to assume custody of wells or sites without a responsible owner to expedite the cleanup process.

Climate Change

Third-party operations and activities associated with the Company's royalty payors emit greenhouse gases which may require parties leasing and/or operating the lands in which the Company owns royalties to comply with federal and/or provincial greenhouse gas emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate its effects. The direct or indirect costs of compliance with greenhouse gas related regulations may have a material adverse effect on the Company's business, financial condition, results of operations and the attractiveness of additional royalty acquisitions.

Climate change has been linked to long-term shifts in climate patterns, including sustained higher temperatures. As the level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns, long-term shifts in climate patterns pose the risk of exacerbating operational delays and other risks posed by seasonal weather patterns. See "*Risk Factors – Seasonality*". In addition, long-term shifts in weather patterns such as water scarcity, increased frequency of storm and fire and prolonged heat waves may, among other things, require the Company's royalty payors to incur greater expenditures (time and capital) to deal with the challenges posed by such changes to its premises, operations, supply chain, transport needs, and employee safety. Specifically, in the event of water shortages or sourcing issues, the Company's royalty payors may not be able to, or will incur greater costs to, carry out hydraulic fracturing or waterflood operations.

Climate change has been linked to extreme weather conditions. Extreme hot and cold weather, heavy snowfall, heavy rainfall and wildfires may restrict the Company's royalty payors' ability to access their respective properties and cause operational difficulties, including significant downtime and damage to machinery and facilities. Extreme weather also increases the risk of personnel injury as a result of dangerous working conditions.

Concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels, which has influenced investors' willingness to invest in the oil and natural gas industry. Historically, political and legal opposition to the fossil fuel industry

focused on public opinion and the regulatory process. More recently, however, there has been a movement to more directly hold governments and oil and natural gas companies responsible for climate change through climate litigation. In recent years, climate change advocacy groups have attempted to bring legal action against various levels of the government for climate related matters.

Given the evolving nature of climate change policy and the control of greenhouse gases and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing the operating expenses of the Company's royalty payors, and, in the long-term, potentially reducing the demand for oil and natural gas production, resulting in a decrease in the Company's revenue and a reduction in the value of its royalties or requiring impairments to its royalties for financial statement purposes. See *"Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation"*, *"Risk Factors – Non-Governmental Organizations"*, *"Risk Factors – Reputational Risk Associated with the Company's Operations"* and *"Risk Factors – Changing Investor Sentiment"*.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates constantly, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar will negatively affect the Company's production revenues. Accordingly, exchange rates between Canada and the United States could affect the future value of the Company's reserves as determined by independent evaluators.

An increase in interest rates could result in a significant increase in the amount the Company might pay to service debt, if applicable, resulting in a reduced amount available to fund its activities, and if applicable, the cash available for dividend payments. Such an increase could also negatively impact the market price of the Common Shares and Warrants of the Company.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition of additional royalties in the future. As future capital expenditures are expected to be financed out of cash generated from operations and possible future equity financing, the Company's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- commodity prices;
- interest rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the Canadian energy industry and the Company's securities in particular.

Further, if the Company's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future acquisitions of royalties. The conditions in, or affecting, the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies, including the Company, to access additional financing and/or the cost thereof. There can be no assurance that debt or equity financing, or funds from operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The Company may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition, results of operations and the attractiveness of additional royalty acquisitions.

Additional Funding Requirements

The Company's funds from operations may not be sufficient to fund its ongoing activities at all times and, from time to time, the Company may require additional financing in order to carry out its acquisition activities. Failure to

obtain financing on a timely basis could cause the Company to miss certain acquisition opportunities and reduce or terminate its operations. Due to the conditions in the oil and natural gas industry and/or global economic and political volatility, the Company may, from time to time, have restricted access to capital. The current conditions in the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access, or the cost of, additional financing.

As a result of global economic and political volatility, the Company may, from time to time, have restricted access to capital and, if applicable, increased borrowing costs. If the Company's royalty revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital for additional royalty acquisitions to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Company's ability to make additional acquisitions, make dividend payments and otherwise fund operations may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. Additionally, any available financing may be highly dilutive to existing shareholders.

Issuance of Debt

Although the Company has never used debt financing, from time to time, the Company may enter into transactions to acquire royalties which may be financed in whole, or in part, with debt. The result of such transactions could cause an increase to the Company's debt levels above industry standards for oil and natural gas companies of similar size. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

Although the Company has never hedged, from time to time, the Company may enter into agreements to receive fixed prices on its oil and natural gas royalty production to offset the risk of revenue losses if commodity prices decline. However, to the extent that the Company engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, the Company's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time, the Company may enter into agreements to fix the exchange rate of Canadian to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, the Company will not benefit from the fluctuating exchange rate.

Availability and Cost of Material and Equipment

Oil and natural gas exploration, development and operating activities are dependent on the availability and cost of specialized materials and equipment (typically leased from third parties) in the areas where such activities are conducted. The availability of such material and equipment is limited. An increase in demand or cost, or a decrease in the availability of such materials and equipment may impede the Company's royalty payors' exploration, development and operating activities.

Geopolitical Risks

Political changes in North America and political instability in the Middle East and elsewhere may cause disruptions in the supply of oil that affects the marketability and price of oil and natural gas royalty reserves acquired by the Company. Conflicts, or conversely peaceful developments, arising outside of Canada, including changes in political regimes or parties in power, may have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of the Company's royalty revenue.

Non-Governmental Organizations

The oil and natural gas exploration, development and operating activities conducted by the Company's royalty payors may, at times, be subject to public opposition. Such public opposition could expose the Company's royalty payors to the risk of higher costs, delays or even project cancellations due to increased pressure on governments and regulators by special interest groups including Indigenous groups, landowners, environmental interest groups (including those opposed to oil and natural gas production operations) and other non-governmental organizations, blockades, legal or regulatory actions or challenges, increased regulatory oversight, reduced support of the federal, provincial, state or municipal governments, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licenses and direct legal challenges, including the possibility of climate-related litigation. There is no guarantee that the Company's royalty payors will be able to satisfy the concerns of such special interest groups and non-governmental organizations and attempting to address such concerns may require the Company's royalty payors to incur significant and unanticipated capital and operating expenditures.

Reputational Risk Associated with the Company's Operations

The Company's business, operations or financial condition may be negatively impacted as a result of any negative public opinion towards the Company or as a result of any negative sentiment toward, or in respect of, the Company's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by certain media and special interest groups' negative portrayal of the industry in which the Company operates as well as their opposition to certain oil and natural gas projects. Potential impacts of negative public opinion or reputational issues may include delays or interruptions in operations, legal or regulatory actions or challenges, blockades, increased regulatory oversight, reduced support for, delays in, challenges to, or the revocation of regulatory approvals, permits and/or licenses and increased costs and/or cost overruns. The Company's reputation and public opinion could also be impacted by the actions and activities of other companies operating in the oil and natural gas industry, particularly producers, over which the Company has no control. Similarly, the Company's reputation could be impacted by negative publicity related to loss of life, injury or damage to property and environmental damage caused by the Company's royalty payors' operations. See *"Risk Factors – Climate Change"*.

Changing Investor Sentiment

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, the impact of oil and natural gas operations on the environment, environmental damage relating to spills of petroleum products during transportation and Indigenous rights, have affected certain investors' sentiments towards investing in the oil and natural gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and natural gas properties or companies, or are reducing the amount of investment therein over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the issuers. Failing to implement the policies and practices, as requested by institutional investors, may result in such investors reducing their investment in such issuers, including the Company, or not investing at all. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry and more specifically, the Company, may result in limiting the Company's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Company's securities even if the Company's operating results, underlying asset values or prospects for additional royalty acquisitions have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of the Company's royalties which may result in an impairment charge.

Expiration of Licenses and Leases

The Company's royalties are derived from, and therefore subject to the validity of, the licences and leases which provide for the working interest of its royalty payors. If the holder of the licence or lease, in which the Company owns a royalty, fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met, and such obligations are outside the control of the Company. The termination or expiration of licences or leases in which the Company owns royalties may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Dividends

The amount of future cash dividends paid by the Company, if any, will be subject to the discretion of the Board and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, funds from operations, fluctuations in commodity prices, production levels, acquisition opportunities, debt service requirements and debt levels, operating costs and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of the Company, the dividend policy of the Company from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

The market value of the Common Shares and Warrants may deteriorate if cash dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by the Company and potential legislative and regulatory changes. Dividends may be reduced during periods of lower funds from operations, which result from lower commodity prices and any decision by the Company to finance additional royalty acquisitions using funds from operations.

To the extent that external sources of debt or equity capital become limited or unavailable, the ability of the Company to complete additional royalty acquisitions will be impaired. To the extent that the Company is required to use funds from operations to finance royalty acquisitions, the cash available for dividends may be reduced.

Litigation

In the normal course of the Company's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and could have a material adverse effect on the Company's assets, liabilities, business, financial condition and results of operations. Even if the Company prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse effect on the Company's financial condition.

Indigenous Claims

Indigenous peoples have claimed Indigenous rights and title in portions of Western Canada. The Company is not aware that any claims have been made in respect of the Royalty Lands. However, if a claim arose and was successful, such claim may have a material adverse effect on the Company's business, financial condition, results of operations and prospects for additional royalty acquisitions. In addition, the process of addressing such claims, regardless of the outcome, is expensive and time consuming which could have a material adverse effect on the Company's business and financial results.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Company may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put the

Company at competitive risk and may cause significant damage to its business. The harm to the Company's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Company will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Income Taxes

The Company files all required income tax returns and believes that it is in full compliance with the provisions of the Tax Act and all other applicable federal and provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects the Company. Furthermore, tax authorities having jurisdiction over the Company may disagree with how the Company calculates its income for tax purposes or could change administrative practices to the Company's detriment.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Road bans and other restrictions generally result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of the Company's royalty production if not otherwise tied-in. Certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of muskeg. In addition, extreme cold weather, heavy snowfall and heavy rainfall may restrict access to properties in which the Company owns royalties and cause operational difficulties. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding decreases in the Company's production and revenue.

Conflicts of Interest

Certain directors or officers of the Company may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a Company who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. See "*Conflicts of Interest*".

Expansion into New Activities

The operations and expertise of the Company's management are currently focused primarily on acquiring and managing oil and natural gas royalties in the WCSB. In the future, the Company may acquire or move into new industry-related activities or new geographical areas and may acquire different energy related assets; as a result, the Company may face unexpected risks or, alternatively, its exposure to one or more existing risk factors may be significantly increased, which may in turn result in the Company's future operational and financial conditions being adversely affected.

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Company's forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks

and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumption and uncertainties are found under the heading "*Important Advisory – Forward-Looking Statements*".

Risks Relating to the Offering, Common Shares and Warrants

Absence of Public Market for the Common Shares or Warrants

Prior to the Offering, no public market existed for the Common Shares or Warrants. An active and liquid market for the Common Shares and Warrants may not develop following Closing or, if developed, may not be maintained. If an active public market does not develop or is not maintained, investors may have difficulty selling their Common Shares and Warrants.

The Offering Price was determined by negotiation between the Company and Underwriters and may not be indicative of the price at which the Common Shares or Warrants will trade following Closing. The market price of the Common Shares and Warrants may materially decline below the Offering Price.

Volatility in Market Price of Common Shares and Warrants

The market price for the Common Shares and Warrants may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including, without limitation: (i) actual or anticipated fluctuations in the Company's financial results; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other companies that investors deem comparable to the Company; (iv) the loss or resignation of members of management of the Company or the Board and other key personnel of the Company; (v) sales or perceived sales of additional Common Shares and Warrants; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors where the Company does not realize its anticipated benefits from such transaction; (vii) trends, concerns, technological or competitive developments, regulatory changes and other related issues in the oil and natural gas industry; and (viii) actual or anticipated fluctuations in interest rates.

Financial markets have experienced significant price and volume fluctuations in recent years that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares and Warrants may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses. Certain institutional investors may base their investment decisions on consideration of the Company's environmental and social governance practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the Common Shares or Warrants by those institutions, which could adversely affect the trading price of the Common Shares and Warrants.

Increased Costs of Being a Publicly Traded Company

As the Company will have publicly-traded securities, there will be significant legal, accounting, annual sustaining and filing fees to be incurred that are not presently being incurred. Applicable Canadian securities laws and the rules and policies of the TSXV require publicly listed companies to, among other things, adopt corporate governance policies and related practices and to continuously prepare and disclose material information, all of which will significantly increase legal, financial and securities regulatory compliance costs.

Foreign Exchange Risk on Dividends

The Company's cash dividends will be declared in Canadian dollars and may be converted in certain instances to foreign denominated currencies at the spot exchange rate at the time of payment. As a consequence, non-resident Shareholders, and Shareholders who calculate their return in currencies other than the Canadian dollar, will be subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to their currency, the amount of the dividend will be reduced when converted to their home currency.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings Source Rock is or was a party to, or that any of its property is or was the subject of, since January 1, 2020, nor are any such legal proceedings known to Source Rock to be contemplated, that involves a claim for damages, exclusive of interest and costs, exceeding 10% of the current assets of Source Rock.

There are no: (a) penalties or sanctions imposed against Source Rock by a court relating to securities legislation or by a securities regulatory authority since Source Rock's inception; (b) other penalties or sanctions imposed by a court or regulatory body against Source Rock that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements Source Rock entered into before a court relating to securities legislation or with a securities regulatory authority within the three years immediately preceding the date of the prospectus.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There is no material interest, direct or indirect, of any: (a) director or executive officer of Source Rock; (b) person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of Source Rock's voting securities; and (c) associate or affiliate of any of the persons or companies referred to in (a) or (b) above in any transaction within the three years before the date of the prospectus that has materially affected or is reasonably expected to materially affect Source Rock.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are MNP LLP, Chartered Accountants, Suite 2000, 330 – 5th Avenue S.W., Calgary, Alberta, T2P 0L4. MNP LLP has been the Company's auditors since inception.

The transfer agent and registrar for the Common Shares is TSX Trust Company at its principal offices in Calgary, Alberta and Toronto, Ontario.

The Warrant Agent for the Warrants will be TSX Trust Company at its principal offices in Calgary, Alberta.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts that the Company has entered into prior to the date of this prospectus or to which the Company will become a party to prior to the closing of the Offering, are the following:

1. the Underwriting Agreement. See "*Plan of Distribution*";
2. the Warrant Indenture. See "*Description of Share Capital and Securities Being Distributed – Warrants*"; and
3. the Production Volume Royalty Agreement. See "*Description of the Business – Description of Royalty Assets – Production Volume Royalty Agreement*".

Copies of the foregoing are or will be once executed, as applicable, available for inspection on SEDAR under the company's profile at <http://www.sedar.com>.

EXPERTS

Certain legal matters relating to the Offering will be passed upon by Dentons Canada LLP on behalf of the Company and by McCarthy Tétrault LLP on behalf of the Underwriters. As at the date hereof, the partners and associates of each of Dentons Canada LLP and McCarthy Tétrault LLP, as respective groups, beneficially own, directly or indirectly, less than 1% of the outstanding securities of the Company.

No person or company whose profession or business gives authority to a report, valuation, statement or opinion made by such person or company and who is named in this prospectus as having prepared or certified a part of this prospectus, or a report, valuation, statement or opinion described in this prospectus, has received or shall receive a direct or indirect interest in any securities or other property of the Company or any associate or affiliate of the Company.

As at the date hereof, the principals of Trimble, independent qualified reserves evaluators to the Company, do not beneficially own, directly or indirectly, any of the outstanding Common Shares.

MNP LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Alberta.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

In an offering of warrants, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which the warrants are offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon the exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal advisor.

GLOSSARY OF SELECT OIL AND GAS TERMS

In this prospectus, unless otherwise indicated or the context otherwise requires, the following terms have the meaning set forth below:

"**API**" or "**degrees API**" means the API gravity, which is a measure of how heavy or light a petroleum liquid is compared to water. If a petroleum liquid's API gravity is greater than 10, it is lighter and floats on water; if less than 10, it is heavier than water and sinks. API gravity is thus a measure of the relative density of a petroleum liquid and the density of water, but it is used to compare the relative densities of petroleum liquids.

"**API**" means the American Petroleum Institute.

"basin" means a large natural depression on the earth's surface in which sediments generally brought by water accumulate.

"COGE Handbook" means the "Canadian Oil and Gas Evaluation Handbook" maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter), as amended from time to time.

"developed non-producing reserves" are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

"developed producing reserves" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"developed reserves" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

"development costs" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
- (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

"development well" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

"exploration costs" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as "prospecting costs") and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;

- (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence and the maintenance of land and lease records;
- (c) dry hole contributions and bottom hole contributions;
- (d) costs of drilling and equipping exploratory wells; and
- (e) costs of drilling exploratory type stratigraphic test wells.

"exploratory well" means a well that is not a development well, a service well or a stratigraphic test well.

"field" means a defined geographical area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

"forecast prices and costs" means future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which Source Rock is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

"formation" means a layer of rock which has distinct characteristics that differ from nearby rock.

"future income taxes" when used are estimated (generally, year-by-year):

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, between oil and gas activities and other business activities;
- (b) without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income;
- (c) taking into account estimated tax credits and allowances (for example, royalty tax credits); and
- (d) applying to the future pre-tax net cash flows relating to Source Rock's oil and gas activities the appropriate year-end statutory tax rates, taking into account future tax rates already legislated.

"gross" means:

- (a) in relation to a reporting issuer's interest in production or reserves, its "company gross reserves", which are the reporting issuer's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the reporting issuer;
- (b) in relation to wells, the total number of wells in which a reporting issuer has an interest; and
- (c) in relation to properties, the total area of properties in which a reporting issuer has an interest.

"net" means:

- (a) in relation to a reporting issuer's interest in production and reserves, the reporting issuer's interest (operating and non-operating) share after deduction of royalty obligations, plus the reporting issuer's royalty interest in production or reserves;
- (b) in relation to a reporting issuer's interest in wells, the number of wells obtained by aggregating the reporting issuer's working interest in each of its gross wells; and
- (c) in relation to a reporting issuer's interest in a property, the total area in which the reporting issuer has an interest multiplied by the working interest owned by the reporting issuer.

"possible reserves" are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

"probable reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

"proved reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"reserves" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: (i) analysis of drilling, geological, geophysical and engineering data; (ii) the use of established technology; and (iii) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed. Reserves are classified according to the degree of certainty associated with the estimates.

"reservoir" means a subsurface rock unit that contains an accumulation of petroleum.

"service well" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

"undeveloped reserves" are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

"working interest" means the right granted to the lessee of a property to explore for and to produce and own oil, gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

CERTAIN RESERVES DATA INFORMATION

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been

satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions.

The qualitative certainty levels referred to in the definitions set forth in the "*Glossary of Select Oil and Gas Terms*" above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

APPENDIX "FS"

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Source Rock Royalties Ltd.
Condensed Interim Financial Statements
As at and for the three and nine months ended September 30, 2021
(Unaudited)

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

	September 30, 2021 (unaudited)	December 31, 2020 (audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 961,218	\$ 913,560
Trade and other receivables (note 3)	801,503	364,738
Prepaid expense	7,350	26,824
Total current assets	1,770,071	1,305,122
Non-current assets		
Petroleum and natural gas interests (note 4)	13,187,526	14,905,633
Intangible (note 5)	250,000	250,000
Total assets	\$ 15,207,597	\$ 16,460,755
Liabilities		
Current liabilities		
Trade and other payables	\$ 69,616	\$ 23,982
Dividends payable	443,438	146,236
Total current liabilities	513,054	170,218
Non-current liabilities		
Deferred tax (note 9)	284,548	538,468
Total liabilities	797,602	708,686
Shareholders' equity		
Share capital (note 7a)	28,984,321	28,679,325
Contributed surplus (note 7b)	1,151,552	1,081,271
Deficit	(15,725,878)	(14,008,527)
Total shareholders' equity	14,409,995	15,752,069
Total liabilities and shareholders' equity	\$ 15,207,597	\$ 16,460,755

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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Royalty revenues (note 8)	\$ 1,161,759	\$ 217,754	\$ 3,014,804	\$ 912,756
Expenses				
Administrative expenses	153,895	95,404	332,221	270,325
Bad debt expense (recovery)	-	-	(9,908)	55,030
Share-based compensation (note 6 and 7c)	226,173	103,584	290,277	155,469
Depletion (note 4)	574,913	159,329	1,670,103	717,702
Impairment (note 4)	-	-	1,381,559	-
Total expenses	954,981	358,317	3,664,252	1,198,526
Income (loss) for the period	206,778	(140,563)	(649,448)	(285,770)
Other income				
Interest	-	257	955	3,776
Income (loss) before taxes	206,778	(140,306)	(648,493)	(281,994)
Provision for income taxes				
Deferred tax expense (recovery) (note 9)	123,298	(56,255)	(253,920)	(98,073)
Total Comprehensive income (loss)	\$ 83,480	\$ (84,051)	\$ (394,573)	\$ (183,921)
Income (loss) per share, basic	\$ 0.003	\$ (0.003)	\$ (0.013)	\$ (0.006)
Income (loss) per share, diluted	\$ 0.003	\$ (0.003)	\$ (0.013)	\$ (0.006)
Weighted average number of shares:				
Basic	29,548,945	28,931,448	29,374,638	28,839,693
Diluted	31,402,460	30,803,532	31,034,657	30,801,512

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	Contributed surplus	Deficit	Total shareholders' equity
As at December 31, 2019	\$ 28,556,354	\$ 933,554	\$ (10,574,019)	\$ 18,915,889
Shares issued on acquisition of royalty interests (note 4)	4,500	-	-	4,500
Shares issued for compensation (note 6 and 7c)	83,971	71,498	-	155,469
Dividends (note 7a)	-	-	(431,945)	(431,945)
Total comprehensive loss for the period	-	-	(183,920)	(183,920)
As at September 30, 2020	\$ 28,644,825	1,005,052	(11,189,884)	18,459,993
Shares issued for compensation (note 6 and 7c)	34,500	76,219	-	110,719
Dividends	-	-	(146,236)	(146,236)
Total comprehensive loss	-	-	(2,672,407)	(2,672,407)
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
Shares issued for compensation (note 6 and 7c)	186,000	104,277	-	290,277
Shares issued on exercise of stock options (note 7c)	33,996	(33,996)	-	-
Dividends	-	-	(1,322,778)	(1,322,778)
Total comprehensive income for the period	-	-	(394,573)	(394,573)
As at September 30, 2021	\$ 28,984,321	\$ 1,151,552	\$ (15,725,878)	\$ 14,409,995

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,	
	2021	2020	2021	2020
Operating activities				
Net comprehensive income (loss) for the period	\$ 83,480	\$ (84,051)	\$ (394,573)	\$ (183,921)
Adjustments for:				
Share-based compensation (note 6)	226,173	103,584	290,277	155,469
Bad debt (recovery) expense	-	-	(9,908)	55,030
Depletion (note 4)	574,913	159,329	1,670,103	717,702
Impairment (note 4)	-	-	1,381,559	-
Deferred income taxes expense (note 9)	123,298	(56,255)	(253,920)	(98,073)
Change in non-cash working capital balances				
Trade and other receivables	(286,296)	(89,682)	(426,857)	325,028
Prepaid expenses	2,425	2,424	19,474	(200)
Trade and other payables	(17,835)	(9,752)	(9,366)	(2,228)
Cash flows from operating activities	706,158	25,597	2,266,789	968,807
Financing activities				
Dividends paid to shareholders' (note 7a)	(440,307)	-	(1,025,576)	(863,816)
Cash flows used in financing activities	(440,307)	-	(1,025,576)	(863,816)
Investing activities				
Purchase of petroleum and natural gas interests (note 4)	(268,366)	-	(1,193,555)	(405,967)
Intangible (note 5)	-	-	-	(250,000)
Cash flows used in investing activities	(268,366)	-	(1,193,555)	(655,967)
Increase (decrease) in cash and cash equivalents	(2,515)	25,597	47,658	(550,976)
Cash and cash equivalents, beginning of period	963,733	740,140	913,560	1,316,713
Cash and cash equivalents, end of period	\$ 961,218	\$ 765,737	\$ 961,218	\$ 765,737

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, 2021
(unaudited)

1. REPORTING ENTITY

Source Rock Royalties Ltd. ("Source Rock" or the "Company") is a private company 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 December 23, 2021.

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, 2020. 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, 2020.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2021
(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, 2020, except for the following:

- i) Reserves – Prior to 2021, management used industry reports and operator disclosure to assign well type curves to the production wells and land to internally estimate total anticipated reserves. During 2021, Source Rock obtained an independent qualified reserve evaluator's report completed for December 31, 2020, and going forward it's reserves will be independently evaluated on an annual basis. As a result, estimated reserves decreased, causing the depletion expense to increase, as depletion is completed on a unit of production. The effect of the change is as follows:

	Three months ended September 30, 2021	Nine months ended September 30, 2021
Effect of change in estimate	\$ 97,011	\$ 324,412
Depletion	\$ 574,913	\$ 1,670,103

3. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

Accounts Receivable and Accrued Royalty Revenues	As at September 30, 2021	As at December 31, 2020
Trade receivable and accrued royalty revenue	\$ 842,838	\$ 415,980
Allowance for doubtful accounts	(41,335)	(51,242)
	\$ 801,503	\$ 364,738

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 September 30, 2021	\$ 801,503	\$ 792,158	\$ 8,415	\$ 930
As at December 31, 2020	\$ 364,738	\$ 342,566	\$ 14,319	\$ 7,853

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

Source Rock Royalties Ltd.
Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2021
(unaudited)

4. PETROLEUM AND NATURAL GAS INTERESTS

Cost		Total
Balance December 31, 2019	\$	27,085,667
Additions		439,364
Impairment		(4,905,855)
Balance December 31, 2020	\$	22,619,176
Additions		1,333,555
Impairment		(1,381,559)
Balance September 30, 2021	\$	22,571,172
Accumulated depletion		
Balance December 31, 2019	\$	6,677,042
Depletion		1,036,501
Balance December 31, 2020	\$	7,713,543
Depletion		1,670,103
Balance September 30, 2021	\$	9,383,646
Carrying Amounts		
At December 31, 2020		14,905,633
At September 30, 2021	\$	13,187,526

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. As at September 30, 2021, \$55,000 (2020 - \$Nil) was included in trade and other payables related to this acquisition.

On March 18, 2021, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$15,189.

2020:

On January 27, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$30,545.

On February 13, 2020, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$27,500, comprised of \$23,000 in cash and \$4,500 in common shares of Source Rock at a deemed price of \$0.90 per share.

On March 6, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$189,047, including acquisition costs of \$7,404.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2021
(unaudited)

4. PETROLEUM AND NATURAL GAS INTERESTS (continued)

On April 9, 2020, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$74,511.

On May 15, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$47,488.

On June 4, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$41,376.

On December 10, 2020, Source Rock reduced the purchase price of a prior acquisition and received \$10,000 due to a drill commitment clause that an operator failed to satisfy.

On December 22, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$38,897.

Impairment

Source Rock groups its GORR's into cash generating units ("CGU's") for the purpose of evaluating the carrying value of its petroleum and natural gas interests. As at March 31, 2021, there were indicators of impairment due to the continued underperformance of two CGU's. Despite improved commodity prices during Q1 2021, these CGU's did not see production volumes return to historical levels as anticipated as at December 31, 2020.

The recoverable amounts were determined using fair value less cost to sell. The estimated recoverable amount of the Company's assets involved certain significant estimates including the future cash flows expected to be derived from each CGU and the discount rate. The significant assumptions used by the Company in determining the future cash flow estimates related to future royalty production and future realized commodity prices. The fair value measurement is designated Level 3 on the fair value hierarchy. Changes in any of the significant estimates and assumptions, such as a downward revision in future royalty production, a decrease in future realized commodity prices, or an increase in the discount rate would have decreased the recoverable amounts of assets and any impairment charges would affect operating results.

The following benchmark reference price forecasts were used to calculate the recoverable amounts:

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

The other key assumptions used in determining the recoverable amount included the future cash flows using a market discount rate of 10%.

The following are the impairment charges taken:

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

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2021
(unaudited)

4. PETROLEUM AND NATURAL GAS INTERESTS (continued)

As previously reported, there was an impairment charged against the West-Central Saskatchewan CGU as at December 31, 2020 in the amount of \$4,905,855 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.

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, 2021, the Company had the following transactions with key personnel.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Consulting fees	\$ 135,750	\$ 79,500	\$ 277,500	\$ 221,250
Share-based compensation	226,173	103,584	290,277	155,469
Total	\$ 361,923	\$ 183,084	\$ 567,777	\$ 376,719

Share-based compensation includes share-based consulting fees and a charge for stock options. During the three and nine-month periods ended September 30, 2021, 168,750 (2020 - 335,882) and 190,312 (2020 - 335,882) 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 \$168,750 (2020 - \$83,971) and \$186,000 (2020 - \$83,971). The remaining balance of the share-based compensation charge was recorded for the vesting of issued stock options in the amount of \$57,423 (2020 - \$19,614) and \$104,277 (2020 - \$71,498), respectively (see note 7c).

In addition, during the three and nine-month periods ended September 30, 2021, \$2,860 (2020 - \$4,152) and \$8,359 (2020 - \$10,609), was paid to a law firm at which the Corporate Secretary of the Company is a Partner. These fees primarily related to work associated with general corporate matters, closing a private placement and work associated with various acquisitions.

All transactions were in the normal course of operations and were measured at fair value, which was the amount of consideration established by the Company's Compensation Committee (comprised entirely of independent directors of the Company), or the Company's management, and agreed to by both parties. As at September 30, 2021, there was \$996 (December 31, 2020 - \$4,447) 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, 2021
(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, 2021		December 31, 2020	
	# of common shares	Amount	# of common shares	Amount
Balance, beginning of period	29,247,247	\$ 28,679,325	28,791,395	\$ 28,556,354
Shares issued on acquisition of royalty interest (i)	85,000	85,000	5,000	4,500
Shares issued for exercised stock options (note 7c)	40,000	33,996	-	-
Shares issued for compensation (note 6)	190,312	186,000	450,882	118,471
Balance, end of period	29,562,559	\$ 28,984,321	29,247,247	\$ 28,679,325

(i) In Q2, 2021, the Company issued 85,000 common shares at \$1.00 per share as partial consideration for GORR's. In Q1 2020, the Company issued 5,000 common shares at \$0.90 per share as partial consideration for GORR's.

During the three months and nine months ended September 30, 2021, Source Rock declared dividends of \$443,438 (three months ended September 30, 2020 - \$nil) or \$0.015 (2020 - \$nil) per common share and \$1,322,778 (nine months ended September 30, 2020 - \$431,945) or \$0.045 (2020 - \$0.015) per common share, respectively.

On September 15, 2021, a quarterly dividend of \$443,438 or \$0.015 per common share was declared by the Board of Directors for shareholders of record on September 30, 2021, to be payable on or before October 31, 2021.

b) Contributed surplus

Balance, December 31, 2019	\$ 933,554
Share-based compensation (note 7c)	147,717
Balance, December 31, 2020	\$ 1,081,271
Share-based compensation (note 7c)	104,277
Exercised stock options (note 7c)	(33,996)
Balance, September 30, 2021	\$ 1,151,552

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, 2021 and the changes for the current year, is as follows:

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

For the three and nine months ended September 30, 2021
(unaudited)

7. SHARE CAPITAL (continued)

	Outstanding	Weighted Average Remaining Contractual Life (in years)		Weighted Average Exercise Price
Balance, December 31, 2019	2,602,000	2.5	\$	0.95
Granted	945,000	4.0		0.40
Expired	(1,057,000)	-	\$	1.00
Balance, December 31, 2020	2,490,000	3.5	\$	0.72
Granted	40,000	4.5	\$	0.00
Exercised	(40,000)	-	\$	0.00
Balance, September 30, 2021	2,490,000	2.7	\$	0.72

For the three and nine months ended September 30, 2021, the Company has recorded \$57,423 (2020 - \$19,614) and \$104,277 (2020 - \$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, 2021, the Company has 1,860,000 (December 31, 2020 - 1,561,667) exercisable stock options.

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

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

8. 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 September 30,			Nine months ended September 30,	
Revenue and other revenue by product	2021	2020		2021	2020
Oil	1,132,050	209,653	\$	2,950,895	\$ 871,826
Natural Gas	17,134	5,195		38,673	28,214
NGL	12,575	2,906		25,236	12,716
Total royalty revenue	1,161,759	217,754	\$	3,014,804	\$ 912,756

Source Rock Royalties Ltd.
Notes to the Condensed Interim Financial StatementsFor the three and nine months ended September 30, 2021
(unaudited)**9. TAXES**

The Company is presently classified as a "specified investment business" pursuant to the Income Tax Act (Canada). As a result, the Company's taxable income will be taxed at the highest effective tax rate of 46.7% (2020 - 47.7%).

The Company's effective tax rate can be reduced by way of dividend refund credits upon payment of dividends to its shareholders following all of its tax loss carry forwards being used.

10. CAPITAL MANAGEMENT

The Company's capital is comprised of working capital 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, 2021.

11. FINANCIAL RISK MANAGEMENT**Financial instruments and risk management**

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

Fair values

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

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. 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, 2021
(unaudited)

12. SUBSEQUENT EVENTS

On October 13, 2021, a dividend of \$443,438 was paid to shareholders, which was approved by Source Rock's Board of Directors on September 15, 2021 for shareholders of record on September 30, 2021.

On December 15, 2021, Source Rock's Board of Directors approved a \$0.015 per share cash payment to be made on or before January 14, 2022 to shareholders of record on December 31, 2021. The payment will be structured as a "return of capital" in the same amount as and in replacement of Source Rock's typical quarterly dividend. The aggregate amount of the return of capital is \$443,438. The necessary approvals for this payment were further received at Source Rock's shareholders at an Annual General Meeting held on December 22, 2021.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2021

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 nine months ended September 30, 2021 ("Q3 2021"), and previous periods, and the outlook for Source Rock based on information available as of December 23, 2021.

The financial information contained herein is based on information in the unaudited condensed 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 annual MD&A and audited financial statements for the year ended December 31, 2020, together with the accompanying notes. Information in the 2020 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. Please refer to the disclosure under the "Non-GAAP Financial Measures", and "Forward-Looking Statements" sections of this MD&A.

SUMMARY OF RESULTS

	Three Months Ended September 30,			Nine Months Ended September 30,		
FINANCIAL (\$)	2021	2020	Change	2021	2020	Change
Royalty revenue	1,161,759	217,754	434%	3,014,804	912,756	230%
General & administrative expenses	153,895	95,404	61%	332,221	270,325	23%
Percentage of revenue	13.2%	43.8%	-70%	11.0%	29.6%	-63%
Total comprehensive income (loss)	83,480	(84,051)	-	(394,573)	(183,921)	115%
Per share (basic)	0.003	(0.003)	-	(0.013)	(0.006)	117%
Per share (diluted)	0.003	(0.003)	-	(0.013)	(0.006)	117%
Funds from operations ⁽¹⁾	1,007,864	122,607	722%	2,683,538	646,207	315%
Percentage of revenue	86.8%	56.3%	54%	89.0%	70.8%	26%
Per share (basic)	0.0341	0.0042	712%	0.0913	0.0224	308%
Dividends Paid	440,307	-	-	1,025,576	863,815	19%
Per share	0.015	-	-	0.035	0.03	17%
Payout ratio	43.7%	-	-	38.2%	133.7%	71%
Cash and cash equivalents	961,218	765,737	26%	961,218	765,737	26%
Per share (basic)	0.033	0.026	27%	0.033	0.026	27%
Average shares outstanding (basic)	29,548,945	28,931,448	2%	29,374,638	28,839,693	2%
Shares outstanding (end of period)	29,562,559	29,132,247	1%	29,562,559	29,132,247	1%
OPERATING						
Average daily production (boe/d)	170.2	56.2	203%	158.6	86.5	83%
Percentage oil & NGLs	93.6%	95.1%	-2%	94.7%	91.3%	4%
Average price realizations (\$/boe)	74.18	42.09	76%	69.36	38.49	80%
Netback (\$/boe) ⁽²⁾	64.37	23.71	171%	61.98	27.36	127%

(1) See "Non-GAAP Financial Measures".

(2) Calculated as "Funds from Operations" divided by cumulative production volumes for the period.

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 ("NGL") and natural gas, exclusively in western Canada. Source Rock receives revenue from its royalty interests in lands as reserves are produced by the operators over the economic life of the properties. 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, east-central Alberta, west-central Alberta and west-central Saskatchewan. Source Rock is focused on acquiring royalties in properties that have foreseeable future drilling potential and which are operated by fiscally and operationally prudent third parties. Source Rock 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. Source Rock 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.

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 and Manitoba.
- A production volume royalty in Viking mineral rights in east-central Alberta.
- Various GORR's in west-central Alberta.
- Various GORR's in the west-central Saskatchewan Viking light oil play.

Source Rock is actively pursuing the acquisition of additional GORR's, 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, NGL 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 actively drilling in the areas where our royalty lands are located. In addition, our focus will be on royalties in areas that are providing top quartile 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 cash flow 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 increased by 7% to \$70.52 (US\$) in Q3 2021 compared to the second quarter of 2021 ("Q2 2021") and was 72% higher than during the third quarter of 2020 ("Q3 2020"). Source Rock's realized price on crude oil is primarily based on Edmonton Par. During Q3 2021, the Edmonton Par crude oil price differential to WTI was consistent with historically normal levels, with the Edmonton Par crude oil price averaging \$83.72 (C\$), compared to \$49.84 (C\$) in Q3 2020 and \$77.44 (C\$) in Q2 2021. WTI prices were strong during Q3 2021 as the distribution of COVID-19 vaccines continued its momentum and an acceleration of broad 're-openings' around the world led to increased demand and as a result, consistent drawdowns of U.S. oil inventories. In addition, OPEC+ maintained its controlled pace of returning curtailed production to the global market and in general domestic and international producers refrained from pursuing production growth. The Canadian Dollar increased materially year-over-year compared to the U.S. Dollar alongside oil prices improving and the general market sentiment towards Canada's economy improving.

BENCHMARK AVERAGES	Three months Ended September 30,			Nine months Ended September 30,		
	2021	2020	Change	2021	2020	Change
WTI oil (US\$/bbl)	70.52	40.92	72%	65.04	38.21	70%
Edmonton par oil (C\$/bbl)	83.72	49.84	68%	76.21	43.95	73%
Condensate Stream (C\$/bbl)	87.18	49.99	74%	81.03	47.71	70%
AECO natural gas price (C\$/mcf)	3.54	2.15	65%	3.11	2.07	50%
Cdn\$/US\$ exchange rate	1.26	1.33	-5%	1.25	1.35	-7%

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' and are actively evaluating this in certain circumstances.

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, many companies continue to look for additional sources of accretive capital in order to more aggressively reduce debt and develop their core assets, while at the same time returning cash flow to shareholders. We also continue to identify opportunities to work with issuers to establish relationships and create royalties in their existing production and undeveloped mineral interests to assist with funding their development plans. 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

Acquisition Activities

In August 2021, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$71,110.

In July 2021, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$32,256.

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

Despite the royalty market generally being competitive, Source Rock continues to identify acquisition opportunities that are not being marketed for sale and which are attractive acquisitions at the right price. Source Rock is being prudent and patient with its acquisition strategy, however it is also selectively pursuing growth through acquisitions and is striving to strategically expand its portfolio of royalty interests. Our acquisition strategy will continue to focus on specific regions of the WCSB and building a strong base of royalty revenue primarily from light oil production but we may seek a modest amount of natural gas royalty exposure. Given the competitive landscape of the royalty market, we are 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 (the "Operator") resume production efficiently, Source Rock previously agreed to temporary revised terms relating to its royalty interest in these lands, and 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 June 30, 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 (Cdn \$) for oil production during each calendar month, as follows:

<u>Monthly Average Price</u>	<u>Royalty Production</u>
\$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

Source Rock had an option, in its sole discretion, to extend the revised terms for the Additional Interim Period to December 31, 2021. In April 2021, Source Rock elected to exercise its right to extend the Additional Interim Period.

Source Rock's entitlement to production from the Alberta Viking Lands is 95 bbl/d for calendar year 2021. As of September 30, 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 Alberta Viking Lands royalty agreement. During the Additional Interim Period, if Source Rock does not receive 95 bbl/d because the realized sales price for light oil is \$67.50 (Cdn) or less, then the shortfall will be added to the Accumulated Barrels and will remain a future entitlement to royalty production from the Alberta Viking Lands.

Subsequent Events

On October 13, 2021, a dividend of \$443,438 was paid to shareholders, which was approved by Source Rock's Board of Directors on September 15, 2021 for shareholders of record on September 30, 2021.

On December 15, 2021, Source Rock's Board of Directors approved a \$0.015 per share cash payment to be made on or before January 14, 2022 to shareholders of record on December 31, 2021. The payment will be structured as a "return of capital" in the same amount as and in replacement of Source Rock's typical quarterly dividend. The aggregate amount of the return of capital is \$443,438. The necessary approvals for this payment were further received at Source Rock's shareholders at an Annual General Meeting held on December 22, 2021.

QUARTERLY HIGHLIGHTS

Q3 2021 Highlights

- Record quarterly royalty revenue was achieved, as it increased by \$944,005 (434%) to \$1,161,759 as compared to Q3 2020, which totalled \$217,754.
- Record quarterly royalty production was achieved, which averaged 170.2 boe/d (93.6% oil & NGLs), an increase of 203% as compared to Q3 2020, which averaged 56.2 boe/d (95.1% oil & NGLs).
- Average realized price for royalty production was \$74.18 per boe (93.6% oil & NGLs), an increase of 76% as compared to \$42.09 per boe (95.1% oil & NGLs) in Q3 2020.
- Record quarterly funds from operations was achieved, as it increased by \$885,257 (722%) to \$1,007,864 (86.8% of revenue) as compared to Q3 2020, which totalled \$122,607 (56.3% of revenue). This represents an increase of 712% on a per share basis.
- Achieved a netback of \$64.37 per boe (Q3 2020 - \$23.71).
- Ended Q3 2021 with available cash and cash equivalents of \$961,218 (Q3 2020 - \$765,737).
- Declared a quarterly dividend of \$0.015 per common share.

Year to Date 2021 Highlights:

- Royalty revenue increased by \$2,102,048 (230%) to \$3,014,804, as compared to the same period in 2020 which totalled \$912,756.
- Royalty production averaged 158.6 boe/d (94.7% oil & NGLs), an increase of 83% as compared to the same period in 2020, which averaged 86.5 boe/d (91.3% oil & NGLs).
- Average realized price for royalty production was \$69.36 per boe (94.7% oil & NGLs), an increase of 80% as compared to \$38.49 per boe (91.3% oil & NGLs) during the same period in 2020.
- Funds from operations increased by \$2,037,331 (315%) to \$2,683,538 (89% of revenue), as compared to the same period in 2020, which totalled \$646,207 (70.8% of revenue). This represents an increase of 308% on a per share basis.
- Achieved a netback of \$61.98 per boe (2020 - \$27.36).
- Declared three quarterly dividends of \$0.015 per common share.

ROYALTY PRODUCTION & REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Average daily production (boe/d)	170.2	56.2	158.6	86.5
Percentage oil & NGLs	93.6%	95.1%	94.7%	91.3%
Average realized price (\$/boe)	\$ 74.18	\$ 42.09	\$ 69.36	\$ 38.49
Royalty revenue	\$ 1,161,759	\$ 217,754	\$ 3,014,804	\$ 912,756

For Q3 2021, royalty revenue increased by \$944,005 (434%) to \$1,161,759 as compared to Q3 2020, which totalled \$217,754. The increase in revenue resulted from higher realized pricing and an increase in royalty production volumes. For Q3 2021, royalty production averaged 170.2 boe/d (93.6% oil & NGLs), an increase of 203% as compared to Q3 2019, which averaged 56.2 boe/d (95.1% oil & NGLs). The increase in production resulted from increased volumes from our Alberta Viking royalty interest, our S.E. Saskatchewan GORR's and the certain west-central Alberta GORR's resuming production, but this was slightly off-set by lower royalty production from our west-central Saskatchewan GORR's. For Q3 2021, the average realized price for royalty production was \$74.18 per boe (93.6% oil & NGLs), an increase of 76% as compared to \$42.09 per boe (95.1% oil & NGLs) in Q3 2020.

For the nine months ended September 30, 2021, royalty revenue increased by \$2,102,048 (230%) to \$3,014,804 as compared to the same period in 2020, which totalled \$912,756. The increase in revenue resulted from higher realized pricing and an increase in royalty production volumes. For the nine months ended September 30, 2021, royalty production averaged 158.6 boe/d (94.7% oil & NGLs), an increase of 83% as compared to the same period in 2020, which averaged 86.5 boe/d (91.3% oil & NGLs). For the nine months ended September 30, 2021, the average realized price for royalty production was \$69.36 per boe (94.7% oil & NGLs), an increase of 80% as compared to \$38.49 per boe (88.9% oil & NGLs) for the same period in 2020.

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' and we are currently evaluating this for the production associated with certain operators.

EXPENSES

OPERATING EXPENSE

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

ADMINISTRATIVE EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Administrative expenses	\$ 153,895	\$ 95,404	\$ 332,221	\$ 270,325

General and administrative expenses ("G&A") primarily consisted of consulting fees and professional fees. For Q3 2021, G&A increased by \$58,491 (61%) to \$153,895 as compared to \$95,404 in Q3 2020. The increase during Q3 2021 was the result of higher management consulting fees. For the nine months ended September 30, 2021, G&A increased by \$61,896 (23%) to \$332,221 as compared to \$270,325 for the same period in 2020.

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 nine month periods ended September 30, 2021 and 2020, Source Rock incurred the following items with key personnel:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Consulting fees	\$ 135,750	\$ 79,500	\$ 277,500	\$ 221,250
Share-based compensation ⁽¹⁾	226,173	103,584	290,277	155,469
Total fees	\$ 361,923	\$ 183,084	\$ 567,777	\$ 376,719

(1) See "Share-based Compensation".

In addition, during the three and nine month periods ended September 30, 2021, \$2,860 (2020 - \$4,152) and \$8,359 (2020 - \$10,609), respectively, was paid to a law firm at which the Corporate Secretary of the Corporation is a Partner. These fees primarily related to general corporate matters and work associated with various acquisitions.

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 September 30, 2021, there was \$996 (2020 - \$3,000) in trade payables and accrued liabilities relating to these transactions.

SHARE-BASED COMPENSATION

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Share-based compensation	\$ 226,173	\$ 103,584	\$ 290,277	\$ 155,469



Share-based compensation includes share-based consulting fees and a charge for stock options. During the three and nine month periods ended September 30, 2021, a share-based compensation charge was recorded for the vesting of previously issued stock options to key personnel in the amount of \$57,423 (2020 - \$19,614) and \$104,277 (2020 - \$71,498), respectively. During the three and nine months ended September 30, 2021, 168,750 (2020 - 335,882) and 190,312 (2020 - 335,882), respectively, common shares were issued to management and the board of directors in lieu of cash compensation and this was recorded as stock-based compensation in the amount of \$168,750 (2020 - \$83,971) and \$186,000 (2020 - \$83,971), respectively.

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. See "Shares Outstanding".

DEPLETION

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Depletion	\$ 574,913	\$ 159,329	\$ 1,670,103	\$ 717,702
Per boe (\$)	36.72	30.82	38.42	30.39

Royalty interests are depleted on the unit-of-production method based on an internal estimate of proved plus probable oil, NGL and natural gas reserves. For the three and nine month periods ended September 30, 2021, the depletion expense was \$574,913 (2020 - \$159,329) and \$1,670,103 (2020 - \$717,702), respectively. The cost per barrel of oil equivalent of production increased to \$36.72 and \$38.42 during the periods, respectively, based on the combined fair value assigned to the estimated reserves at the time of the Corporation's acquisitions and the period production mix. In addition, there was a significant increase in depletion over the prior year as a result of a change in estimates. Prior to 2021, management used industry reports and operator disclosure to assign well type curves to the production wells and land to internally estimate total anticipated reserves. During 2021, Source Rock obtained an independent qualified reserve evaluator's report completed for December 31, 2020 and going forward its reserves will be independently evaluated on an annual basis. As a result, estimated reserves decreased, causing the depletion expense to increase, as depletion is completed on a unit of production.

IMPAIRMENT

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

As a result, the following impairment charges were taken:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
West-central Saskatchewan	-	-	668,819	-
West-central Alberta	\$ -	\$ -	\$ 712,740	\$ -

OTHER INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest	\$ -	\$ 257	\$ 955	\$ 3,776

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 term deposits that currently pay a nominal amount of interest on an annualized basis.

INCOME TAXES

The Corporation is presently classified as a "specified investment business" pursuant to the Income Tax Act of Canada. As a result, the Corporation's taxable income will be taxed at the highest effective tax rate of 46.7% (2020 - 47.7%). However, the Corporation's effective tax rate can be reduced by way of dividend refund credits upon payment of dividends to its shareholders following all of its tax loss carry forwards being used.

Tax Pools

The Corporation is entitled to claim certain tax deductions available to all owners of oil and gas properties. For Source Rock the principal deduction is the Canadian Oil and Gas Property Expense. Source Rock's tax pools are relatively modest as it has low capital expenditure requirements due to the nature of royalty interests.

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 seasonable predictability.

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Royalty revenue	\$ 1,161,759	\$ 1,045,974	\$ 807,071	\$ 462,992
Total comprehensive income (loss)	\$ 83,480	\$ 195,727	\$ (673,780)	\$ (2,672,410)
Per share (basic)	\$ 0.003	\$ 0.007	\$ (0.023)	\$ (0.092)
Per share (diluted)	\$ 0.003	\$ 0.006	\$ (0.023)	\$ (0.092)
Funds from operations ⁽¹⁾	\$ 1,007,864	\$ 947,319	\$ 728,355	\$ 387,214
Average daily production (boe/d)	170.2	163.6	143.5	114.6
Percentage oil & NGLs	93.6	95.2%	95.5%	93.8%
Current assets	\$ 1,770,071	\$ 1,488,716	\$ 1,875,186	\$ 1,305,122
Total assets	\$ 15,207,597	\$ 15,397,789	\$ 15,115,416	\$ 16,460,755
Total current liabilities	\$ 513,054	\$ 692,758	\$ 466,147	\$ 170,218
Shareholder equity	\$ 14,409,995	\$ 14,543,781	\$ 14,679,934	\$ 15,752,069
Weighted average number of shares outstanding (basic)	29,548,945	29,322,985	28,927,271	29,165,997

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Royalty revenue	\$ 217,754	\$ 84,653	\$ 610,349	\$ 743,838
Total comprehensive income (loss)	\$ (84,051)	\$ (112,808)	\$ 12,942	\$ 282,200
Per share (basic)	\$ (0.003)	\$ (0.004)	\$ 0.000	\$ 0.010
Per share (diluted)	\$ (0.003)	\$ (0.004)	\$ 0.000	\$ 0.009
Funds from operations ⁽¹⁾	\$ 122,607	\$ 3,687	\$ 519,914	\$ 675,737
Average daily production (boe/d)	56.2	40.2	163.6	144.7
Percentage oil & NGLs	95.1%	92.0%	89.8%	88.9%
Current assets	\$ 935,022	\$ 822,168	\$ 1,465,553	\$ 1,865,854
Total assets	\$ 21,286,412	\$ 21,332,88	\$ 21,924,438	\$ 22,274,479
Total current liabilities	\$ 15,986	\$ 25,739	\$ 454,406	\$ 450,083
Shareholder equity	\$ 18,459,993	\$ 18,440,460	\$ 18,527,327	\$ 18,915,889
Weighted average number of shares outstanding (basic)	28,931,448	28,796,365	28,793,948	28,667,958

(1) See "Non-GAAP Financial Measures".



LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cash flows from operating activities	\$ 706,158	\$ 25,597	\$ 2,266,789	\$ 968,807
Change in non-cash working capital balances	301,706	97,010	416,749	(322,600)
Funds from operations ⁽¹⁾	\$ 1,007,864	\$ 122,607	\$ 2,683,538	\$ 646,207
Per Share (\$)	0.0341	0.0042	0.0913	0.0224

(1) See "Non-GAAP Financial Measures".

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 G&A expenses with the remainder to be retained to fund future capital expenditures and dividends.

As at September 30, 2021, 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 September 30, 2021, Source Rock had an overall positive working capital balance ("current assets" less "current liabilities" as defined by Canadian GAAP) of \$1,257,017 (Q3 2020 - \$919,036).

Financing Activities

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Dividends paid to shareholders'	\$ (440,307)	\$ -	\$ (1,025,576)	\$ (863,816)
Cash flows from (used in) financing activities	\$ (440,307)	\$ -	\$ (1,025,576)	\$ (863,816)

During Q3 2021, dividends paid was \$440,307 (Q3 2020 - \$nil). During the nine months ended September 30, 2021, dividends paid was \$1,025,576 (2020 - \$863,816).

Investing Activities

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Purchase of petroleum and natural gas interests	\$ (268,366)	\$ -	\$ (1,193,555)	\$ (405,967)
Intangible	-	-	-	(250,000)
Cash flows from (used in) investing activities	\$ (268,366)	\$ -	\$ (1,193,555)	\$ (655,967)



Period Ended September 30, 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.

Period Ended September 30, 2020:

- On June 4, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$38,324.
- On June 4, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$3,052.
- On May 15, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$47,488.
- On April 9, 2020, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$74,511.
- On March 6, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for gross proceeds of \$189,047, including acquisition costs of \$7,404.
- On February 13, 2020, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$27,500, comprised of \$23,000 in cash and \$4,500 in common shares of Source Rock at a deemed price of \$0.90 per share.
- On January 27, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$30,545.
- On January 27, 2020, Source Rock acquired the Royalty Option, an intangible asset, for proceeds of \$250,000.

Shares Outstanding

	September 30, 2021	December 31, 2020
Basic common shares outstanding at end of period	29,562,559	28,796,368
Common share stock options outstanding at end of period ⁽¹⁾	2,490,000	2,602,000
Total diluted common shares outstanding at end of period	32,052,559	31,398,368

(1) Stock option issued October 1, 2020 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 issued on July 1, 2019 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 issued on July 1, 2017 vested 1/3 upon issuance and will vest 1/3 every year thereafter, have a 5-year term and are exercisable at \$1.00 per stock option.

DIVIDEND POLICY

On September 15, 2021, the Corporation's Board of Directors approved the payment of a \$0.015 per share quarterly dividend for shareholders of record on September 30, 2021. A cumulative dividend of \$443,438 was paid to shareholders in October 2021.

The Board of Directors will continue to review the ability of the Corporation to pay a dividend on a quarterly basis. Factors assessed during this review include commodity prices, economic conditions, production volumes, tax payable and our capacity to finance operations and anticipated acquisitions. In particular, paying a quarterly dividend will continue to occur if the Board of Directors believes that paying such a dividend would not put our balance sheet in a weak or vulnerable position, nor would it prevent us from completing desired acquisitions. Our goal is to balance payment of a dividend with growth of our portfolio of royalties and ensure that at all times our balance sheet is strong. The Board of Directors will specifically conduct a quarterly assessment regarding whether the typical dividend amount for the Corporation is payable with anticipated funds from operations on a calendar year basis. If the Board of Directors estimates that the typical quarterly dividend amount paid will result in a pay-out in excess of the Corporation's estimated calendar year funds from operations then it may reduce the typical dividend or eliminate it entirely.

NON-GAAP FINANCIAL MEASURES

This MD&A contains references to "funds from operations" which is a non-GAAP financial measure and the term "payout ratio" which is a non-GAAP ratio. 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.

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.

"Payout ratio" is calculated as the aggregate of cash dividends paid 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.

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

Source Rock has adopted the standard 6 Mcf:1 barrel when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf:1 barrel ratio 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 than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion rate 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 either brad@sourcerockroyalties.com or sean@sourcerockroyalties.com.

Forward-Looking Statements

This document offers our assessment of Source Rock's future plans and operations as at November 29, 2021, 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.⁽¹⁾

Chairman

Brody Loster, P. Geo

Independent

Shaun Thiessen, B. Comm

Independent

Jordan Kevol, B. Sc. Geology

Independent

Gary McMurren, P. Eng⁽¹⁾⁽²⁾

Independent

Dean Potter, P. Geo

Independent

Scott Rideout⁽²⁾

Independent

John Bell, C.A.⁽¹⁾⁽²⁾

Chair of Audit Committee

(1) Audit Committee.

(2) Compensation Committee.

Officers

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

President & C.E.O.

Sean Clausen, C.A.

Chief Financial Officer

Lucas Tomei, LL.B., B. Sc.

Corporate Secretary

Advisors

Legal Counsel

Dentons Canada LLP

Auditors

MNP LLP

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.

Source Rock Royalties Ltd.
Financial Statements

For the years ended December 31, 2020 and 2019

Independent Auditor's Report

To the Shareholders of Source Rock Royalties Ltd.:

Opinion

We have audited the financial statements of Source Rock Royalties Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Calgary, Alberta

May 17, 2021

MNP LLP

Chartered Professional Accountants

Source Rock Royalties Ltd.
Statement of Financial Position
(Expressed in Canadian dollars)

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 913,560	\$ 1,316,711
Trade and other receivables (note 8)	364,738	543,271
Prepaid expense	26,824	5,872
Total current assets	1,305,122	1,865,854
Non-current assets		
Petroleum and natural gas interests (note 4)	14,905,633	20,408,625
Intangible (note 5)	250,000	-
Total assets	\$ 16,460,755	\$ 22,274,479
Liabilities		
Current liabilities		
Trade and other payables	\$ 23,982	\$ 18,214
Dividends payable (note 12)	146,236	431,870
Total current liabilities	170,218	450,084
Non-current liabilities		
Deferred tax (note 9)	538,468	2,908,506
Total liabilities	708,686	3,358,590
Shareholders' equity		
Share capital (note 7a)	28,679,325	28,556,354
Contributed surplus (note 7b)	1,081,271	933,554
Deficit	(14,008,527)	(10,574,019)
Total shareholders' equity	15,752,069	18,915,889
Total liabilities and shareholders' equity	\$ 16,460,755	\$ 22,274,479
Subsequent events (note 12)		
Approved on behalf of the Board of Directors by:		
"Signed" Brad Docherty	"Signed" John Bell	
Director	Director	

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

Source Rock Royalties Ltd.
Statement of Income and Comprehensive Income

For the year ended December 31,
(Expressed in Canadian dollars)

		2020		2019
Royalty revenues (note 8)	\$	1,375,749	\$	2,694,491
Expenses				
Administrative expenses		346,281		340,218
Bad Debt		51,242		-
Share-based compensation (notes 6 and 7c)		266,188		448,694
Depletion (note 4)		1,036,501		1,398,765
Impairment (note 4)		4,905,855		-
		(5,230,318)		506,814
Other income (loss)				
Interest		3,953		13,781
(Loss) income before taxes		(5,226,365)		520,595
Provision for income taxes				
Deferred tax (recovery) expense (note 9)		(2,370,038)		122,186
Total Comprehensive (loss) income	\$	(2,856,327)	\$	398,409
(Loss) income per share, basic and diluted	\$	(0.0985)	\$	0.0144
Weighted average number of shares:				
Basic and diluted		29,001,311		27,603,111

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

Source Rock Royalties Ltd.
Statement of Changes in Shareholders' Equity

*For the year ended December 31,
(Expressed in Canadian dollars)*

	Share capital	Contributed surplus	Deficit	Total shareholders' equity
As at December 31, 2018	\$ 26,558,564	\$ 755,900	\$ (9,295,036)	\$ 18,019,428
Shares issued for cash (note 7a)	1,275,000	-	-	1,275,000
Shares issued on acquisition of royalty interests (note 4)	451,750	-	-	451,750
Shares issued for compensation (note 6 and 7c)	236,399	212,295	-	448,694
Share issued on exercise of stock options (note 7a)	34,641	(34,641)	-	-
Dividends	-	-	(1,677,392)	(1,677,392)
Total comprehensive income	-	-	398,409	398,409
As at December 31, 2019	\$ 28,556,354	\$ 933,554	\$ (10,574,019)	\$ 18,915,889
Shares issued on acquisition of royalty interests (note 4)	4,500	-	-	4,500
Shares issued for compensation (note 6 and 7c)	118,471	147,717	-	266,188
Dividends	-	-	(578,181)	(578,181)
Total comprehensive loss	-	-	(2,856,327)	(2,856,327)
As at December 31, 2020	\$ 28,679,325	\$ 1,081,271	\$ (14,008,527)	\$ 15,752,069

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

Source Rock Royalties Ltd.**Statement of Cash Flows**

For the year ended December 31,
(Expressed in Canadian dollars)

	2020	2019
Operating activities		
Net income (loss)	\$ (2,856,327)	\$ 398,409
Adjustments for:		
Share-based compensation (notes 6 and 7c)	266,188	448,694
Depletion (note 4)	1,036,501	1,398,765
Impairment (note 4)	4,905,855	-
Bad Debt	51,242	-
Deferred income taxes (recovery) expense (note 9)	(2,370,038)	122,186
Change in non-cash working capital balances		
Trade and other receivables	127,291	(327,014)
Prepaid expense	(20,952)	536
Trade and other payables	5,768	819
Cash flows from operating activities	1,145,528	2,042,395
Financing activities		
Dividends paid to shareholders	(863,815)	(1,642,260)
Issuance of share capital, net of cost (note 7a)	-	1,275,000
Cash flows used in financing activities	(863,815)	(367,260)
Investing activities		
Purchase of petroleum and natural gas interests (note 4)	(434,864)	(1,650,225)
Purchase of intangibles (note 5)	(250,000)	-
Cash flows used in investing activities	(684,864)	(1,650,225)
(Decrease) increase in cash and cash equivalents	(403,151)	24,910
Cash and cash equivalents, beginning of year	1,316,711	1,291,801
Cash and cash equivalents, end of year	\$ 913,560	\$ 1,316,711

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

Source Rock Royalties Ltd.
Notes to the Financial StatementsFor the years ended December 31, 2020 and December 31, 2019

1. REPORTING ENTITY

Source Rock Royalties Ltd. ("Source Rock" or the "Company") is a private company 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.

These financial statements were authorized for issuance by the Company's Board of Directors on May 17, 2021.

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 on the second quarter of 2020, the potential direct and indirect impacts of the economic downturn and continue economic uncertainty have been considered in management's estimates, and assumption at year end.

2. BASIS OF PREPARATION**a) Statement of compliance**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") in effect as of January 1, 2020.

b) Basis of measurement

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

c) Functional currency

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

d) Business Combinations

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

e) Use of judgments and estimates

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

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

Source Rock Royalties Ltd.

Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

2. BASIS OF PREPARATION (continued)

e) Use of judgments and estimates (continued)

Judgments

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

- *Determining cash generating units ("CGU")* – For the purpose of assessing impairment of petroleum and natural gas interests, assets are grouped at the lowest level of separately identifiable cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs of disposal and value in use. As at December 31, 2020 and 2019, the Company had four CGUs based on geographical location, being west-central Saskatchewan, south-east Saskatchewan, east-central Alberta and west-central Alberta.
- *Impairment* – The Company is required to make a judgment regarding whether indicators of impairment exist at each reporting date by evaluating conditions specific to the organization that may lead to the impairment of assets.
- *Taxes* – The Company applies judgment in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain due to interpretations of complex tax regulations, changes in tax laws, and the amounts and timing of future taxable income. Deferred tax assets, if any, are recognized to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to income tax and expenses already recorded.
- *Contingencies* – Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

Estimates

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

- *Reserves* - The Company does not have any operational control over its royalty interest lands, thus, obtaining production data from the well operators is generally limited to the information that is made publicly available. As a result, the Company often uses industry reports and operator disclosure to assign well type curves to the producing wells and lands to estimate total anticipated reserves.
- *Accounts receivables* – Accounts are recorded at the estimated recoverable amounts. For the year ended December 31, 2020 Source Rock recorded a credit loss of \$51,242 (2019 - \$nil).
- *Depletion and residual values of petroleum and natural gas interests* - The amounts recorded for the depletion of petroleum and natural gas interests are based on estimates of petroleum and natural gas reserves. By their nature, these estimates of reserves are subject to uncertainty, and the impact on the financial statements of future periods could be material.

Source Rock Royalties Ltd.

Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

2. BASIS OF PREPARATION (continued)

e) Use of judgments and estimates (continued)

- *Impairment* - Impairment exists when the carrying value of a CGU exceeds its recoverable amount, which is the higher of its fair value less cost of disposal ("FVLCD") and its value in use ("VIU"). The FVLCD calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used.
- *Share-based compensation* - All equity-settled, share based awards issued by the Company are recorded at fair value using the Black-Scholes option pricing model. In assessing the fair value of the equity-based compensation, estimates have to be made regarding the expected volatility is based on comparable listed entities in share price, option life, risk-free rate and estimated forfeitures at the initial grant date.
- *Taxes* - Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the statement of income and comprehensive income both in the period of change, which would include any impact on cumulative provisions, and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Cash and cash equivalents

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

b) Revenue recognition

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

c) Petroleum and natural gas interests

Petroleum and natural gas interests are classified under IAS 16 as "Property, Plant and Equipment" and include royalty interests, stated at cost, less accumulated depletion and accumulated impairment losses. All costs incurred after determining technical feasibility and commercial viability of reserves are capitalized. Subsequent expenditure is capitalized only where it enhances the economic benefits of the asset. A gain or loss on disposal of a petroleum and natural gas interest is recognized to the extent that the net proceeds exceed or are less than the appropriate portion of the capitalized costs of the asset.

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

d) Impairment of long-term assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Impairment of long-term assets *(continued)*

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

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

e) Share-based compensation

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

f) Taxes

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

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

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

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

g) Income per share

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

h) Financial instruments

Classification

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***h) Financial instruments** *(continued)*

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

Impairment

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

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

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

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

Financial instrument de-recognition

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

i) Provisions

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

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

Source Rock Royalties Ltd.
Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Equity instruments

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

k) Indefinite-lived intangible assets.

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

4. PETROLEUM AND NATURAL GAS INTERESTS

Cost	2020		2019	
Balance, Beginning of year	\$	27,085,667	\$	24,983,692
Additions		439,364		2,101,975
Impairment		(4,905,855)		-
Balance, end of year	\$	22,619,176		27,085,667
Accumulated depletion				
Balance, Beginning of year	\$	6,677,042	\$	5,278,277
Depletion		1,036,501		1,398,765
Balance, end of year	\$	7,713,543	\$	6,677,042
Carrying amount, end of year	\$	14,905,633	\$	20,408,625

2020:

On January 27, 2020, Source Rock acquired a 2% gross overriding royalty ("GORR") in land located in S.E. Saskatchewan for proceeds of \$30,545.

On February 13, 2020, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$27,500, comprised of \$23,000 in cash and \$4,500 in common shares of Source Rock at a deemed price of \$0.90 per share.

On March 6, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$189,047, including acquisition costs of \$7,404.

On April 9, 2020, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$74,511.

On May 15, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$47,488.

On June 4, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$38,324.

On June 4, 2020, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$3,052.

Source Rock Royalties Ltd.
Notes to the Financial StatementsFor the years ended December 31, 2020 and December 31, 2019

4. PETROLEUM AND NATURAL GAS INTERESTS *(continued)*

On December 10, 2020, Source Rock reduced the purchase price of a prior acquisition and received \$10,000 due to a drill commitment clause that an operator failed to satisfy.

On December 22, 2020 Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$38,897

2019:

On November 14, 2019, Source Rock acquired a 1% ("GORR") in land located in west-central Alberta for \$401.

On October 24, 2019, Source Rock acquired two sliding-scale GORR's in land located in S.E. Saskatchewan. The net purchase price was \$1,235,525, comprised of \$903,525 in cash and \$332,000 in common shares at a price of \$0.85 per share.

On September 10, 2019, Source Rock acquired a 2% GORR in land located in Central Alberta. The net purchase price was \$109,240 comprised of \$87,990 in cash and \$21,250 in common shares at a price of \$0.85 per share.

On August 9, 2019, Source Rock acquired a 2% GORR in land located in Central Alberta for proceeds of \$219,692. An area of mutual interest ("AMI") was established that grants Source Rock the right to acquire a GORR in additional lands acquired by the Vendor within the AMI prior to December 31, 2021.

On July 2, 2019, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan for proceeds of \$108,500, comprised of \$100,000 in cash and \$8,500 in common shares at a price of \$0.85 per share.

On June 3, 2019, Source Rock acquired a 1% GORR in land located in west-central Alberta for \$37.

On March 29, 2019, Source Rock closed the farm-out of certain lease interests in S.E. Saskatchewan to a private company in exchange for a \$5,000 cash payment and a 3.5% GORR in the land.

On March 15, 2019, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$220,310, comprised of \$175,310 in cash and \$45,000 in common shares at a deemed price of \$0.90 per share.

On January 31, 2019, Source Rock acquired various GORR's (1% to 4%) and lease rights (12.5% to 50%) located in S.E. Saskatchewan for proceeds of \$226,195, comprised of \$181,195 in cash and \$45,000 in common shares at a deemed price of \$0.90 per share.

In Q1 2019, Source Rock settled the final purchase price of an acquisition completed in the fourth quarter of 2018, and this resulted in a reduction of the purchase price by \$12,925.

Source Rock Royalties Ltd.

Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

4. PETROLEUM AND NATURAL GAS INTERESTS (continued)

Impairment

During the year, there were indicators of impairment do due the significant change in commodity demand and pricing due to COVID 19. As a result, the Company performed impairment tests across all CGUs as at December 31, 2020. The recoverable amounts were determined using fair value less cost to sell. The estimated recoverable amount of the Company's assets involved certain significant estimates included the future cash flows expected to be derived from each CGU and the discount rate. The significant assumptions used by the Company in determining the future cash flow estimates related to future royalty production and future realized commodity prices. The fair value measurement is designated Level 3 on the fair value hierarchy. Changes in any of the significant estimates and assumptions, such as a downward revision in future royalty production, a decrease in future realized commodity prices, or an increase in the discount rate would have decreased the recoverable amounts of assets and any impairment charges would affect operating results.

The following benchmark reference prices forecasts were used to calculate the recoverable amounts:

	2021	2022	2023	2024	2025 ⁽¹⁾
Canadian Light Sweet (\$cdn/bbl)	60.00	60.00	61.05	63.25	64.57

(1) Prices escalate at 2.0% thereafter.

The other key assumptions used in determining the recoverable amount included the future cash flows using market discount rate of 10%.

The following are the results of the impairment test completed and sensitivity impacts would increase impairment charges taken:

CGU	Impairment	1% increase in discount rate	5% decrease in pricing
West Central Saskatchewan	\$4,905,855	\$55,897	\$49,747

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 year ended December 31, 2020 and 2019, the Company had the following transactions with key personnel.

	2020	2019
Consulting fees	\$ 283,500	\$ 278,888
Share-based compensation	266,188	448,694
Total	\$ 549,688	\$ 727,582

Source Rock Royalties Ltd.
Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

6. RELATED PARTY TRANSACTIONS *(continued)*

Share-based compensation includes share-based consulting fees and a charge for stock options. During the year ended December 31, 2020, 450,882 (2019 - 275,743) common shares were issued as compensation to management and was recorded as share-based compensation in the amount of \$118,471 (2019 - \$236,399). The remaining balance of the share-based compensation charge was recorded for a portion of newly issued stock options that vested immediately and the vesting of previously issued stock options in the amount of \$147,717 (2019 - \$212,295) (see note 9c).

In addition, during the year ended December 31, 2020, \$11,987 (2019 - \$14,483), was paid to a law firm at which the Corporate Secretary of the Company is a Partner. These fees primarily related to work associated with various acquisition initiatives, completion of financing and general corporate matters.

As at December 31, 2019, there was \$4,447 (2019 - \$Nil) in trade payables and other payables 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.

	December 31, 2020		December 31, 2019	
	# of common shares	Amount	# of common shares	Amount
Balance, beginning of year	28,791,365	\$ 28,556,354	26,449,280	\$ 26,558,564
Shares issued for cash (i)	-	-	1,500,000	1,275,000
Shares issued on acquisition of royalty interest (ii)	5,000	4,500	525,588	451,750
Shares issued for exercised stock options (note 7c)	-	-	40,754	34,641
Shares issued for compensation (note 6)	450,882	118,471	275,743	236,399
Balance, end of year	29,247,247	\$ 28,679,325	28,791,365	\$ 28,556,354

(i) In Q2 2019, the Company issued 1,500,000 common shares at \$0.85 per share for gross proceeds of \$1,275,000.

(ii) In Q1 2020, The Company issued 5,000 common shares at \$0.90 per share as partial consideration for a GORR. In Q4 2019, the Company issued 390,588 common shares at \$0.85 per share as partial consideration for GORR's. In Q3 2019, the Company issued 35,000 common shares at \$0.85 per share as partial consideration for a GORR. In Q1 2019, the Company issued 100,000 common shares at \$0.90 per share as partial consideration for GORR's (see note 4).

Source Rock Royalties Ltd.
Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

7. SHARE CAPITAL *(continued)*

b) Contributed surplus

Balance, December 31, 2018	\$ 755,900
Share-based compensation (note 7c)	212,295
Exercised stock options	(34,641)
Balance, December 31, 2019	\$ 933,554
Share-based compensation (note 7c)	147,717
Balance, December 31, 2020	\$ 1,081,271

c) Stock options

The Company created a rolling 10% stock option plan which became effective July 2, 2013. The stock option plan provides options for directors, key management personnel and consultants.

A summary of the Company's outstanding stock options as at December 31, 2020 and the changes for the current year, is as follows:

	Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
Balance, December 31, 2018	2,184,500	2.0	\$	1.00
Granted	935,754	4.5	\$	0.81
Expired	(477,500)	-	\$	1.00
Exercised	(40,754)	-	\$	Nil
Balance, December 31, 2019	2,602,000	2.5	\$	0.95
Granted	945,000	4.8	\$	0.40
Expired	(1,057,000)	-	\$	1.00
Balance, December 31, 2020	2,490,000	3.5	\$	0.72

For the year ended December 31, 2020, the Company has recorded \$147,717 (2019 - \$212,295) in share-based compensation expense for the vesting of issued stock options with a corresponding amount credited to contributed surplus. During the year, 1,057,000 stock option expired as a result of these not being exercised prior to the agreement expiring. As of December 31, 2020, the Company has 1,561,667 (2019 - 2,005,304) exercisable stock options.

Source Rock Royalties Ltd.
Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

7. SHARE CAPITAL (continued)

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

	2020	2019
Exercise price	\$0.40	\$0.81
Dividend yield	Nil	Nil
Expected volatility	42.7%	42.7%
Risk-free interest rate	1.5%	1.4%
Expected life	5 year	5 year
Forfeiture Rate	4.8%	4.8%

8. REVENUES

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

Revenue and other revenue by product	2020	2019
Oil	\$ 1,318,551	\$ 2,596,253
Natural Gas	39,951	56,502
NGL	17,247	41,736
Total royalty revenue	\$ 1,375,749	\$ 2,694,491

As at December 31, 2020, there was outstanding accounts receivable of \$326,560 (2019 - \$524,241).

9. TAXES

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

	2020	2019
Share issue costs	\$ 3,903	\$ 7,968
Non-capital loss carry forwards	772,383	513,884
Capital loss carry forwards	21,994	21,999
Petroleum and natural gas interest	(1,314,754)	(3,430,358)
Deferred tax asset not recognized	(21,994)	(21,999)
Deferred tax liability	\$ (538,468)	\$ (2,908,506)

Source Rock Royalties Ltd.

Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

9. TAXES (continued)

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

	2020	2019
Net income (loss) before taxes	\$ (5,226,365)	\$ 520,595
Statutory rate	47.67%	50.17%
Expense/(recovery) at statutory rate	(2,491,408)	261,184
Share-based compensation	70,402	106,508
Rate difference and other	50,968	(245,506)
Deferred tax (recovery) expense	\$ (2,370,038)	\$ 122,186

The continuity of deferred taxes is as follows:

	Balance December 31, 2019	Recognized in statement of comprehensive income	Recognized directly in shareholders' equity	Balance December 31, 2020
Petroleum and natural gas interest	(3,430,358)	2,115,604	-	(1,314,754)
Share issue costs	7,968	(4,065)	-	3,903
Tax loss carry-forwards	513,884	258,499	-	772,383
	(2,908,506)	2,370,038	-	(538,468)

The Company has \$1,654,988 in non-capital loss carry forwards which will start expiring in 2033 and \$94,255 in capital loss carry forwards. The statutory rate decreased from 49.67% to 46.67% due to a decrease in the Alberta provincial tax rate on July 1, 2020. The province of Alberta has further enacted a corporate tax rate decrease of 1% every July 1 over the next three years.

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.

Risk management is carried out by senior management.

Financial instrument classification and measurement

Financial instruments that are recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value of hierarchy has the following levels:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in the markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Cash is based on level 1 input and impairment of long-lived assets is based on level 3 input.

Source Rock Royalties Ltd.

Notes to the Financial Statements

For the years ended December 31, 2020 and December 31, 2019

10. FINANCIAL RISK MANAGEMENT *(continued)*

Fair values

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

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. As at December 31, 2020, the Company's trade receivable balance was subject to normal industry credit risks and was primarily with two royalty payors which accounted for 64% (2019 - 76%) of the trade and other receivable balance and 58% (2019 – 64%) of the revenue balance. The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its royalty payors and the industry in which they operate. The carrying amounts of trade and other receivables and cash and cash equivalents represent the Company's maximum credit exposure.

The Company has recorded an impairment of \$51,242 (2019 - \$nil) in trade and other receivables specific to two customers and the amount of trade receivables that are over 60 days are \$17,949 (2019 - \$22,532).

Accounts Receivable and Accrued Royalty Revenues	2020		2019	
Trade receivable and accrued royalty revenue	\$	415,980	\$	543,271
Allowance for doubtful accounts		(51,242)		-
	\$	364,738	\$	543,271

Liquidity risk

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

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

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S.

dollar as well as macroeconomic events that dictate the levels of supply and demand. During the year ended December 31, 2020, the Company had no commodity price risk related derivative contracts in place.

For the year ended December 31, 2020, the Company's average Canadian light oil price realization was \$40.17/bbl (2019 - \$57.01/bbl). If the price realization increased (decreased) by 5%, with all other variables held constant, net income would have increased (decreased) by approximately \$68,781 (2018 - \$134,724).

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, 2020.

Source Rock Royalties Ltd.
Notes to the Financial StatementsFor the years ended December 31, 2020 and December 31, 2019

12. SUBSEQUENT EVENTS

In January 2021, a dividend of \$146,236 was paid to shareholders, which was approved by Source Rock's Board of Directors on December 23, 2020 for shareholders of record on December 31, 2020.

On March 11, 2021, a dividend of \$439,032 was declared, being \$0.015 per common share, which was approved by Source Rock's Board of Directors for shareholders of record on March 31, 2021 (the "Q1 2021 Dividend"). The Q1 2021 Dividend was paid to shareholders on April 9, 2020.

On March 18, 2021, Source Rock acquired a 2% GORR in lands located in S.E. Saskatchewan for gross proceeds of \$15,189.

On April 30, 2021, Source Rock acquired various GORR in 5,150 net acres of lands located in S.E. for a gross proceeds of \$1,215,000, comprised of \$1,130,000 in cash and \$85,000 in common share at a deemed price of \$1.00 per share.

Management's Discussion and Analysis

Year Ended December 31, 2020

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 months ("Q4 2020") and year ended December 31, 2020, and previous periods, and the outlook for Source Rock based on information available as of December 23, 2021.

The financial information contained herein is based on information in the 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, 2020, together with the accompanying notes.

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. Please refer to the disclosure under the "Non-GAAP Financial Measures", and "Forward-Looking Statements" sections of this MD&A.

SUMMARY OF RESULTS

	Three Months Ended December 31,			Year Ended December 31,		
FINANCIAL (\$)	2020	2019	Change	2020	2019	Change
Royalty revenue	462,992	743,838	-37.8%	1,375,749	2,694,491	-48.9%
General & administrative expenses	75,956	72,231	5.2%	346,281	340,218	1.8%
Percentage of revenue	16.4%	9.7%	69.1%	25.2%	12.6%	100.0%
Net income (loss)	(2,672,410)	282,200	-	(2,856,327)	398,409	-
Per share (basic)	(0.092)	0.010	-	(0.099)	0.014	-
Per share (diluted)	(0.092)	0.009	-	(0.099)	0.014	-
Funds from operations ⁽¹⁾	387,214	675,737	-42.7%	1,033,422	2,368,054	-56.4%
Percentage of revenue	83.6%	90.8%	-7.9%	75.1%	87.9%	-14.6%
Per share (basic)	0.0133	0.0236	-43.6%	0.0356	0.0858	-58.5%
Dividends paid	-	425,636	-	863,815	1,642,258	-47.4%
Per share	-	0.015	-	0.03	0.06	-50.0%
Payout ratio	-	63.0%	-	83.6%	69.4%	20.5%
Cash and cash equivalents	913,560	1,316,711	-30.6%	913,560	1,316,711	-30.6%
Per share (basic)	0.031	0.046	-32.6%	0.031	0.046	-35.4%
Average shares outstanding (basic)	29,165,997	28,667,958	1.7%	29,001,311	27,603,111	5.1%
Shares outstanding (end of period)	29,247,247	28,791,365	1.6%	29,247,247	28,791,365	1.6%
OPERATING						
Average daily production (boe/d)	114.6	144.7	-20.8%	93.8	129.4	-27.5%
Percentage light oil & NGLs	93.8%	88.9%	5.5%	92.1%	88.9%	3.6%
Average price realizations (\$/boe)	43.93	55.88	-21.4%	40.17	57.01	-29.5%
Netback (\$/boe) ⁽²⁾	37.54	50.77	-26.1%	30.18	50.11	-39.8%

(1) See "Non-GAAP Financial Measures".

(2) Calculated as "Funds from Operations" divided by cumulative production volumes for the period.



SOURCE ROCK
ROYALTIES LTD.

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 ("NGL") and natural gas, exclusively in western Canada. Source Rock receives revenue from its royalty interests in lands as reserves are produced by the operators over the economic life of the properties. Source Rock is exclusively focused on acquiring and managing oil and gas royalties and mineral interests.

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 and Manitoba.
- A production volume royalty in Viking mineral rights in the Hamilton Lake area of east-central Alberta.
- Various GORR's in west-central Alberta.
- Various GORR's in the west-central Saskatchewan Viking light oil play.

Source Rock is actively pursuing the acquisition of additional GORR's, 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, NGL 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 actively drilling in the areas where our royalty lands are located. In addition, our focus will be on royalties in areas that are providing top quartile 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 cash flow 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 increased by 4.3% to \$42.70 (US\$) in Q4 2020 compared to the third quarter of 2020 ("Q3 2020") and was 24.9% lower than during the fourth quarter of 2019 ("Q4 2019"). Source Rock's realized price on crude oil is primarily based on Edmonton Par. During Q4 2020, the Edmonton Par crude oil price differential to WTI remained near historically normal levels. The Edmonton Par crude oil price averaged \$50.33 (C\$), compared to \$49.84 (C\$) in Q3 2020 and \$67.96 (C\$) in Q4 2019. Despite a modest increase in oil prices during Q4 2020, they remained materially below historical levels.

BENCHMARK AVERAGES	Three months Ended December 31,			Twelve months Ended December 31,		
	2020	2019	Change	2020	2019	Change
WTI oil (US\$/bbl)	42.70	56.87	-24.9%	39.34	57.04	-31.0%
Edmonton par oil (C\$/bbl)	50.33	67.96	-25.9%	45.62	69.19	-34.1%
Condensate Stream (C\$/bbl)	55.47	69.83	-20.6%	49.74	70.13	-29.1%
AECO natural gas price (C\$/mcf)	2.77	2.34	18.4%	2.24	1.62	38.3%
Cdn\$/US\$ exchange rate	1.30	1.32	-1.5%	1.34	1.33	0.8%

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

Q2 2020 saw unprecedented challenges to our business resulting directly and indirectly from the price of oil temporarily crashing to an all-time low. The oil price headwinds not only hurt revenue from royalty production, but it also created indirect challenges for us due to pressure on the businesses of our royalty payors. During Q2 2020 we saw a significant amount of our royalty production shut-in. In Q3 2020, we saw a portion of this shut-in production turned back on, and by December 2020 operations had largely returned to pre-COVID levels. During Q3 2020 we amended our largest royalty interest to facilitate having it begin to produce again and this was further amended in Q4 2020 (see "*Operational Update, Outlook & Forecasts - Revised Royalty Terms*"). As a result of these ongoing business and industry headwinds we did not pay a quarterly dividend in Q2 or Q3 2020, but did reinstate a dividend of \$0.005 per share in December 2020 (see "*Subsequent Events*").

The marketplace for existing royalties is active, as both junior and senior oil and gas operators seek to dispose of non-core assets. We anticipate no change in this pattern as certain producers continue to struggle to capitalize their exploration and development programs and other producers seek to consolidate assets and focus operations on their core areas.

The same market dynamics that are spurring an active market for acquiring existing royalties are also resulting in opportunities to work with issuers to establish relationships and create royalties in their existing production and undeveloped mineral interests to provide otherwise expensive, or potentially inaccessible, development capital. This opportunity has seemingly been broadened as most of the junior and intermediate oil and gas issuers have experienced significant decreases in their equity prices from the levels of past years, thus greatly increasing their 'cost of capital' in terms of issuing equity to finance their ongoing capital expenditure programs. Market conditions are ultimately resulting in certain operators being more open to discussing and reviewing creative royalty transactions and/or disposing of existing

royalties being received from third parties. Despite the increased availability of royalty acquisitions, the royalty market continues to be competitive for royalties in the highest quality regions of the WCSB.

Operational Update, Outlook & Forecasts

Acquisition Activities

During the year ended December 31, 2020, various 2% to 3% GORR's were acquired in land located in S.E. Saskatchewan. The total purchase price for these GORR's was \$439,364, which was comprised of \$434,864 in cash and \$4,500 in common shares of Source Rock at a deemed price of \$0.90 per share.

In January 2020, Source Rock acquired a right, but not an obligation, to acquire a 2% GORR (an "intangible asset") in all oil and gas interests purchased or earned by a private S.E. Saskatchewan entity (the "Royalty Option"), for proceeds of \$250,000. The purchase price for GORR's acquired pursuant to the Royalty Option is calculated based on a pre-determined metric that goes down when WTI is lower and increases when WTI is higher.

We are actively evaluating and negotiating several additional non-marketed acquisition opportunities. We continue to be confident in our ability to secure additional royalty acquisitions on accretive metrics. We will continue to be specific with respect to the types of acquisitions that we pursue and will not expend shareholder capital on acquisitions purely for the sake of achieving growth. See "*Subsequent Events*".

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 (the "Operator") resume production efficiently, Source Rock previously agreed to temporary revised terms relating to its royalty interest in these lands, and 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 June 30, 2021 (the "Additional Interim Period"), Source Rock's entitlement to royalty production from the Alberta Viking Lands will be determined based on the realized sales price (Cdn \$) for oil production during each calendar month, as follows:

<u>Monthly Average Price</u>	<u>Royalty Production</u>
\$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

Source Rock has an option, in its sole discretion, to extend the revised terms for the Additional Interim Period to December 31, 2021 (see "*Subsequent Events*"). Source Rock's entitlement to production from the Alberta Viking Lands is 95 bbl/d for calendar year 2021. As of December 31, 2020, Source Rock had an accrued right to 16,650 barrels of light oil production (the "Accumulated Barrels") that were not delivered pursuant to the terms of the Alberta Viking Lands royalty agreement. During the Additional Interim Period, if Source Rock does not receive 95 bbl/d because the realized sales price for light oil is \$67.50 (Cdn) or less, then the shortfall will be added to the Accumulated Barrels and will remain a future entitlement to royalty production from the Alberta Viking Lands.

During the Additional Interim Period, Source Rock and the Operator will continue to undertake good faith negotiations to restructure Source Rock's royalty interest in the Alberta Viking Lands. The mutual goal is to better position the Alberta Viking Lands for long-term optimal development through all market cycles, and to maximize present and future value for both Source Rock and the Operator.

Acquisition Marketplace Discussion

The current market conditions in the oil and gas industry are resulting in a marketplace for royalties that is abundant and attractive. Despite the royalty market generally being competitive, Source Rock continues to identify acquisition opportunities that are not being marketed for sale and which are attractive acquisitions at the right price. Source Rock is being prudent and patient with its acquisition strategy, however it is also selectively pursuing growth through acquisitions and is striving to strategically expand its portfolio of royalty interests. Our acquisition strategy will continue to focus on specific regions of the WCSB and building a strong base of royalty revenue primarily from light oil production. We will strategically look to obtain a modest amount of natural gas royalty exposure. Given the competitive landscape of the royalty market, we are keen on establishing formal working relationships with operators through which we can position exclusive future acquisition opportunities.

The abrupt widening of the differential between Canadian crude oil prices and WTI in Q4 2018, and the sudden and severe collapse of prices in March & April 2020, have created new dynamics and risks to evaluate with respect to future acquisitions, including but not limited to: (i) the risk of light oil production being uneconomic to produce, and as a result, the potential for it to be shut-in; and (ii) the price benefits that can be derived from oil production that is sold at sales points that are typically less exposed to Canadian oil price differential issues.

Subsequent Events

In January 2021, a \$0.005 per share dividend was paid to shareholders of record on December 31, 2020.

In March 2021, Source Rock acquired a 2% GORR in lands located in S.E. Saskatchewan for proceeds of \$15,189.

In April 2021, a \$0.015 per share dividend was paid to shareholders of record on March 31, 2021.

In April 2021, Source Rock elected to extend the Additional Interim Period for its royalty in the Alberta Viking Lands to December 31, 2021.

In April 2021, Source Rock acquired various GORR's in lands located in S.E. Saskatchewan for proceeds of \$1,215,000, comprised of \$1,130,000 in cash and \$85,000 in common shares at a deemed price of \$1.00 per share.

QUARTERLY HIGHLIGHTS

Q4 2020 Highlights

- Royalty revenue decreased by \$280,846 (-37.8%) to \$462,992 as compared to Q4 2019, which totalled \$743,838.
- Royalty production averaged 114.6 boe/d (93.8% oil & NGLs), a decrease of 20.8% compared to Q4 2019, which averaged 144.7 boe/d (88.9% oil & NGLs).
- Average realized price for royalty production was \$43.93 per boe (93.8% oil & NGLs), a decrease of 21.4% as compared to \$55.88 per boe (88.9% oil & NGLs) in Q4 2019.
- Funds from operations decreased by \$288,523 to \$387,214 (83.6% of revenue), a decrease of 42.7% as compared to \$675,737 (90.8% of revenue) in Q4 2019. This represents a decrease of 43.6% on a per share basis.
- Achieved a netback of \$37.54 per boe.
- Ended Q4 2020 with available cash and cash equivalents of \$913,560 (2019 - \$1,316,711).
- Declared a \$0.005 per share dividend for shareholders of record on December 31, 2020.

Annual 2020 Highlights:

- Closed various acquisitions for total net proceeds of \$439,364, comprised of \$434,862 in cash and \$4,500 in common shares.
- Royalty revenue decreased by \$1,318,742 (-48.9%) to \$1,375,749 as compared to 2019, which totalled \$2,694,491.
- Royalty production averaged 93.8 boe/d (92.1% oil & NGLs), a decrease of 27.5% compared to 2019, which averaged 129.4 boe/d (88.9% oil & NGLs).
- Average realized pricing for royalty production was \$40.17 per boe (92.1% oil & NGLs), a decrease of 29.5% as compared to \$57.01 per boe (88.9% oil & NGLs) during 2019.
- Funds from operations decreased by \$1,334,632 to \$1,033,422 (75.1% of revenue), a decrease of 56.4% compared to \$2,368,054 (87.9% of revenue) in 2019. This represents a decrease of 58.5% on a per share basis.
- Achieved a netback of \$30.18 per boe.
- Declared two quarterly dividends which totalled \$0.02 per common share.

ROYALTY PRODUCTION & REVENUE

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Average daily production (boe/d)	114.6	144.7	93.8	129.4
Percentage light oil & NGLs	93.8%	88.9%	92.1%	88.9%
Average realized price (\$/boe)	43.93	55.88	40.17	57.01
Royalty revenue	\$ 462,992	\$ 743,838	\$ 1,375,749	\$ 2,694,491

For Q4 2020, royalty revenue decreased by \$280,846 (-37.8%) to \$462,992 as compared to Q4 2019, which totalled \$743,838. The decrease in revenue resulted from lower production volumes and lower realized oil prices. For Q4 2020,

royalty production averaged 114.6 boe/d (93.8% oil & NGLs), a decrease of 20.8% compared to Q4 2019, which averaged 144.7 boe/d (88.9% oil & NGLs). For Q4 2020, the average realized price for royalty production was \$43.93 per boe (93.8% oil & NGLs), a decrease of 21.4% compared to \$55.88 per boe (88.9% oil & NGLs) in Q4 2019.

For the year ended December 31, 2020, royalty revenue decreased by \$1,318,742 (-48.9%) to \$1,375,749 as compared to 2019, which totalled \$2,694,491. The decrease in revenue resulted from lower production volumes and lower realized oil prices. For the year ended December 31, 2020, royalty production averaged 93.8 boe/d (92.1% oil & NGLs), a decrease of 27.5% as compared to 2019, which averaged 129.4 boe/d (88.9% oil & NGLs). For the year ended December 31, 2020, the average realized price for royalty production was \$40.17 per boe (92.1% oil & NGLs), a decrease of 29.5% as compared to \$57.01 per boe (88.9% oil & NGLs) for 2019.

Given the size and industry experience 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' and will assess on an ongoing basis whether there is a benefit to Source Rock to exercise this option.

EXPENSES

OPERATING EXPENSE

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

ADMINISTRATIVE EXPENSES

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Administrative expenses	\$ 75,956	\$ 72,231	\$ 346,281	\$ 340,218

General and administrative expenses ("G&A") primarily consisted of consulting fees and professional fees. For Q4 2020, G&A increased by \$3,725 (5.2%) to \$75,956 as compared to \$72,231 in Q4 2019. The increase primarily resulted from slightly higher consulting and professional fees. For the year ended December 31, 2020, G&A increased by \$6,063 (1.8%) to \$346,281 as compared to \$340,218 for 2019. The increase primarily resulted from slightly higher consulting and professional fees, as well as a charitable donation, but was partially offset by lower office and supply expenses.

RELATED PARTY TRANSACTIONS

Key personnel include the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary and the Directors of Source Rock. For the three and twelve month periods ended December 31, 2020 and 2019, Source Rock incurred the following items with key personnel:

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Consulting fees	\$ 62,250	\$ 58,200	\$ 283,500	\$ 278,888
Share-based compensation ⁽¹⁾	110,719	99,138	266,188	448,694
Total fees	\$ 172,969	\$ 157,338	\$ 549,688	\$ 727,582

(1) See "Share-based Compensation".



In addition, during the three and twelve month periods ended December 31, 2020, \$1,378 (2019 - \$470) and \$11,987 (2019 - \$14,483), respectively, was paid to a law firm at which the Corporate Secretary of the Corporation is a Partner. These fees primarily related to general corporate matters and work associated with various acquisition initiatives.

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 December 31, 2020, there was \$4,447 (2019 - \$Nil) in trade payables and accrued liabilities relating to these transactions.

SHARE-BASED COMPENSATION

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Share-based compensation	\$ 110,719	\$ 99,138	\$ 266,188	\$ 448,694

Share-based compensation includes share-based consulting fees and a charge for stock options. During the three months ended December 31, 2020, 115,000 (2019 - 25,059) common shares were issued as one-time compensation to management in lieu of cash compensation and this was recorded as share-based compensation in the amount of \$34,500 (2019 - \$21,300). The remaining balance of the share-based compensation charge was recorded for the vesting of stock options to key personnel in the amount of \$76,219 (2019 - \$77,838). For the twelve months ended December 31, 2020, 450,882 (2019 - 275,743) common shares were issued to management in lieu of cash compensation and this was recorded as stock-based compensation in the amount of \$118,471 (2019 - \$236,399). The remaining balance of the share-based compensation charge was recorded for the vesting of stock options to key personnel in the amount of \$147,717 (2019 - \$212,295).

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. See "Shares Outstanding".

DEPLETION

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Depletion	\$ 318,799	\$ 393,721	\$ 1,036,501	\$ 1,398,765
Per boe (\$)	30.24	29.58	30.27	29.60

Royalty interests are depleted on the unit-of-production method based on an internal estimate of proved plus probable oil, NGL and natural gas reserves. For the three and twelve month periods ended December 31, 2020, the depletion expense was \$318,799 (2019 - \$393,721) and \$1,036,501 (2019 - \$1,398,765), respectively. The decrease for depletion amounts during these periods was the direct result of the combined fair value assigned to the estimated reserves at the time of the Corporation's acquisitions and the period production mix. The cost per barrel of oil equivalent of production was \$30.24 and \$30.27, during the periods, respectively, based on the combined fair value assigned to the estimated reserves at the time of the Corporation's acquisitions and the period production mix.

IMPAIRMENT

During the year, there were indicators of impairment due to the significant change in commodity demand and pricing due to COVID-19. As a result, Source Rock performed impairment tests across all CGUs as at December 31, 2020. The recoverable amounts were determined using fair value less cost to sell. As a result of impairment testing the following impairment charge was taken:

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Impairment	\$ 4,905,855	\$ -	\$ 4,905,855	\$ -

OTHER INCOME

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Interest	\$ 178	\$ 4,130	\$ 3,954	\$ 13,781

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 term deposits that currently pay less than 1.00% interest on an annualized basis.

INCOME TAXES

The Corporation is presently classified as a "specified investment business" pursuant to the Income Tax Act of Canada. As a result, the Corporation's taxable income will be taxed at the highest effective tax rate of 47.67% (2019 – 50.17%). However, the Corporation's effective tax rate can be reduced by way of dividend refund credits upon payment of dividends to its shareholders following all of its tax loss carry forwards being used.

Tax Pools

The Corporation is entitled to claim certain tax deductions available to all owners of oil and gas properties. For Source Rock, the principal deduction is the Canadian Oil and Gas Property Expense. Source Rock's tax pools are relatively modest as we have low capital expenditure requirements due to the nature of our royalty interests.

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 seasonable predictability.

	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Royalty revenue	\$ 462,992	\$ 217,754	\$ 84,653	\$ 610,349
Net income/(loss)	\$ (2,672,410)	\$ (84,051)	\$ (112,808)	\$ 12,942
Per share (basic)	\$ (0.092)	\$ (0.003)	\$ (0.004)	\$ 0.000
Per share (diluted)	\$ (0.092)	\$ (0.003)	\$ (0.004)	\$ 0.000
Funds from operations ⁽¹⁾	\$ 387,214	\$ 122,607	\$ 3,687	\$ 519,914
Average daily production (boe/d)	114.6	56.2	40.2	163.6
Percentage oil & NGLs	93.8%	95.1%	92.0%	89.8%
Current assets	\$ 1,305,122	\$ 935,022	\$ 822,168	\$ 1,465,553
Total assets	\$ 16,460,755	\$ 21,286,412	\$ 21,332,88	\$ 21,924,438
Payable and accrued liabilities	\$ 170,218	\$ 15,986	\$ 25,739	\$ 454,406
Shareholder equity	\$ 15,752,069	\$ 18,459,993	\$ 18,440,460	\$ 18,527,327
Weighted average number of shares outstanding (basic)	29,165,997	28,931,448	28,796,365	28,793,948

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Royalty revenue	\$ 743,838	\$ 643,029	\$ 695,735	\$ 611,889
Net income/(loss)	\$ 282,200	\$ (94,142)	\$ 123,206	\$ 87,145
Per share (basic)	\$ 0.010	\$ (0.003)	\$ 0.005	\$ 0.003
Per share (diluted)	\$ 0.009	\$ (0.003)	\$ 0.004	\$ 0.003
Funds from operations ⁽¹⁾	\$ 675,737	\$ 520,950	\$ 625,631	\$ 545,738
Average daily production (boe/d)	144.7	124.5	125.4	123.1
Percentage oil & NGLs	88.9%	89.4%	89.2%	88.1%
Current assets	\$ 1,865,854	\$ 2,515,377	\$ 2,820,202	\$ 1,338,151
Total assets	\$ 22,274,479	\$ 22,081,796	\$ 22,289,570	\$ 21,143,681
Payable and accrued liabilities	\$ 450,083	\$ 439,546	\$ 432,003	\$ 429,202
Shareholder equity	\$ 18,915,889	\$ 18,634,423	\$ 18,833,171	\$ 17,827,170
Weighted average number of shares outstanding (basic)	28,667,958	28,310,946	26,903,549	26,498,374

(1) See "Non-GAAP Financial Measures".

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Relating to Operating Activities and Working Capital

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Cash flows from operating activities	\$ 176,720	\$ 600,834	\$ 1,145,528	\$ 2,042,395
Change in non-cash working capital balances	210,494	74,903	(112,106)	325,659
Funds from operations ⁽¹⁾	\$ 387,214	\$ 675,737	\$ 1,033,422	\$ 2,368,054
Per Share (\$)	0.0133	0.0236	0.0356	0.0858

(1) See "Non-GAAP Financial Measures".

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 G&A expenses with the remainder to be retained to fund future capital expenditures and dividends.

As at December 31, 2020, 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 December 31, 2020, Source Rock had an overall positive working capital balance ("current assets" less "current liabilities" as defined by Canadian GAAP) of \$1,134,904 (2019 - \$1,415,771).

Financing Activities

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Dividends paid to shareholders'	\$ -	\$ (425,636)	\$ (863,815)	\$ (1,642,260)
Issuance of share capital, net of costs	-	-	-	1,275,000
Cash flows from (used in) financing activities	\$ -	\$ (425,636)	\$ (863,815)	\$ (367,260)

During Q4 2020, dividends paid was \$nil (Q4 2019 - \$425,636). During the twelve months ended December 31, 2020, dividends paid was \$863,816 (2019 - \$1,642,260).

Investing Activities

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Purchase of petroleum and natural gas interests	\$ -	\$ (903,926)	\$ (434,864)	\$ (1,650,225)
Purchase of intangibles	-	-	(250,000)	-
Cash flows from (used in) investing activities	\$ -	\$ (903,926)	\$ (684,864)	\$ (1,650,225)



2020:

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

2019:

- On November 14, 2019, Source Rock acquired a 1% GORR in land located in west-central Alberta for \$401.
- On October 24, 2019, Source Rock acquired two sliding-scale GORR's in land located in S.E. Saskatchewan. The net purchase price was \$1,235,525, comprised of \$903,525 in cash and \$332,000 in common shares at a price of \$0.85 per share.
- On September 10, 2019, Source Rock acquired a 2% GORR in land located in Central Alberta. The net purchase price was \$109,240, comprised of \$87,990 in cash and \$21,250 in common shares at a price of \$0.85 per share.
- On August 9, 2019, Source Rock acquired a 2% GORR in land located in Central Alberta. The net purchase price was \$219,692. An area of mutual interest ("AMI") was established that grants Source Rock the right to acquire a GORR in additional lands acquired by the Vendor within the AMI prior to December 31, 2021.
- On July 2, 2019, Source Rock acquired a 3% GORR in land located in S.E. Saskatchewan. The net purchase price was \$108,500, comprised of \$100,000 in cash and \$8,500 in common shares at a price of \$0.85 per share.
- On June 3, 2019, Source Rock acquired a 1% GORR in land located in west-central Alberta for \$37.
- On March 29, 2019, Source Rock closed the farm-out of certain lease interests in S.E. Saskatchewan to a private company in exchange for a \$5,000 cash payment and a 3.5% GORR in the lands.



- On March 15, 2019, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan. The net purchase price for the acquisition was \$220,310 (including acquisition costs), comprised of \$175,310 in cash and \$45,000 in common shares at a deemed price of \$0.90 per share.
- On January 31, 2019, Source Rock acquired various GORR's (1% to 4%) and lease rights (12.5% to 50%) located in S.E. Saskatchewan. The net purchase price for the acquisition was \$226,195 (including acquisition costs), comprised of \$181,195 in cash and \$45,000 in common shares at a deemed price of \$0.90 per share.
- In Q1 2019, Source Rock settled the final purchase price of an acquisition completed in Q4 2018, and this resulted in a reduction of the purchase price by \$12,925.

Shares Outstanding

	December 31, 2020	December 31, 2019
Basic common shares outstanding at end of period	29,247,247	28,791,365
Common share stock options outstanding at end of period ⁽¹⁾	2,490,000	2,602,000
Total diluted common shares outstanding at end of period	31,737,247	31,393,365

(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 July 1, 2017, which vested 1/3 upon issuance and will vest 1/3 every year thereafter, have a 5-year term and are exercisable at \$1.00 per stock option.

DIVIDEND POLICY

On December 15, 2020, the Corporation's Board of Directors approved the payment of a \$0.005 per share quarterly dividend for shareholders of record on December 31, 2020. A cumulative dividend payment of \$146,236 was paid to shareholders on January 31, 2021.

The Board of Directors will continue to review the ability of the Corporation to pay a dividend on a quarterly basis. Factors assessed during this review include commodity prices, economic conditions, production volumes, tax payable and our capacity to finance operations and anticipated acquisitions. Paying a quarterly dividend will continue to occur if the Board of Directors believes that paying such a dividend would not put our balance sheet in a weak or vulnerable position, nor would it prevent us from completing desired acquisitions. Our goal is to balance payment of a dividend with growth of our portfolio of royalties and ensure that our balance sheet remains strong. The Board of Directors will specifically conduct a quarterly assessment regarding whether the typical dividend amount for the Corporation is payable with anticipated funds from operations on a calendar year basis. If the Board of Directors estimates that the typical quarterly dividend amount paid will result in a pay-out of funds in excess of the Corporation's estimated calendar year funds from operations, then it may reduce the typical dividend, or eliminate it entirely.

NON-GAAP FINANCIAL MEASURES

This MD&A contains references to "funds from operations" which is a non-GAAP financial measure and the term "payout ratio" which is a non-GAAP ratio. 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.

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.

"Payout ratio" is calculated as the aggregate of cash dividends paid 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.

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

Source Rock has adopted the standard 6 Mcf:1 barrel when converting natural gas to boe. Boe may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf: 1 barrel ratio 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 than the energy equivalency of the 6:1 conversion ratio, utilizing the 6:1 conversion rate 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 either brad@sourcerockroyalties.com or sean@sourcerockroyalties.com.

Forward-Looking Statements

This document offers our assessment of Source Rock's future plans and operations as at April 29, 2021, 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.⁽¹⁾
Chairman

Brody Loster, P. Geo
Independent

Shaun Thiessen, B. Comm
Independent

Jordan Kevol, B. Sc. Geology
Independent

Gary McMurren, P. Eng⁽¹⁾⁽²⁾
Independent

Dean Potter, P. Geo
Independent

Scott Rideout⁽²⁾
Independent

John Bell, C.A.⁽¹⁾⁽²⁾
Chair of Audit Committee

(1) Audit Committee.

(2) Compensation Committee.

Officers

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

Sean Clausen, C.A.
Chief Financial Officer

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

Advisors

Legal Counsel
Dentons Canada LLP

Auditors
MNP LLP

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.

APPENDIX "A"

AUDIT COMMITTEE CHARTER

SOURCE ROCK ROYALTIES LTD. (THE "CORPORATION")

1. Policy Statement

It is the policy of the Corporation to establish and maintain an Audit Committee (the "**Committee**") to assist the directors (individually a "**Director**" and collectively the "**Board**") of the Corporation in carrying out the Board's oversight responsibility for the accounting, internal controls, financial reporting, audits of financial statements and risk management processes of the Corporation.

The Committee shall be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including appropriate administrative support. Without limiting the generality of the foregoing, the Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment of: (a) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Corporation; (b) compensation to any advisers engaged by the Committee under section 4(c)(iii) of this charter; and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

If determined appropriate by the Committee, it shall have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or other experts. The Committee shall have unrestricted access to the Corporation's external auditors, is authorized to seek any information that it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

2. Composition of Committee

- (a) The Committee shall be established by a resolution of the Board. The Committee shall consist of a minimum of three (3) Directors. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Compensation and Corporate Governance Committee in identifying qualified candidates. The Board shall appoint one member of the Committee to be the chair of the Committee (the "**Chair**").
- (b) A majority of the members of the Committee shall be Directors who are independent within the meaning of National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"), and the rules of any stock exchange or market on which the Corporation's shares are listed or posted for trading (collectively, "**Applicable Governance Rules**") and the Chair of the Committee shall be independent.
- (c) All members of the Committee must be able to read and understand fundamental financial statements (including a balance sheet, income statement and cash flow statement) and read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.
- (d) A Director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

3. **Meetings of the Committee**

- (a) The Committee shall convene a minimum of four times each year at such times and places as may be determined by the Chair of the Committee, and whenever a meeting is requested by the Board, a member of the Committee, the auditors or senior management of the Corporation. Scheduled meetings of the Committee shall correspond with the review of the quarterly and year-end financial statements and management's discussion and analysis.
- (b) Notice of each meeting of the Committee shall be given to each member of the Committee.
- (c) Notice of a meeting of the Committee shall:
 - (i) be in writing, which includes electronic communication facilities;
 - (ii) state the nature of the business to be transacted at the meeting in reasonable detail;
 - (iii) to the extent practicable, be accompanied by a copy of any documentation to be considered at the meeting; and
 - (iv) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
- (d) A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of important matters by all members of the Committee.
- (e) A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permits all persons participating in the meeting to communicate with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
- (f) In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to chair the meeting. In addition, the members of the Committee shall choose one of the persons present to be the secretary of the meeting.
- (g) The Committee may invite such persons to attend meetings of the Committee as the Committee considers appropriate, except to the extent exclusion of certain persons is required pursuant to this charter or by applicable laws.
- (h) The Committee may invite the external auditors to be present at any meeting of the Committee and to comment on any financial statements, or on any of the financial aspects, of the Corporation.
- (i) The Committee (i) shall meet with the external auditors separately from individuals other than the Committee and (ii) may meet separately with management of the Corporation.
- (j) Minutes shall be kept of all meetings of the Committee and shall be signed by the chair and the secretary of the meeting. The Chair of the Committee shall circulate the minutes of the meetings of the Committee (which may be in draft form) to all members of the Board.

4. **Duties and Responsibilities of the Committee**

- (a) The Committee, in its capacity as a committee of the Board, is directly responsible for recommending to the Board the public accounting firm to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation (the "**external auditor**") as well as the compensation of the external auditor. The

Committee shall also be directly responsible for the oversight of the work of the external auditor (including resolution of disagreements between management and the auditor regarding financial reporting), and each such external auditor must report directly to the Committee.

- (b) The other primary duties and responsibilities of the Committee are to:
 - (i) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
 - (ii) monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
 - (iii) monitor the independence, objectivity and performance of the external auditors, including, without limitation: (A) ensuring the Committee's receipt from the external auditors at least annually of a formal written statement delineating all relationships between the external auditors and the Corporation; (B) actively engaging in dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor; and (C) taking, or recommending that the Board take, appropriate action to oversee the independence of the external auditors;
 - (iv) evaluate the performance of the external auditors at least annually;
 - (v) deal directly with the external auditors to approve external audit plans, other services (if any) and fees;
 - (vi) directly oversee the external audit process and results (in addition to items described in subsection 4(e) below);
 - (vii) provide an avenue of communication between the external auditors, management and the Board;
 - (viii) review annually with management of the Corporation the anti-fraud, anti-bribery, anti-corruption and risk assessment programs of the Corporation;
 - (ix) carry out a review designed to ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual; and
 - (x) oversee all pension and retirement benefit plans if and when established.
- (c) The Committee shall have the authority to:
 - (i) inspect any and all of the books and records of the Corporation and its subsidiaries;
 - (ii) discuss with the management of the Corporation and its subsidiaries, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers appropriate;
 - (iii) engage independent counsel and other advisors as it determines necessary to carry out its duties; and
 - (iv) set and pay the compensation for any advisors engaged by the Committee.

Relationship with the Board

- (d) The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as considered appropriate.

Relationship with External Auditors

- (e) The Committee shall:

- (i) review the audit plan with the external auditors and with management;
- (ii) review with the external auditors the critical accounting policies and practices used by the Corporation, all alternative treatments of financial information within international financial reporting standards ("IFRS") that the external auditors have discussed with management, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the external auditors;
- (iii) discuss with management and the external auditors any proposed changes in major accounting policies or principles, the presentation and impact of material risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;
- (iv) review with management and with the external auditors material financial reporting issues arising during the most recent financial period and the resolution or proposed resolution of such issues;
- (v) review any problems experienced or concerns expressed by the external auditors in performing any audit, including any restrictions imposed by management or any material accounting issues on which there was a disagreement with management;
- (vi) review with the external auditors any accounting adjustments that were noted or proposed by the independent auditor but that were "passed" (as immaterial or otherwise), any communications between the audit team and the external auditor's national office respecting auditing or accounting issues presented by the engagement, any "management" or "internal control" letter or schedule of unadjusted differences issued, or proposed to be issued, by the external auditors to the Corporation, or any other material written communication provided by the external auditors to the Corporation's management;
- (vii) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;
- (viii) review and discuss with management and the external auditors any off-balance sheet transactions or structures and their effect on the Corporation's financial results and operations, as well as the disclosure regarding such transactions and structures in the Corporation's public filings;
- (ix) review the audited annual financial statements (including management's discussion and analysis) and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all material variances between comparative reporting periods;
- (x) consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and

management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls and procedures for financial reporting of the Corporation and subsequent follow-up to any identified weaknesses;

- (xi) review with financial management and the external auditors the quarterly unaudited financial statements and management's discussion and analysis before release to the public;
 - (xii) periodically meet separately with management and the external auditors;
 - (xiii) oversee the financial affairs of the Corporation and its subsidiaries, and, if deemed appropriate, make recommendations to the Board, external auditors or management;
 - (xiv) discuss with management and the external auditors any correspondence with regulatory or governmental agencies that raise material issues regarding the Corporation's financial statements or accounting policies;
 - (xv) consider the recommendations of management in respect of the appointment and terms of engagement of the external auditor;
 - (xvi) pre-approve all audit and non-audit services to be provided to the Corporation or its subsidiaries by its external auditors, or the external auditors of subsidiaries of the Corporation, subject to the overriding principle that the external auditors not be permitted to be retained by the Corporation to perform internal audit outsourcing services or financial information systems services; provided that notwithstanding the above, the foregoing pre-approval of non-audit services may be delegated to a member of the Committee, with any decisions of the member with the delegated authority presented to the Committee at the next scheduled meeting;
 - (xvii) approve the engagement letter for non-audit services to be provided by the external auditors or affiliates thereof together with estimated fees, and consider the potential impact of such services on the independence of the external auditors;
 - (xviii) when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the notice of change of auditors and documentation required pursuant to the then current legislation, rules, policies and instruments of applicable regulatory authorities and the planned steps for an orderly transition period; and
 - (xix) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable laws, on a routine basis, whether or not there is to be a change of the external auditors.
- (f) In connection with the public disclosure of financial information and other public disclosure, the Committee shall:
- (i) review the Corporation's financial statements, management's discussion and analysis, and annual and interim profit or loss press releases before the Corporation publicly discloses this information;
 - (ii) review with management its evaluation of the Corporation's procedures and controls designed to assure that information required to be disclosed in the Corporation's periodic public reports is recorded, processed, summarized and

reported in such reports within the time periods specified by applicable securities laws for the filing of such reports ("**Disclosure Controls**"), and consider whether any changes are appropriate in light of management's evaluation of the effectiveness of such Disclosure Controls;

- (iii) establish a policy, which may include delegation to an appropriate member or members of management, for release of earnings press releases as well as for the release of financial information and earnings guidance provided to analysts and rating agencies;
- (iv) satisfy itself that adequate procedures are in place for the review of the Corporation's public information extracted from the Corporation's financial statements, other than the public information reviewed in accordance with section 4(f)(i), and periodically assess the adequacy of those procedures;
- (v) to the extent deemed appropriate, review and supervise the preparation by management of:
 - A. the annual information forms, management information circulars and annual and interim financial statements of the Corporation and any other information of the Corporation filed by the Corporation with the applicable securities regulators;
 - B. press releases of the Corporation containing financial information, earnings guidance, forward-looking statements, information about operations or any other material information;
 - C. correspondence broadly disseminated to shareholders of the Corporation; and
 - D. other relevant written and oral communications or presentations;
- (vi) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management's discussion and analysis, and press releases, focusing particularly on:
 - A. any changes in accounting policies and practices;
 - B. any important areas where judgment must be exercised;
 - C. significant adjustments resulting from the audit;
 - D. the going concern assumption, if any;
 - E. compliance with accounting standards; and
 - F. compliance with stock exchange and legal requirements;
- (g) The Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters which are directed to the Committee by any member of the Board, a shareholder of the Corporation, the external auditors or senior management.
- (h) The Committee shall periodically review with management the need for an internal audit function.

- (i) The Committee shall review the accounting and reporting of costs, liabilities and contingencies of the Corporation.
- (j) The Committee shall periodically discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- (k) The Committee shall establish, monitor and review policies and procedures for internal accounting, financial control and management information.
- (l) The Committee shall periodically discuss with management the Corporation's process for performing its quarterly certifications pursuant to National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.
- (m) The Committee shall review with the Chief Executive Officer and Chief Financial Officer of the Corporation any report on significant deficiencies in the design or operation of the internal controls that could adversely affect the Corporation's ability to record, process, summarize or report financial data, any material weaknesses in internal controls identified to the auditors, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls.
- (n) The Committee shall establish and maintain procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting practices, accounting controls, or auditing practices;
 - (ii) the confidential, anonymous submission by directors, officers, employees, consultants and contractors of the Corporation of concerns regarding questionable accounting or auditing matters; and
 - (iii) reviewing arrangements by which staff of the Corporation may, in confidence, raise concerns about possible improprieties in matters of financial reporting and ensuring that arrangements are in place for proportionate and independent investigation and follow-up action.
- (o) At each meeting of the Committee, the Committee shall review any complaints or concerns of employees of the Corporation regarding accounting, internal accounting controls, or auditing matters relating to the Corporation and violations of any applicable law, rule or regulation.
- (p) The Committee shall review all related party transactions and discuss the business rationale for these transactions and determine whether appropriate disclosures have been made. For this purpose, the term "related party transactions" includes any "material transaction" required to be disclosed under Item 13 of Form 51-102F2 under National Instrument 51-102 – *Continuous Disclosure Obligations*.
- (q) The Committee shall review the Corporation's compliance and ethics programs, including consideration of legal and regulatory requirements, and shall review with management its periodic evaluation of the effectiveness of such programs.
- (r) The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors.
- (s) The Committee shall receive any reports from legal counsel of evidence of a material violation of securities laws or breaches of fiduciary duty by the Corporation.

- (t) The Committee shall review with the Corporation's legal counsel, on no less than an annual basis, any legal matter that could have a material impact on the Corporation's financial statements and any enquiries received from regulators or government agencies.
- (u) The Committee shall assess, on an annual basis, the adequacy of this charter and the performance of the Committee.

Approved by the Board of
Directors on January 4, 2022.

APPENDIX "B"

FORM 51-101F2 REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

To the board of directors of Source Rock Royalties Ltd. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2020. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2020, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook as amended from time to time (the "**COGE Handbook**") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2020, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

Independent Qualified Reserves Evaluator or Auditor	Effective Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
Trimble Engineering Associates Ltd.	Reserve and Present Worth Appraisal Effective December 31, 2020 Prepared December 20, 2021	Canada	nil	\$14,660,300	nil	\$14,660,300

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after their respective preparation dates.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:
Calgary, Alberta / Canada, December 20, 2021
Trimble Engineering Associates Ltd.

Original Signed by Stephen Trimble

Stephen Trimble, P.Eng

APPENDIX "C"

FORM 51-101F3 REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Source Rock Royalties Ltd. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2020, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator is referred to below.

The Reserves Committee of the board of directors of the Company has

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) "Brad Docherty"

Brad Docherty
Chief Executive Officer

(signed) "Sean Clausen"

Sean Clausen
Chief Financial Officer

(signed) "John Bell"

John Bell
Director

(signed) "Gary McMurren"

Gary McMurren
Director

January 10, 2022

CERTIFICATE OF THE COMPANY

Dated: February 3, 2022

This amended and restated prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

Brad Docherty

Sean Clausen

(signed) "*Brad Docherty*"
Chief Executive Officer

(signed) "*Sean Clausen*"
Chief Financial Officer

On behalf of the Board of Directors:

John Bell

Gary McMurren

(signed) "*John Bell*"
Director

(signed) "*Gary McMurren*"
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: February 3, 2022

To the best of our knowledge, information and belief, this amended and restated prospectus (which includes the marketing materials included or incorporated by reference), constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

PI FINANCIAL CORP.

(signed) "*Brad Ralph*"
Managing Director

**ACUMEN CAPITAL FINANCE PARTNERS
LIMITED**

(signed) "*Kelly Hughes*"
Head of Investment Banking

HAYWOOD SECURITIES INC.

(signed) "*Erik Bakke*"
Managing Director

CANACCORD GENUITY CORP.

(signed) "*Andrew D. Birkby*"
Managing Director

ATB CAPITAL MARKETS INC.

(signed) "*Patrick Stables*"
Managing Director, Investment Banking



SOURCE ROCK
ROYALTIES LTD.