Source Rock Royalties Ltd.

Condensed Interim Financial Statements

As at and for the three months ended March 31, 2023

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the company discloses that its external auditors have not reviewed the unaudited condensed interim financial statements for the three months ended March 31, 2023.

(Expressed in Canadian dollars)

		March 31, 2023		December 31, 2022
Assets				
Current assets				
Cash and cash equivalents	$	11,372,848	$	13,152,502
Trade and other receivables (note 3)		1,033,995		1,094,826
Prepaid expense		44,427		44,947
Total current assets		12,451,270		14,292,275
Petroleum and natural gas interests (note 4)		15,194,792		14,057,591
Intangible (note 5)		250,000		250,000
Deferred tax		181,327		218,330
Total assets	$	28,077,389	$	28,818,196
Liabilities				
Current liabilities				
Trade and other payables	$	64,827	$	26,853
Corporate taxes payable		165,109		678,498
Dividend payable (note 12)		673,450		673,450
Total current liabilities		903,386		1,378,801
Total liabilities		903,386		1,378,801
Shareholders' equity				
Share capital (note 7a)		26,292,227		26,292,227
Warrants (note 7a)		306,682		306,682
Contributed surplus (note 7b)		16,316,817		16,130,994
Deficit		(15,741,723)		(15,290,508)
Total shareholders' equity		27,714,003		27,439,395
Total liabilities and shareholders' equity	$	28,077,389	$	28,818,196

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

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Royalty revenues (note 8)	$ 1,380,251	$ 1,527,386
Expenses		
Administrative expenses	222,731	125,383
Share-based compensation (note 7c and 7d)	185,823	22,698
Depletion (note 4)	666,410	538,529
Total expenses	1,074,964	686,610
Income (loss) for the period	305,287	840,776
Other income		
Interest	135,503	6,477
Income (loss) before taxes	440,790	847,253
Provision for income taxes		
Current tax expense	181,552	236,049
Deferred tax expense (recovery)	37,003	(35,896)
Income tax expense	218,555	200,153
Total Comprehensive income	$ 222,235	$ 647,100
Income per share, basic	$ 0.005	$ 0.019
Income per share, diluted	$ 0.005	$ 0.018
Weighted average number of shares:		
Basic	44,896,645	34,547,946
Diluted	46,215,698	36,874,803

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

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

	Share capital	Warrants	Contributed surplus	Deficit	Total shareholders' equity
As at December 31, 2021	$ 13,984,321	$ -	$ 15,731,541	$ (15,154,764)	$ 14,561,098
Shares issued for cash (note 7a)	13,494,008	-	-	-	13,494,008
Warrants (note 7a)	-	306,682	-	-	306,682
Share issuance costs, net of deferred tax benefit of $354,290	(1,186,102)	-	-	-	(1,186,102)
Share-based compensation (note 7c and 7d)	-	-	399,453	-	399,453
Dividends (note 7e)	-	-	-	(2,693,798)	(2,693,798)
Total comprehensive income for the year	-	-	-	2,558,054	2,558,054
As at December 31, 2022	$ 26,292,227	$ 306,682	$ 16,130,994	$ (15,290,508)	$ 27,439,395
Share-based compensation (note 7c and 7d)	-	-	185,823	-	185,823
Dividends (note 7e)	-	-	-	(673,450)	(673,450)
Total comprehensive income for the period	-	-	-	222,235	222,235
As at March 31, 2023	$ 26,292,227	$ 306,682	$ 16,316,817	$ (15,741,723)	27,174,003

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

(Expressed in Canadian dollars)

	Three months ended March 31, 2023	2022
Operating activities		
Net comprehensive income (loss) for the period	$ 222,235	$ 647,100
Adjustments for:		
Share-based compensation (note 7c and 7d)	185,823	22,698
Depletion (note 4)	666,410	538,529
Deferred income taxes recovery	37,003	(35,896)
Change in non-cash working capital balances		
Trade and other receivables	60,831	(327,772)
Prepaid expenses	520	(53,547)
Trade and other payables	37,974	258,404
Corporate taxes payable	(513,389)	236,049
Cash flows from operating activities	697,407	1,285,565
Financing activities		
Dividends paid to shareholders' (note 7a)	(673,450)	-
Return of capital (note 7a)	-	(443,438)
Proceeds from shares issued (note 7a)	-	13,494,008
Proceeds from warrants issued (note 7a)	-	306,682
Share issuance costs	-	(1,365,794)
Cash flows used in financing activities	(673,450)	11,991,458
Investing activities		
Purchase of petroleum and natural gas interests (note 4)	(1,803,611)	-
Cash flows used in investing activities	(1,803,611)	-
Increase (decrease) in cash and cash equivalents	(1,779,654)	13,277,023
Cash and cash equivalents, beginning of period	13,152,502	1,492,322
Cash and cash equivalents, end of period	$ 11,372,848	$ 14,769,345

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

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 May 29, 2023.

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, 2022. 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, 2022.

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, 2022.

3. TRADE AND OTHER RECEIVABLES

Accounts Receivable and Accrued Royalty Revenues		As at March 31, 2023		As at December 31, 2022
Trade receivable and accrued royalty revenue	$	1,058,190	$	1,100,678
Expected credit loss		(41,335)		(41,335)
GST receivable and other receivable		17,140		35,483
	$	1,033,995	$	1,094,826

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

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

					Past due but not impaired			
		Total		Neither past due nor Impaired		4-6 Months		7- 12 Months
As at March 31, 2023	$	1,016,885	$	1,016,885	$	-	$	-
As at December 31, 2022	$	1,059,343	$	1,059,343	$	-	$	-

In determining the collectability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivable and the credit worthiness of the parties (note 10).

4. PETROLEUM AND NATURAL GAS INTERESTS

Cost		Total
Balance December 31, 2021	$	22,571,172
Additions		3,616,536
Balance December 31, 2022	$	26,187,708
Additions		1,803,611
Balance March 31, 2023	$	27,991,319
Accumulated depletion		
Balance December 31, 2021	$	9,949,076
Depletion		2,181,041
Balance December 31, 2022	$	12,130,117
Depletion		666,410
Balance March 31, 2023	$	12,796,527
Carrying Amounts		
At December 31, 2022		14,057,591
At March 31, 2023	**$**	**15,194,792**

2023:

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

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

2022:

On November 25, 2022, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for gross proceeds of $3,500,000 (the "November 2022 Acquisition"), with an effective date of October 1, 2022. Sales proceeds for royalty production between the effective date and the closing date amounting to $85,268 was deducted from the purchase price. Transaction costs related to the November 2022 Acquisition amounting to $75,148 were added to the purchase price.

On November 10, 2022, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $22,851.

On October 27, 2022, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $48,697.

On July 27, 2022, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of $55,108.

Impairment

As March 31, 2023, there were no indicators of impairment on Source Rock’s Cash Generating Units (“CGU”).

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 months ended March 31, 2023, the Company had the following transactions with key personnel.

	Three months ended March 31,	
	2023	2022
Wages and consulting fees	$ 79,500	$ 79,500
Share-based compensation	166,457	22,698
Total	$ 245,957	$ 102,198

Share-based compensation includes share-based consulting fees and a charge for stock options. A share-based compensation expense was recorded for the vesting of previously issued stock options during the three months ended March 31, 2023, in the amount of $12,517 (2022 - $22,698(see note 8c). A share-based compensation expense was recorded relating to RSUs and DSUs during the three months ended March 31, 2023, in the amount of $37,411 (2022 - $nil) and $116,529 (2022 - $nil), respectively.

In addition, during the three-month period ended March 31, 2023, $22,885 (2022 - $258,372), was incurred to a law firm at which the Corporate Secretary of the Company is a Partner. These fees primarily related to work associated with general corporate matters and work associated with various acquisitions.

All transactions were in the normal course of operations and were measured at the amount of consideration agreed to by both parties. As at March 31, 2023, there was $12,975 (December 31, 2022 - $1,895) in trade payables and accrued liabilities relating to these transactions.

7. SHARE CAPITAL

a) Common shares

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

	March 31, 2023		December 31, 2022	
	# of common shares	Amount	# of common shares	Amount
Balance, beginning of period	44,896,645	$ 26,292,227	29,562,559	$ 13,984,321
Shares issued for cash(i)	-	-	15,334,100	13,494,008
Share issuance costs, net of deferred tax benefit of $351,917	-	-	-	(1,186,102)
Fractional shares canceled	-	-	(14)	-
Balance, end of period	44,896,645	$ 26,292,227	44,896,645	$ 26,292,227

i) On March 1, 2022, Source Rock closed the IPO, through the issuance of 13,667,100 Units at a price of $0.90 pursuant to a final prospectus dated February 23, 2022, for gross proceeds of $12,300,390. Each Unit was comprised of one Common Share ($0.88) and one half of one warrant ($0.02) to purchase an additional Common Share at $1.25 for a period of two years (the "Warrants"). The IPO was completed by a syndicate of underwriters co-led by PI Financial Corp (as Sole Bookrunner) and Acumen Capital Finance Partners Limited, together with Haywood Securities Inc., Canaccord Genuity Corp. and ATB Capital Markets Inc. On March 16, 2022, Source Rock closed the over-allotment portion of the IPO through the issuance of an additional 1,667,000 Units, for gross proceeds of $1,500,300.

b) Contributed surplus

Balance, December 31, 2021	$ 15,731,541
Share-based compensation (note 8c and 8d)	399,453
Balance, December 31, 2022	$ 16,130,994
Share-based compensation (note 7c)	185,823
Balance, March 31, 2023	$ 16,316,817

c) Stock options

The Company created a rolling 10% stock option plan which became effective July 2, 2013. The stock option plan provides options for directors, key management personnel and consultants.

A summary of the Company's outstanding stock options as at March 31, 2023 and the changes for the current year, is as follows:

	Outstanding	Weighted Average Remaining Contractual Life (in years)		Weighted Average Exercise Price
Balance, December 31, 2021	**2,490,000**	**2.1**	**$**	**0.72**
Granted	400,000	4.6	$	0.90
Expired	(650,000)	-		0.90
Balance, December 31, 2022	**2,240,000**	**2.6**	**$**	**0.67**
Balance, March 31, 2023	**2,240,000**	**2.3**	**$**	**0.67**

For the three-months ended March 31, 2023, the Company has recorded $21,972 (2022 - $22,698) in share-based compensation expense for the vesting of previously issued stock options with a corresponding amount credited to contributed surplus. As of March 31, 2023, the Company has 1,956,667 (December 31, 2022 – 1,956,667) exercisable stock options.

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

	2022
Exercise price	$0.90
Dividend yield	Nil
Expected volatility	35-45%
Risk-free interest rate	2.5%
Expected life	5 Year
Forfeiture Rate	0.0%

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

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

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

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

A summary of the Company's outstanding RSUs as at March 31, 2023, and the changes for the current year, is as follows:

	Outstanding		Weighted Average Grant Price
Balance, December 31, 2021	-	$	-
Granted	307,500		0.85
Dividends	6,318		0.73
Balance, December 31, 2022	**313,818**	**$**	**0.85**
Dividends	6,630		0.71
Balance, March 31, 2023	**320,448**	**$**	**0.84**

For the three months ended March 31, 2023, the Company has recorded $43,562 (2022 - nil) in share-based compensation expense with respect to RSUs, with a corresponding amount credited to contributed surplus.

A summary of the Company's outstanding DSUs as at March 31, 2023, and the changes for the current year, is as follows:

	Outstanding		Weighted Average Grant Price
Balance, December 31, 2021	**-**	**$**	**-**
Granted	552,500		0.83
Dividends	9,709		0.73
Balance, December 31, 2022	**562,209**	**$**	**0.83**
Dividends	**11,878**		**0.71**
Balance, March 31, 2023	**574,087**	**$**	**0.83**

For the three months ended March 31, 2023, the Company has recorded $120,289 (2022 - nil) in share-based compensation expense with respect to DSUs, with a corresponding amount credited to contributed surplus.

e) Dividends

During Q1 2023, the Company declared dividends of $673,450 (2022 - $673,450). The total dividends paid during Q1 2023 was $673,450 (2022 - nil). Although no dividend was paid in Q1 2022, $443,438 was paid to shareholders as a "return of capital".

8. REVENUES

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

	Three months ended March 31,			
Revenue and other revenue by product		2023		2022
Oil	$	1,333,535	$	1,467,841
Natural Gas		25,255		35,830
NGL		21,461		23,705
Total royalty revenue	$	1,380,251	$	1,527,386

9. TAXES

The Company is presently classified as a public company pursuant to the Income Tax Act (Canada), as a result, the Company's taxable income will be taxed at the effective tax rate of 23.0%.

10. FINANCIAL RISK MANAGEMENT

Financial instruments and risk management

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

Fair values

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

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date. The Company manages its exposure to credit risk through standard credit granting procedures and short payment terms. The Company attempts to monitor financial conditions of its royalty payors and the industry in which they operate. The carrying amounts of trade and other receivables and cash and cash equivalents represent the Company's maximum credit exposure.

Liquidity risk

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

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

Commodity risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are influenced by the relationship between the Canadian and U.S. dollar as well as macroeconomic events that dictate the levels of supply and demand. The company does not hedge its commodity price risk.

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 March 31, 2023.

12. SUBSEQUENT EVENTS

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

On April 12, 2023, Source Rock announced a transition to a monthly dividend and declared an inaugural monthly dividend of $0.0055 per share, to be paid in cash on May 15, 2023 to shareholders of record on April 28, 2023.

On April 14, 2023, Source Rock paid a $0.015 per share dividend to shareholders of record on March 31, 2023, which was approved by Source Rock's Board of Directors on March 15, 2023. This dividend was designated as an "eligible dividend" for Canadian income tax purposes.

On May 15, 2023, Source Rock paid a $0.015 per share dividend to shareholders of record on April 28, 2023, which was approved by Source Rock's Board of Directors on April 12, 2023. This dividend was designated as an "eligible dividend" for Canadian income tax purposes.