

Source Rock Royalties Ltd.
Condensed Interim Financial Statements

As at and for the three and six months ended June 30, 2024
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the company discloses that its external auditors have not reviewed the unaudited condensed interim financial statements for the three and six months ended June 30, 2024.

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

	June 30, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 3,234,443	\$ 1,462,040
Trade and other receivables (note 3)	1,236,518	1,274,292
Prepaid expense	31,183	30,949
Total current assets	4,502,144	2,767,281
Non-current assets		
Petroleum and natural gas interests (note 4)	22,136,224	24,152,381
Intangible (note 5)	250,000	250,000
Deferred tax	238,600	88,973
Total assets	\$ 27,126,968	\$ 27,258,635
Liabilities		
Current liabilities		
Trade and other payables	\$ 49,276	\$ 112,308
Corporate taxes payable	483,081	17,800
Dividends payable (note 12)	294,012	271,390
Total current liabilities	826,369	401,498
Total liabilities	826,369	401,498
Shareholders' equity		
Share capital (note 7a)	26,479,878	26,478,588
Warrants	-	306,682
Contributed surplus (note 7b)	17,464,643	16,765,055
Deficit	(17,643,922)	(16,693,188)
Total shareholders' equity	26,300,599	26,857,137
Total liabilities and shareholders' equity	\$ 27,126,968	\$ 27,258,635

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		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Royalty revenues (note 8)	\$ 2,102,292	\$ 1,526,946	\$ 3,830,342	\$ 2,907,197
Expenses				
Administrative expenses	169,656	163,036	393,602	385,767
Share-based compensation (note 6 and 7c)	196,003	190,163	392,946	375,986
Depletion (note 4)	1,033,126	766,296	2,016,157	1,432,706
Total expenses	1,398,785	1,119,495	2,802,705	2,194,459
Income (loss) for the period	703,507	407,451	1,027,637	712,738
Other income				
Interest	30,813	115,210	54,410	250,713
Income (loss) before taxes	734,320	522,661	1,082,047	963,451
Provision for income taxes				
Current tax expense	289,600	162,492	486,195	344,044
Deferred tax recovery	(82,791)	(71,694)	(149,627)	(34,691)
Income tax expense (recovery)	206,809	90,798	336,568	309,353
Total comprehensive income (loss)	\$ 527,511	\$ 431,863	\$ 745,479	\$ 654,098
Income (loss) per share, basic	\$ 0.012	\$ 0.010	\$ 0.016	\$ 0.015
Income (loss) per share, diluted	\$ 0.011	\$ 0.009	\$ 0.016	\$ 0.014
Weighted average number of shares:				
Basic	45,232,645	44,896,645	45,232,258	44,896,645
Diluted	47,382,861	46,295,043	47,381,215	46,256,947

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, 2022	\$ 26,292,227	\$ 306,682	\$ 16,130,994	\$ (15,290,508)	\$ 27,439,395
Share-based compensation (note 7c and 7d)	-	-	776,909	-	776,909
Stock Option/RSU Exercise (note 7c and 7d)	186,361	-	(142,848)	-	43,513
Dividends (note 7e)	-	-	-	(2,968,990)	(2,968,990)
Total comprehensive income for the year	-	-	-	1,566,310	1,566,310
As at December 31, 2023	\$ 26,478,588	\$ 306,682	\$ 16,765,055	\$ (16,693,188)	\$ 26,857,137
Warrants (note 7a and 7b)	1,290	(306,682)	306,642	-	1,250
Share-based compensation (note 7c and 7d)	-	-	392,946	-	392,946
Dividends (note 7e)	-	-	-	(1,696,213)	(1,696,213)
Total comprehensive income for the period	-	-	-	745,479	745,479
As at June 30, 2024	\$ 26,479,878	\$ -	\$ 17,464,643	\$ (17,643,922)	\$ 26,300,599

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		Six months ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Operating activities				
Net comprehensive income (loss) for the period	\$ 527,511	\$ 431,863	\$ 745,479	\$ 654,098
Adjustments for:				
Share-based compensation (note 7c and 7d)	196,003	190,163	392,946	375,986
Depletion (note 4)	1,033,126	766,296	2,016,157	1,432,706
Deferred income taxes recovery	(82,791)	(71,694)	(149,627)	(34,691)
Change in non-cash working capital balances				
Trade and other receivables	(197,307)	(101,922)	37,774	(41,091)
Prepaid expenses	(1,802)	(33,723)	(234)	(33,203)
Trade and other payables	(94,741)	(33,313)	(63,032)	4,661
Corporate taxes payable	268,686	(165,109)	465,281	(678,498)
Cash flows from operating activities	1,648,685	982,561	3,444,744	1,679,968
Financing activities				
Dividends paid to shareholders (note 7a)	(859,421)	(1,167,313)	(1,673,591)	(1,840,763)
Exercise of warrants (note 7a)	-	-	1,250	-
Cash flows used in financing activities	(859,421)	(1,167,313)	(1,672,341)	(1,840,763)
Investing activities				
Purchase of petroleum and natural gas interests (note 4)	-	(3,471,446)	-	(5,275,057)
Cash flows used in investing activities	-	(3,471,446)	-	(5,275,057)
Increase (decrease) in cash and cash equivalents	789,264	(3,656,198)	1,772,403	(5,435,852)
Cash and cash equivalents, beginning of period	2,445,179	11,372,848	1,462,040	1,492,322
Cash and cash equivalents, end of period	\$ 3,234,443	\$ 7,716,650	\$ 3,234,443	\$ 15,466,841

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 six months ended June 30, 2024
(unaudited)

1. REPORTING ENTITY

Source Rock Royalties Ltd. ("Source Rock" or the "Company") was incorporated under the laws of the Province of Alberta on October 11, 2012, with its registered office at 15th Floor, 850 – 2nd Street, SW, Calgary Alberta T2P 0R8.

The primary business of the Company is to receive royalty revenue from oil and natural gas properties as reserves are produced by the operators over the economic life of the properties. The Company is exclusively focused on acquiring and managing oil and gas royalties and mineral title interests. The Company has an oil focused portfolio of royalty interests concentrated in S.E. Saskatchewan, central Alberta and west-central Saskatchewan. The Company is focused on acquiring royalties in properties that have proved reserves and foreseeable future drilling potential and which are operated by fiscally and operationally prudent third parties. The Company is further focused on establishing relationships with third parties via its royalty interests, wherein mutual benefits can be derived from the near-term and medium-term development, and long-term enhancement, of the assets. The Company does not incur any ongoing costs to develop, operate or enhance the lands in which it has royalties, nor does it have any exposure to abandonment or reclamation obligations associated with its royalty lands.

These unaudited interim condensed interim financial statements were authorized for issuance by the Company's Board of Directors on August 28, 2024.

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, 2023. Certain information and disclosures normally included in the audited annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted.

These financial statements have been prepared on a historical cost basis, except for share-based payment transactions. The financial statements have been prepared on a going concern basis.

These condensed interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2023.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

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b) Estimates

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

In preparing these unaudited condensed interim financial statements, the judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended December 31, 2023.

3. TRADE AND OTHER RECEIVABLES

Accounts receivable and accrued royalty revenues	As at June 30, 2024		As at December 31, 2023	
Trade receivable and accrued royalty revenue	\$	1,225,092	\$	1,262,818
GST receivable and other receivable		11,426		11,474
	\$	1,236,518	\$	1,274,292

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

The analysis of accounts 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 June 30, 2024	\$ 1,236,518	\$ 1,139,956	\$ 85,562	\$ -
As at December 31, 2023	\$ 1,274,292	\$ 1,274,292	\$ -	\$ -

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

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

4. PETROLEUM AND NATURAL GAS INTERESTS

Cost		Total
Balance December 31, 2022	\$	26,187,708
Additions		13,277,475
Balance December 31, 2023	\$	39,465,183
Additions		-
Balance June 30, 2024	\$	39,465,183
Accumulated depletion		
Balance December 31, 2022	\$	12,130,117
Depletion		3,182,685
Balance December 31, 2023	\$	15,312,802
Depletion		2,016,157
Balance June 30, 2024	\$	17,328,959
Carrying amounts		
At December 31, 2023		24,152,381
At June 30, 2024	\$	22,136,224

2023:

On December 4, 2023, Source Rock acquired a gross overriding royalty ("GORR") in approximately 60,800 gross acres (95 sections) of land in the Figure Lake area of Central Alberta for gross proceeds of \$8,000,000 (the "December 2023 Acquisition"), with an effective date of October 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to \$211,892 were deducted from the purchase price. Transaction costs for the December 2023 Acquisition amounting to \$39,723 were added to the purchase price.

On October 11, 2023, Source Rock acquired a 2% GORR in land located in S.E. Saskatchewan for proceeds of \$164,255.

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

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

On March 24, 2023, Source Rock acquired a 5% GORR in land located in Central Alberta for gross proceeds of \$1,600,000 (the "March 2023 Acquisition"), with an effective date of January 1, 2023. Sales proceeds for royalty production between the effective date and the closing date amounting to \$137,949 were deducted from the purchase price. Transaction costs for 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.

Impairment

As at June 30, 2024, there were no indicators of impairment on Source Rock's Cash Generating Units.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

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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 a future party in any change of control scenarios relating to E&P Co.

6. RELATED PARTY TRANSACTIONS

Key personnel transactions

Key personnel include the Chief Executive Officer, the Chief Financial Officer, the Corporate Secretary and the Directors of the Company. For the three and six months ended June 30, 2024, the Company had the following transactions with key personnel.

	Three months ended June 30,			Six months ended June 30,		
	2024	2023		2024	2023	
Wages and consulting fees	\$ 87,450	\$ 79,500	\$	174,900	\$ 159,000	\$
Share-based compensation	193,335	183,900		384,738	355,260	
Total	\$ 280,785	\$ 263,400	\$	559,638	\$ 514,260	\$

Share-based compensation includes share-based consulting fees and a charge for stock options, RSUs and DSUs, as defined herein. For the three and six months ended June 30, 2024 and 2023 the break down is as follows:

	Three months ended June 30,			Six months ended June 30,		
	2024	2023		2024	2023	
Stock Options	\$ 2,876	\$ 12,516	\$	5,752	\$ 29,936	\$
RSUs	115,316	46,872		229,684	84,283	
DSUs	75,143	124,512		149,302	241,041	
Total	\$ 193,335	\$ 183,900	\$	384,738	\$ 355,260	\$

In addition, during the three and six month periods ended June 30, 2024, \$18,010 (2023 - \$31,987) and \$24,431 (2023 - \$55,165) 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 the royalty acquisitions and general corporate matters.

All transactions were in the normal course of operations and were measured at the amount of consideration agreed to by both parties. As at June 30, 2024, there was \$5,146 (December 31, 2023 - \$36,469) in trade payables and accrued liabilities relating to these transactions.

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7. SHARE CAPITAL

a) Common shares

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

	June 30, 2024		December 31, 2023	
	# of common shares	Amount	# of common shares	Amount
Balance, beginning of period	45,231,645	\$ 26,478,588	44,896,645	\$ 26,292,227
Shares issued for exercised stock options (note 8c)	-	-	335,000	186,361
Shares issued on exercise of warrants	1,000	1,290	-	-
Balance, end of period	45,232,645	26,479,878	45,231,645	\$ 26,478,588

b) Contributed surplus

Balance, December 31, 2022	\$ 16,130,994
Share-based compensation (note 8c and 8d)	776,909
Option exercises	(52,361)
RSU settlement	(90,487)
Balance, December 31, 2023	\$ 16,765,055
Share-based compensation (note 7c)	392,946
Expiration of warrants	306,642
Balance, June 30, 2024	\$ 17,464,643

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.

Source Rock Royalties Ltd.

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(unaudited)

A summary of the Company's outstanding stock options as at June 30, 2024 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, 2022	2,240,000	2.6	\$	0.67
Granted	100,000	4.6	\$	0.90
Exercised	(335,000)	1.8		0.40
Cancelled	(190,000)	0.5		0.85
Balance, December 31, 2023	1,815,000	1.8	\$	0.72
Expired	(725,000)	-		0.85
Balance, June 30, 2024	1,090,000	2.2	\$	0.63

For the three and six months ended June 30, 2024, the Company has recorded \$5,544 (2023 - \$17,069) and \$13,960 (2023 - \$39,041) in share-based compensation expense for the vesting of issued stock options with a corresponding amount credited to contributed surplus. As of June 30, 2024, the Company has 998,333 (December 31, 2023 - 1,673,333) exercisable stock options.

The fair value of stock options granted in 2023 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2023
Exercise price	\$0.90
Dividend yield	Nil
Expected volatility	35%
Risk-free interest rate	7.2%
Expected life	5 Year
Forfeiture rate	0.0%

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

On June 22, 2022, the Company's shareholders approved a fixed 10% RSU/DSU compensation plan (the "RSU/DSU Plan"). The RSU/DSU Plan provides RSUs and DSUs 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 RSUs granted shall vest evenly over three years on the anniversary date of the grant and the DSUs granted shall vest after one year following the grant date.

Source Rock Royalties Ltd.

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(unaudited)

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 June 30, 2024, and the changes for the current year, is as follows:

	Outstanding	Weighted Average Grant Price
Balance, December 31, 2022	313,818	\$ 0.82
Granted	665,000	0.79
Dividend Equivalent Grants	51,235	0.79
Vested	(111,059)	0.80
Forfeitures	(22,447)	0.85
Balance, December 31, 2023	896,547	\$ 0.80
Dividends	39,842	0.86
Balance, June 30, 2024	936,389	0.80

For the three and six months ended June 30, 2024, the Company has recorded \$115,316 (2023 - \$46,873) and \$229,684 (2023 - \$90,435), respectively, 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 June 30, 2024, and the changes for the current year, is as follows:

	Outstanding	Weighted Average Grant Price
Balance, December 31, 2022	562,209	\$ 0.82
Granted	292,500	0.79
Dividend Equivalent Grants	66,695	0.79
Forfeitures	(33,520)	0.85
Balance, December 31, 2023	887,884	0.81
Dividends	39,456	0.86
Balance, June 30, 2024	927,340	0.81

For the three and six months ended June, 2024, the Company has recorded \$75,143 (2023 - \$126,221) and \$149,302 (2023 - \$246,510), respectively, in share-based compensation expense with respect to DSUs, with a corresponding amount credited to contributed surplus.

e) Dividends

During the three and six months ended June 30, 2024, the Company declared dividends of \$882,037 (2023 - \$740,795) and \$1,696,213 (2023 - \$1,414,245), respectively. The total dividends paid during the three and six months ended June 30, 2024 was \$859,421 (2023 - \$1,167,313) and \$1,673,591 (2023 - \$1,840,763), respectively.

Source Rock Royalties Ltd.

Notes to the Condensed Interim Financial Statements

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(unaudited)

8. REVENUES

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

Revenue and other revenue by product	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Oil	\$ 2,066,406	\$ 1,489,744	\$ 3,745,981	\$ 2,823,279
Natural gas	7,147	18,444	26,546	43,700
NGL	28,739	18,758	57,815	40,218
Total royalty revenue	\$ 2,102,292	\$ 1,526,946	\$ 3,830,342	\$ 2,907,197

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 the 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.

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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 June 30, 2024.

12. SUBSEQUENT EVENTS

On July 15, 2024, the Company declared a monthly dividend of \$0.0065 per share, to be paid in cash on August 15, 2024 to shareholders of record on July 31, 2024.

On August 15, 2024, the Company declared a monthly dividend of \$0.0065 per share, to be paid in cash on September 13, 2024 to shareholders of record on August 30, 2024.