



Condensed Interim Consolidated Financial Statements (Unaudited)  
As at and for the three and nine months ended September 30, 2019

## Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Raise Production Inc. (the "Company") for the three and nine months ended September 30, 2019 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed an interim review of these consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim consolidated financial statements by an entity's auditor.



Eric Laing  
President and Chief Executive Officer



Susan Scullion, CA  
Chief Financial Officer

November 21, 2019

# RAISE PRODUCTION INC.

Interim Consolidated Statements of Financial Position (Unaudited)

	As at September 30, 2019	As at December 31, 2018
<b>Assets</b> (note 6)		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,473,672	\$ 2,005,486
Trade receivables (note 13)	340,418	62,012
Inventories (note 7)	516,705	686,637
Prepaid expenses and deposits	19,971	48,982
	2,350,766	2,803,117
<b>Non-current assets:</b>		
Property and equipment (note 8)	407,333	636,296
Intangible assets and goodwill (note 8)	6,074,573	6,037,708
Right-of-use assets (note 9)	576,254	–
Deposits	37,108	37,561
<b>Total Assets</b>	<b>\$ 9,446,034</b>	<b>\$ 9,514,682</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade payables and accrued liabilities	\$ 323,049	\$ 316,634
Other current liabilities (note 17)	34,590	15,865
Current portion of lease liabilities (note 11)	177,933	28,817
Deferred revenue (note 18)	538,000	538,000
	1,073,572	899,316
<b>Non-current liabilities:</b>		
Long-term debt (note 10)	2,211,650	–
Long-term lease liabilities (note 11)	359,560	127,473
<b>Total Liabilities</b>	<b>3,644,782</b>	<b>1,026,789</b>
<b>Shareholders' equity:</b>		
Share capital (note 12)	30,140,133	30,140,133
Warrants (note 12)	–	419,177
Contributed surplus	3,649,652	3,086,591
Deficit	(27,988,533)	(25,158,008)
<b>Total Shareholders' Equity</b>	<b>5,801,252</b>	<b>8,487,893</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 9,446,034</b>	<b>\$ 9,514,682</b>

See accompanying notes to condensed interim consolidated financial statements.

# RAISE PRODUCTION INC.

Interim Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
<b>Revenue from contracts with customers</b> (note 20)	\$ 310,034	\$ 80,840	\$ 753,613	\$ 289,418
<b>Cost of sales</b> (note 7)	193,959	54,887	494,734	214,065
<b>Gross margin</b>	116,075	25,953	258,879	75,353
<b>Other income</b>	–	10,947	8,936	16,688
<b>Expenses:</b>				
General and administration (note 5, 15)	1,629,010	549,976	2,574,621	1,358,831
Depreciation and amortization (note 8, 9)	59,839	20,062	176,792	60,185
Stock-based compensation (note 12)	64,603	88,220	143,884	277,138
Research expenses	49,746	41,494	129,401	119,730
Inventory impairment (note 7)	44,576	–	44,576	–
Finance costs	8,637	823	29,066	2,235
	1,856,411	700,575	3,098,340	1,818,119
<b>Net loss and comprehensive loss</b>	<b>\$(1,740,336)</b>	<b>\$ (663,675)</b>	<b>\$(2,830,525)</b>	<b>\$(1,726,078)</b>
<b>Net loss per common share (note 12(e)):</b>				
Basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.02)

See accompanying notes to condensed interim consolidated financial statements.

# RAISE PRODUCTION INC.

Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

For the nine months ended September 30

	Share Capital	Contributed Surplus	Warrants	Deficit	Total
	(note 12)	(note 12)	(note 12)		
Balance at December 31, 2017	\$ 26,537,756	\$ 2,734,461	\$ 473,594	\$(22,610,242)	\$ 7,135,569
Net loss	–	–	–	(1,726,078)	(1,726,078)
Shares issued	3,500,000	–	–	–	3,500,000
Share issuance expenses	(47,790)	–	–	–	(47,790)
Stock-based compensation	–	277,138	–	–	277,138
Exercise of agent warrants	143,387	–	(47,636)	–	95,751
Exercise of agent warrants	6,781	–	(6,781)	–	–
<b>Balance at September 30, 2018</b>	<b>\$ 30,140,134</b>	<b>\$ 3,011,599</b>	<b>\$ 419,177</b>	<b>\$(24,336,320)</b>	<b>\$ 9,234,590</b>
Balance at December 31, 2018	\$ 30,140,133	\$ 3,086,591	\$ 419,177	\$(25,158,008)	\$ 8,487,893
Net loss	–	–	–	(2,830,525)	(2,830,525)
Stock-based compensation	–	143,884	–	–	143,884
Expiry of share purchase warrants	–	419,177	(419,177)	–	–
<b>Balance at September 30, 2019</b>	<b>\$ 30,140,133</b>	<b>\$ 3,649,652</b>	<b>\$ –</b>	<b>\$(27,988,533)</b>	<b>\$ 5,801,252</b>

See accompanying notes to condensed interim consolidated financial statements.

# RAISE PRODUCTION INC.

Interim Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30

	2019	2018
Operating activities:		
Net loss	\$(2,830,525)	\$(1,726,078)
Items not involving cash:		
Consulting fee (note 5)	1,100,000	–
Depreciation and amortization	176,792	60,185
Stock-based compensation	143,884	277,138
Finance costs on right-of-use assets (note 11)	26,523	–
Unrealized foreign exchange loss on lease liabilities (note 11)	3,175	–
Change in long-term deposits	454	–
Net change in non-cash operating working capital (note 14)	(54,324)	(163,584)
Cash used in operating activities	(1,434,021)	(1,552,339)
Financing activities:		
Lease payments (note 11)	(156,734)	(13,153)
Long-term debt issuance (note 5, 10)	1,111,650	–
Private placement issuance (note 12)	–	3,452,210
Issuance of shares – agent warrant exercise (note 12)	–	95,751
Cash provided by financing activities	954,916	3,534,808
Investing activities:		
Horizontal wellbore system development (note 7)	(36,865)	(11,468)
Purchase of property and equipment (note 7)	(15,844)	(5,839)
Cash used in investing activities	(52,709)	(17,307)
Net increase (decrease) in cash and cash equivalents	(531,814)	1,965,162
Cash, beginning of period	2,005,486	729,124
Cash, end of period	\$ 1,473,672	\$ 2,694,286
Cash interest received	\$ 8,936	\$ 16,688
Cash interest paid	\$ 7,373	\$ 271

See accompanying notes to condensed interim consolidated financial statements.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the three and nine months ended September 30, 2019

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## 1. Corporate information:

Raise Production Inc. ("Raise Production" or "the Company") is an innovative oilfield service company that focuses its efforts on the production service sector, utilizing its proprietary products to enhance and increase ultimate production in both conventional and unconventional horizontal oil and gas wells.

Raise Production is a public company incorporated under the Business Corporations Act (Alberta) on December 23, 1993 and is listed on the TSX Venture Exchange. The address of its registered office is 2620, 58th Avenue SE, Calgary, Alberta, Canada.

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 were approved and authorized for issuance by the Board of Directors (the "Board") on November 21, 2019.

## 2. Going concern:

These condensed interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss and comprehensive loss of \$2,830,525 during the nine months ended September 30, 2019 and as of that date, the Company had an accumulated deficit of \$27,988,533. The Company has not generated significant revenues or cash flows from operations since inception. The continuation of the Company as a going concern is dependent upon the successful commercialization of its proprietary research and development projects and the ability of the Company to continue to obtain external financing in order to fund operations. While the Company has been successful attracting external financing to date (see Notes 10, 12 and Note 13), there is no assurance that it will continue to do so in the future. These circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to meet its obligations as they come due and, accordingly, continue as a going concern.

These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## 3. Basis of presentation:

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with *IAS 34 - Interim Financial Reporting* as at and for the three and nine months ended September 30, 2019. These condensed interim consolidated financial statements do not include all the necessary annual disclosures in accordance with International Financial Reporting Standards ("IFRS") and accordingly should be read in conjunction with the Company's financial statements and notes thereto for the year ended December 31, 2018.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 2

As at and for the three and nine months ended September 30, 2019

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### 3. Basis of presentation (continued):

The condensed interim consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars unless otherwise noted.

The preparation of these condensed interim consolidated financial statements requires the use of certain critical accounting estimates and also requires management to exercise judgment in applying the Company's accounting policies.

Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are described in Note 4 to the financial statements for the year ended December 31, 2018.

These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as the financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019 (see Note 4 below). The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

### 4. New accounting policies:

#### *IFRS 16 Leases*

IFRS 16, *Leases* ("IFRS 16") replaces IAS 17 *Leases* and related interpretations and is effective January 1, 2019. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which results in the recognition of a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term for most leases.

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period comparative financial information and is applied prospectively as of January 1, 2019. The nature and effect of these changes are disclosed below.

On initial adoption, the Company applied the following practical expedients permitted under the standard. Some expedients are available on a lease-by-lease basis, while others are applicable by class of underlying asset.

- Certain leases of low value (<\$5,000) that have been identified at January 1, 2019 are not recognized on the Statement of Financial Position;
- Initial direct costs were excluded from the measurement of ROU assets for the purpose of initial measurement on transition; and
- In their initial measurement upon transition, some leases having similar characteristics are measured as a portfolio by applying a single discount rate.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 3

As at and for the three and nine months ended September 30, 2019

## 4. New accounting policies (continued):

The Company identified all contracts that contain leases as defined by IFRS 16 as at the transition date of January 1, 2019 and quantified the impact of IFRS 16 adoption on the 2019 opening Statement of Financial Position.

IFRS 16 increased the Company's total assets and liabilities by approximately \$508,239 at January 1, 2019 based on an estimated weighted average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 of 5.7%.

The Company's leases recognized in the Statements of Financial Position as at January 1, 2019 include leases of real estate, equipment and vehicles. The Company has quantified the impact of IFRS 16 on its opening Statements of Financial Condition as at January 1, 2019 as follows:

<b>Assets</b>	
Property & equipment finance lease, December 31, 2018	\$ 190,607
Increase to assets	508,239
<b>Right-of-use assets, January 1, 2019</b>	<b>\$ 698,846</b>
<b>Liabilities</b>	
Lease obligation, December 31, 2018	\$ 156,290
Increase to liabilities	508,239
<b>Lease liabilities, January 1, 2019</b>	<b>\$ 664,529</b>

The following table presents a reconciliation of commitments as at December 31, 2018 to lease liabilities as at January 1, 2019:

Commitments, December 31, 2018	\$ 414,766
Effect of 2-year renewal option on office lease	273,600
Leases of low-value (computer equipment and services)	(125,686)
Operating lease obligations, January 1, 2019 (undiscounted)	562,680
Effect of discounting cash flows	(54,441)
<b>Total increase to lease liabilities, January 1, 2019</b>	<b>\$ 508,239</b>

The quantified impacts of IFRS 16 disclosed herein are subject to change in future periods pending updates to individual contract terms, assumptions, and other facts and circumstances arising subsequent to the date of these consolidated financial statements.

The Company assesses whether a contract contains a lease at inception by exercising judgement about whether a contract pertains to a specified asset, whether the Company obtains substantially all the economic benefits from the use of that asset, and whether the Company has the right to direct the use of the asset. Certain classes of lease arrangements that contain both lease and non-lease components within the same contract are recognized as a single lease component.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 4

As at and for the three and nine months ended September 30, 2019

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## **4. New accounting policies (continued):**

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset and lease liability is initially measured based on the present value of the lease payments discounted at the interest rate implicit in the lease, if applicable, or the Company's incremental borrowing rate.

The ROU asset is depreciated over the lease term or the useful life of the underlying asset if ownership of the underlying asset transfers to the Company at the end of the lease term. The ROU asset is subject to testing for impairment if indicators of impairment are present. Payments are applied against the lease liability and interest expense is recognized on the lease liability using the effective interest rate method.

When a lease contains an extension or purchase option that the Company is reasonably certain to exercise, the extension and/or cost of the option is included in the lease payments. Payments for leases that are low value (<\$5,000) and short-term leases (<12 months) are recognized in the Statements of Loss and Comprehensive Loss on a straight-line basis over the lease term.

The financial statement impact of IFRS 16 is subject to certain management judgments and estimates. Most notably, extension and termination provisions are included in certain lease contracts. In determining the lease term to be recognized, the Company considers all factors that create an economic incentive to exercise an extension option, or not to exercise a termination option.

## **5. Acquisition of 1955554 Alberta Ltd.:**

On September 30, 2019, the Company acquired the shares of 1955554 Alberta Ltd., an arm's length private company ("PrivateCo"), for total consideration of \$1,400,000 in secured convertible debentures. The assets of the PrivateCo consisted of \$300,000 in cash. The balance of \$1,100,000 represents the value of a consulting engagement with the previous shareholders of PrivateCo and has been recognized as a one-time cost and included in the general and administration expenses.

Consulting services expected to be provided will include, without limitation, sourcing, evaluating and negotiating strategic alternatives, including investments, partnerships, joint ventures, acquisitions, divestitures and other forms of business combinations. In addition, the previous shareholders have joined the board of directors of the Company.

## **6. Credit facility:**

The Company had a credit facility with a Canadian bank consisting of a maximum \$500,000 demand revolving loan bearing interest at the lender's prime rate plus 2% per annum available by account overdraft when the Company's EBITDA to total debt service exceeds 1.25:1.00. EBITDA is defined as earnings before interest, taxes and depreciation/amortization, adjusted for any non-cash charges, provisions or extraordinary items. The amount available under the facility at any point in time was subject to margin requirements being the aggregate of 75% of acceptable receivables plus the lesser of 50% of acceptable inventory and/or equipment and \$100,000 minus any priority claims.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 5

As at and for the three and nine months ended September 30, 2019

## 6. Credit facility (continued):

On September 30, 2019, the credit facility was cancelled by the Company and all security interests in favour of the Canadian bank were released and discharged.

## 7. Inventories:

	As at September 30, 2019	As at December 31, 2018
Finished goods and third-party products	\$ 459,365	\$ 605,944
Work-in-progress	23,934	55,558
Raw materials	33,406	25,135
	<u>\$ 516,705</u>	<u>\$ 686,637</u>

For the three months ended September 30, 2019, the cost of inventories recognized as an expense and included in the cost of sales was \$172,297 (2018 - \$43,314).

For the nine months ended September 30, 2019, the cost of inventories recognized as an expense and included in the cost of sales was \$450,194 (2018 - \$177,734).

For the three and nine months ended September 30, 2019, the cost of inventories written off and recognized as an expense and included in the statement of loss and comprehensive loss was \$44,576 (2018 - \$nil). The inventory write-off is related to inventory parts developed in conjunction with the Company's first-generation HARP that are no longer usable.

## 8. Non-current assets:

### *Property and equipment*

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
<b>Cost</b>						
At December 31, 2017	\$ 398,105	\$ 514,177	\$ 77,567	\$ 44,648	\$ 59,815	\$ 1,094,312
Additions	200,889	19,140	-	-	-	220,029
At December 31, 2018	598,994	533,317	77,567	44,648	59,815	1,314,341
Additions	-	15,844	-	-	-	15,844
Transfer to right-of-use asset	(200,639)	-	-	-	-	(200,639)
At September 30, 2019	<u>\$ 398,355</u>	<u>\$ 549,161</u>	<u>\$ 77,567</u>	<u>\$ 44,648</u>	<u>\$ 59,815</u>	<u>\$ 1,129,546</u>

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 6

As at and for the three and nine months ended September 30, 2019

## 8. Non-current assets (continued):

### *Property and equipment (continued)*

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
<b>Accumulated Depreciation</b>						
At December 31, 2017	\$ 151,626	\$ 264,233	\$ 66,089	\$ 44,648	\$ 59,815	\$ 586,411
Depreciation	34,692	51,903	5,039	-	-	91,634
At December 31, 2018	186,318	316,136	71,128	44,648	59,815	678,045
Depreciation	16,655	33,766	3,779	-	-	54,200
Transfer to right-of-use asset	(10,032)	-	-	-	-	(10,032)
At September 30, 2019	\$ 192,941	\$ 349,902	\$ 74,907	\$ 44,648	\$ 59,815	\$ 722,213

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
<b>Net book value</b>						
At December 31, 2018	\$ 412,676	\$ 217,181	\$ 6,439	\$ -	\$ -	\$ 636,296
At September 30, 2019	\$ 205,414	\$ 199,259	\$ 2,660	\$ -	\$ -	\$ 407,333

The machines and equipment net book value included in the table above of \$412,676 at December 31, 2018 included one machine under a finance lease with a net carrying amount of \$190,607. This finance lease is reported as a right-of-use asset in Note 9 as of September 30, 2019. No other equipment under an existing finance lease is contained in property and equipment as of September 30, 2019.

### *Intangible assets and goodwill*

	Patents, licenses and rights	Horizontal Technology	Goodwill	Total
<b>Cost</b>				
At December 31, 2017	\$ 281,597	\$5,904,264	\$1,427,695	\$7,613,556
Additions	-	32,951	-	32,951
Recoveries	-	(159,439)	-	(159,439)
At December 31, 2018	281,597	5,777,776	1,427,695	7,487,068
Additions	-	36,865	-	36,865
At September 30, 2019	\$ 281,597	\$5,814,641	\$1,427,695	\$7,523,933

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 7

As at and for the three and nine months ended September 30, 2019

## 8. Non-current assets (continued):

### *Intangible assets and goodwill (continued)*

	Patents, licenses and rights	Horizontal Technology	Goodwill	Total
<b>Accumulated amortization</b>				
At December 31, 2017	\$ 281,597	\$ –	\$1,167,763	\$1,449,360
Amortization	–	–	–	–
At December 31, 2018	281,597	–	1,167,763	1,449,360
Amortization	–	–	–	–
At September 30, 2019	\$ 281,597	\$ –	\$1,167,763	\$1,449,360

<b>Net book value</b>				
At December 31, 2018	\$ –	\$ 5,777,776	\$ 259,932	\$ 6,037,708
At September 30, 2019	\$ –	\$ 5,814,641	\$ 259,932	\$ 6,074,573

The recoveries balances included in the Cost table above of \$159,439 for the year ended December 31, 2018 consists of the reversal of stale-dated accrued liabilities no longer applicable of \$103,000 and the receipt of a SR&ED recovery of \$56,439, both of which are included in the carrying value of the System.

## 9. Right-of-Use assets:

The following table provides a reconciliation of the carrying amount of the right-of-use assets on initial adoption of the lease standard on January 1, 2019 pertaining to the Company's corporate office lease, one machining unit, two vehicle leases and one photocopier:

	Office lease	Machines and equipment	Vehicles	Total
<b>Cost</b>				
At January 1, 2019	\$ 449,658	\$ 209,213	\$ 50,007	\$ 708,878
Additions	–	–	–	–
At September 30, 2019	\$ 449,658	\$ 209,213	\$ 50,007	\$ 708,878

	Office lease	Machines and equipment	Vehicles	Total
<b>Accumulated amortization</b>				
At January 1, 2019	\$ –	\$ 10,032	\$ –	\$ 10,032
Amortization	84,190	16,013	22,389	122,592
At September 30, 2019	\$ 84,190	\$ 26,045	\$ 22,389	\$ 132,624

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 8

As at and for the three and nine months ended September 30, 2019

## 9. Right-of-Use assets (continued):

<b>Net book value</b>				
At January 1, 2019	\$ 449,658	\$ 199,181	\$ 50,007	\$ 698,846
At September 30, 2019	\$ 365,468	\$ 183,168	\$ 27,618	\$ 576,254

## 10. Long-term debt:

Secured Convertible Debenture balance, December 31, 2018	\$	–
Convertible Debenture Issuance, September 30, 2019		2,300,000
Debenture issuance costs		(88,350)
Secured Convertible Debenture balance, September 30, 2019	\$	2,211,650

On September 30, 2019, the Company completed a \$900,000 private placement of secured convertible debentures (the "Debentures") concurrently with the closing of the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company for consideration of \$1,400,000 of Debentures. Debenture issuance costs of \$88,350 have been netted against the total Debenture issuance of \$2,300,000 and will be expensed over the life of the Debenture.

The Debentures have a coupon of 6.00% per annum, and are convertible into units of the Company (each, a "Unit") at a conversion price of \$0.11 per Unit. The Debentures will mature and be repayable three years from the date of issue. The Debentures will be repaid in cash at maturity on September 30, 2022, subject to earlier conversion by the holder or the Company as detailed below. The Debentures are subject to a four month hold period.

Upon the 10-day volume weighted average trading price (the "Market Price") of the common shares of Company (each, a "Common Share") equaling or exceeding \$0.18, the Debentures will, at the option of the holders or the Company, be convertible into Units at any time prior to the close of business on the business day immediately preceding the maturity date. Each Unit will be comprised of one Common Share and one Common Share purchase warrant (each, a "Warrant"). Each Warrant will entitle the holder to purchase one Common Share at a price of \$0.11 for a period of two years following the date of issuance. The Warrants will vest in three tranches every four months from the date of issuance, provided that the Market Price of the Common Shares has equaled or exceeded \$0.18 prior to the vesting date.

At September 30, 2019, the Company is in compliance with all of its debt covenants.

## 11. Lease liabilities:

The Company's lease liabilities consist of its Calgary premises office lease repayable at \$11,400 per month expiring August 31, 2020 and includes an option to extend for an additional two years after this date, a CNC Lathe machining unit, repayable at USD\$2,390 per month expiring on October 20, 2023 with a \$nil purchase option, two vehicle leases repayable at \$2,620 per month expiring on June 30, 2020 and October 15, 2020 and one photocopier repayable at \$222 per month expiring on June 30, 2022.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 9

As at and for the three and nine months ended September 30, 2019

## 11. Lease liabilities (continued):

The following table provides a reconciliation of the carrying amount of the lease liabilities recognized on initial adoption of the lease standard on January 1, 2019 pertaining to the Company's right-of-use assets:

	Lease liabilities
Total lease liabilities, January 1, 2019	\$ 664,529
Lease payments	(156,734)
Interest expense	26,523
Effect of movement in foreign exchange rates	3,175
Total lease liabilities, September 30, 2019	\$ 537,493
Less: current portion of lease liabilities	\$ 177,933
Long-term lease liabilities, September 30, 2019	\$ 359,560

As of September 30, 2019, lease liabilities, including the two-year office lease extension using the current monthly lease rate, mature over the next five fiscal years as follows:

2019	\$ 52,120
2020	196,783
2021	177,045
2022	130,112
2023	31,316
	\$ 587,376

During the quarter ended September 30, 2019, the Company expensed \$15,979 (2018 - \$14,708), relating to low value lease commitments and \$11,566 (2018 - \$11,251) of variable lease payments for its office space, both of which are exclusive of GST and included in general and administration expenses.

During the nine months ended September 30, 2019, the Company expensed \$47,831 (2018 - \$43,771), relating to low value lease commitments and \$35,863 (2018 - \$32,827) of variable lease payments for its office space, both of which are exclusive of GST and included in general and administration expenses.

## 12. Share capital:

Details of the Company's share capital are as follows:

### (a) Authorized

Unlimited number of common shares, no par value

Unlimited number of preferred shares, no par value

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 10

As at and for the three and nine months ended September 30, 2019

## 12. Share capital (continued):

(b) Issued:

	Common Shares	Amount
Balance, December 31, 2017	98,616,335	\$ 26,537,756
Private placement issuance	14,583,333	3,452,210
Shares issued upon agent warrant exercise	383,005	143,386
Expiry of agent warrants	–	6,781
Balance, December 31, 2018	113,582,673	\$ 30,140,133
Balance, September 30, 2019	113,582,673	\$ 30,140,133

On May 11, 2018 and June 4, 2018, the Company completed a private placement issuance in two tranches for 14,583,333 common shares for total gross proceeds of \$3,500,000. Net proceeds, after share issuance costs of \$47,790, amounted to \$3,452,210.

For the year ended December 31, 2018, 383,005 agent warrants were exercised for cash proceeds of \$95,750 and 54,524 agent warrants expired on August 11, 2018 which were originally issued through the February 2017 private placement financing. The initial fair value ascribed to these warrants and recorded against share issuance costs was \$54,417 upon issuance based on the Black-Scholes valuation model using an expected life of 1.5 years, a risk-free interest rate of 0.60% and an expected volatility rate of 107% as the underlying assumptions. Upon the exercise of the 383,005 agent warrants, \$47,636 of fair value was included in the value of the shares issued for a total share capital value of \$143,386. The remaining fair value of \$6,781 ascribed to the expiry of 54,524 agent warrants was reversed against share issuance costs where it was originally reported, thus increased the value of share capital (which is net of share issuance costs) by the same amount.

In addition, all the share purchase warrants issued through the February 2017 private placement expired on February 11, 2019 and February 21, 2019. See note 12(d) below.

(c) Stock options:

The Company grants stock options for the benefit of directors, officers, employees and consultants of the Company. The options may be granted, at the discretion of the Board of Directors, to purchase not more than 10% of the Company's issued and outstanding common shares at any point in time. This rolling option plan was approved by the Company's shareholders on December 5, 2018.

All stock options issued by the Company have an exercise price that is equal to the market price of the underlying shares on the date of the grant. All options granted expire five years after the date of the grant, unless an extension is granted by the Board of Directors not to exceed a maximum term of ten years. The vesting terms vary by grant with one-third released at each of three specified dates during the vesting period.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 11

As at and for the three and nine months ended September 30, 2019

## 12. Share capital (continued):

(c) Stock options (continued):

The following movement of stock options occurred:

	Number	Weighted-average exercise price (\$)
Options outstanding, December 31, 2017	6,865,000	0.32
Options granted	1,050,000	0.32
Options forfeited	(225,000)	0.39
Options expired	(700,000)	0.42
Options outstanding, December 31, 2018	6,990,000	0.31
Options granted	3,000,000	0.11
Options forfeited	(500,000)	0.38
Options outstanding, September 30, 2019	9,490,000	0.24
Options exercisable, September 30, 2019	5,211,667	0.31

At September 30, 2019, the following options were outstanding and exercisable:

Grant date	Options outstanding			Options exercisable	
	Number of options	Exercise price (\$)	Years to expiry	Number of options	Exercise price (\$)
August 24, 2012	2,251,250	0.24	2.32	2,251,250	0.24
November 18, 2014	200,000	1.15	0.13	200,000	1.15
December 4, 2014	130,000	0.98	0.18	130,000	0.98
April 30, 2015	70,000	1.25	0.58	70,000	1.25
October 29, 2015	5,000	0.52	1.08	5,000	0.52
May 29, 2017	910,000	0.205	2.66	606,667	0.205
November 24, 2017	2,073,750	0.24	3.15	1,715,417	0.24
February 23, 2018	700,000	0.39	3.40	233,333	0.39
November 26, 2018	150,000	0.19	4.16	–	0.19
September 4, 2019	3,000,000	0.11	4.93	–	0.11
	9,490,000	0.24 <sup>(1)</sup>		5,211,667	0.31 <sup>(1)</sup>

(1) Weighted average

During the three months ended September 30, 2019, \$64,603 (2018 - \$88,220) of stock-based compensation was recognized in the Statement of Loss and Comprehensive Loss.

During the nine months ended September 30, 2019, \$143,884 (2018 - \$277,138) of stock-based compensation was recognized in the Statement of Loss and Comprehensive Loss.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 12

As at and for the three and nine months ended September 30, 2019

## 12. Share capital (continued):

### (c) Stock options (continued):

The following weighted average assumptions were used in the Black-Scholes option pricing model to determine the fair value of the 3,000,000 options granted during the nine months ended September 30, 2019 and 700,000 options granted during the nine months ended September 30, 2018:

	2019	2018
Weighted average share price	\$ 0.11	\$ 0.39
Risk free interest rate	1.2%	2.0%
Expected life	4.6 yrs	4.6 yrs
Expected volatility	138%	123%
Pre-vest forfeiture rate	12%	13%
Expected annual dividend yield	0%	0%

The weighted average fair value of options granted during the nine months ended September 30, 2019 was \$0.11 per option (2018 - \$0.32 per option).

Volatility is calculated based on the historical daily price change in the Company's closing price on the TSX-V Exchange over the one year period prior to the stock option grant date.

### (d) Share purchase warrants:

	Warrants	Amount
Warrants outstanding, December 31, 2018	4,466,072	\$ 419,177
Share purchase warrants expired	(4,466,072)	(419,177)
Warrants outstanding, September 30, 2019	–	\$ –

All share purchase warrants issued through the February 2017 private placement expired on February 11, 2019 and February 21, 2019. The fair value ascribed to these warrants was \$419,177 upon issuance based on the Black-Scholes valuation model using an expected life of 1.5 years, a risk-free interest rate of 0.60% and an expected volatility rate of 107% as the underlying assumptions. The fair value of \$419,177 was transferred to contributed surplus as reported on the Statement of Financial Position on each of the expiry dates.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 13

As at and for the three and nine months ended September 30, 2019

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## 12. Share capital (continued):

(e) Loss per share calculation:

The weighted average number of common shares used in calculating the net loss per share for the three months ended September 30, 2019 is 113,582,673 (2018 – 113,553,991) and nine months ended September 30, 2019 is 113,582,673 (2018 – 106,088,745). The effect of all stock options outstanding has been excluded from the calculation in periods where the Company reported a loss, as they are anti-dilutive.

## 13. Financial instruments and risk management:

The Company's financial instruments are represented by cash, trade receivables, deposits, trade payables, long-term debt and finance lease obligations.

The Company is exposed to financial risks arising from normal course business operations and its financial assets and liabilities. The financial risks include liquidity risk, interest rate risk, credit risk and foreign currency exchange risk.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk by investing excess cash in a fully liquid investment bank account. This allows the Company to have access to additional funds in a very short time frame. All financial liabilities are due within one year with the exception of the Company's long-term debt which is due within three years.

As disclosed in note 10, the Company closed a Debenture private placement for gross proceeds of \$900,000 as well as acquired the assets of 1955554 Alberta Ltd which included \$300,000 in cash for consideration of \$1.4 million of Debentures, both of which closed on September 30, 2019. The Company believes this cash injection and projected revenues will be sufficient to complete its strategic objectives through 2020 based on current forecasts. However, the Company's ability to accomplish its plans beyond this is dependent upon the addition of positive cash flow through the successful commercialization of its products and obtaining additional financing, if necessary, to complete the commercialization process; however, there is no assurance that the Company will achieve these objectives. Refer to the going concern discussion in note 2.

### *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk if the cash flows generated from its cash fluctuate in response to changes in market interest rates.

At September 30, 2019, cash was comprised of \$1,473,672, of which \$519,968 was held on deposit in a HSBC commercial investment account which earns a fixed interest of 1.75% per annum for balances held over \$1,000,000, thus the Company has no exposure to fluctuating market interest rates.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 14

As at and for the three and nine months ended September 30, 2019

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## 13. Financial instruments and risk management (continued):

### *Credit risk*

The Company is exposed to credit risk where a financial loss would be experienced if a counterparty to a financial asset failed to meet its obligations. The Company's maximum credit risk exposure is limited to the carrying values of its cash, trade receivables and deposits as disclosed in the consolidated financial statements as at September 30, 2019.

The Company mitigates its exposure to credit risk with respect to cash by maintaining its bank accounts and cash investments with a major international bank, thus the Company's management believes the credit risk associated with cash is low.

The Company manages its credit risk with respect to trade receivables and deposits by performing credit evaluations of its customers and only grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. The trade receivables balance at September 30, 2019 consists of amounts owing from ten customers and the federal government for GST refunds. The majority of the balance owing has been or is expected to be collected subsequent to the quarter-end. The Company has fully provided for one customer invoice in the amount of \$22,357 in its Allowance for Doubtful Accounts provision. The Company's historical expected credit loss is insignificant.

### *Foreign Currency Exchange Risk*

Events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's incoming revenue may be earned in U.S. dollars, but a substantial portion of its operating expenses may be incurred in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results.

## 14. Supplemental cash flow information:

Changes in non-cash operating assets and liabilities for nine months ended September 30, 2019 and 2018 are as follows:

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	2019	2018
Trade receivables	\$ (278,405)	\$ 130,605
Inventories	169,932	(433,546)
Prepaid expenses and deposits	29,010	(20,604)
Trade payables and accrued liabilities	6,414	58,099
Other current financial liabilities	18,725	3,862
Deferred revenue	—	98,000
Change in non-cash working capital	\$ (54,324)	\$ (163,584)

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# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 15

As at and for the three and nine months ended September 30, 2019

## 15. General and administration expenses:

General and administration expenses for the three and nine months ended September 30, 2019 and 2018 consisted of the following:

	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Sub-contracted and consulting fees	\$1,119,610	\$ 20,858	\$ 1,153,199	\$ 57,389
Salaries and benefits <sup>(1)</sup>	212,293	160,540	588,706	397,279
Salaries and benefits <sup>(2)</sup>	159,838	151,263	490,642	415,188
Legal, audit & accounting	70,214	71,488	146,766	152,939
Facilities	16,783	51,593	63,852	150,913
Other administration	50,272	94,234	131,456	185,123
	<u>\$1,629,010</u>	<u>\$ 549,976</u>	<u>\$ 2,574,621</u>	<u>\$ 1,358,831</u>

(1) HARP commercialization

(2) Administration

## 16. Capital management:

The Company requires capital to finance the commercialization of its products, its planned research and development activities, intellectual property expansion and protection, product manufacturing as well as for corporate administration, capital expenditures and to minimize dilution to existing shareholders whenever possible.

The fundamental components of the Company's capital structure include cash and shareholders' equity, which comprise share capital, warrants, contributed surplus and deficit. The following table summarizes the Company's capital as at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
<b>Cash</b>	<b>\$ 1,473,672</b>	<b>\$ 2,005,486</b>
Share capital	\$30,140,133	\$30,140,133
Warrants	—	419,177
Contributed surplus	3,649,652	3,086,591
Deficit	(27,988,533)	(25,158,008)
<b>Shareholders' equity</b>	<b>\$ 5,801,252</b>	<b>\$ 8,487,893</b>

In managing capital, the Company estimates its future cash requirements by preparing a quarterly cash-flow forecast for review by the Company's management and Board of Directors. The cash-flow forecast estimates the costs associated with approved activities for the upcoming year. Forecast to actual variances are prepared quarterly for review by the Company's management.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 16

As at and for the three and nine months ended September 30, 2019

## 16. Capital management (continued):

Financing decisions are based on the timing and extent of expected operating and capital cash outlays. Factors considered when determining whether to take on new debt or to issue equity include the amount of cash sought, the availability of these sources and their terms, and the need to balance value creation for shareholders against the increased liquidity risks associated with debt.

The Company works toward managing its capital objectives to the extent possible while facing the challenges of market conditions and the public's assessment of the Company's risk profile.

## 17. Provisions:

	Maintenance Warranty
Provision balance, December 31, 2018	\$ 15,865
Additions	30,750
Utilized	(12,025)
Provision balance, September 30, 2019	\$ 34,590

A provision is recognized for expected maintenance warranty claims on products sold during the year. The provision reflects the estimated costs of repair or replacement and free-of-charge services that may be incurred by the Company with respect to products sold. Assumptions used to calculate the provision were based on current sales levels and current information available about returns based on the one-year warranty period for all products sold in Canada. It is expected that most of these costs will be incurred within the current financial year.

## 18. Deferred Revenue:

	Deferred Revenue
Balance, December 31, 2018	\$ 538,000
Additions	—
Balance, September 30, 2019	\$ 538,000

The Company's deferred revenue balance at September 30, 2019 consists of cash payments of \$440,000 (December 31, 2018 - \$440,000) received from a third party during the year ended December 31, 2012. The amount paid will be used as a credit by the third party to apply against future purchases of the Company's products and services.

The additional balance in deferred revenue at September 30, 2019 consist of cash payments of \$98,000 (December 31, 2018 - \$98,000) received for Project Revenue for which services have not yet been completed.

The amounts received have been recorded as current deferred revenue as at September 30, 2019 and December 31, 2018 and will be recognized into revenue as future purchases are completed, services completed or inventory delivered.

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 17

As at and for the three and nine months ended September 30, 2019

## 19. Segmented Information:

The Company's segmented information disclosure is based on reportable operating segments according to the products and services each segment provides.

The patent pending Raise Efficient Artificial Lift ("REAL") system segment provides an artificial lift solution for the build and vertical section of a horizontal wellbore. REAL addresses the production challenges and downtime associated with currently available artificial lift technology, particularly in high gas to oil ratio wells. REAL includes the High Angle Reciprocating Pump ("HARP") with the addition of certain downhole tools, such as horizontal separation, sand control, velocity flow tubes and pack off assemblies for flow control. The initial sales to date for this segment have included the HARP only.

The patented Horizontal Artificial Recovery Technology ("HART") segment provides an artificial lift solution for the lateral section of a horizontal wellbore which consists of multiple pumps running in parallel along the horizontal wellbore to access trapped or stranded reserves and draw fluid from the toe area of the wellbore. This product is in the development stage and has not yet generated revenue from commercial sales to external customers. All costs incurred for this segment have been capitalized as HART development costs beginning April 1, 2013.

The Engineering Project Consulting segment provides engineering services to external customers for the design and development of new artificial lift products. No revenue was earned or expenses were incurred for Engineering Project Consulting during the nine months ended September 30, 2019 and 2018.

The Corporate segment includes interest earned on cash balances and costs related to administrative activities that support all segments.

<b>Total Company Revenue</b>	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Raise Efficient Artificial Lift	\$ 305,378	\$ 80,840	\$ 748,889	\$ 288,368
Corporate	4,656	10,947	13,660	17,738
<b>Total</b>	<b>\$ 310,034</b>	<b>\$ 91,787</b>	<b>\$ 762,549</b>	<b>\$ 306,106</b>

<b>Net Loss</b>	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Raise Efficient Artificial Lift	\$ (184,936)	\$ (202,973)	\$ (477,323)	\$ (460,061)
Corporate	(1,555,400)	(460,702)	(2,353,202)	(1,266,017)
<b>Total</b>	<b>\$ (1,740,336)</b>	<b>\$ (663,675)</b>	<b>\$ (2,830,525)</b>	<b>\$ (1,726,078)</b>

# RAISE PRODUCTION INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited), page 18

As at and for the three and nine months ended September 30, 2019

## 19. Segmented Information (continued):

<b>Capital Expenditures (Additions)</b>	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Raise Efficient Artificial Lift	\$ –	\$ –	\$ –	\$ –
Horizontal Artificial Recovery Technology	1,421	–	36,865	11,468
Corporate	8,209	–	15,844	5,839
<b>Total</b>	<b>\$ 9,630</b>	<b>\$ –</b>	<b>\$ 52,709</b>	<b>\$ 17,307</b>

<b>Intangible Assets (including Goodwill)</b>	September 30, 2019	December 31, 2018
Raise Efficient Artificial Lift	\$ –	\$ –
Horizontal Artificial Recovery Technology	6,074,573	6,037,708
Corporate	–	–
<b>Total</b>	<b>\$6,074,573</b>	<b>\$ 6,037,708</b>

<b>Total Assets</b>	September 30, 2019	December 31, 2018
Raise Efficient Artificial Lift	\$ 867,610	\$ 785,624
Horizontal Artificial Recovery Technology	6,312,526	6,296,687
Corporate	2,265,898	2,432,371
<b>Total</b>	<b>\$ 9,446,034</b>	<b>\$ 9,514,682</b>

For the nine months ended September 30, 2019, revenues from one customer was greater than 10% of the Company's total revenue amounting to \$250,916 of revenue earned in the REAL segment.

## 20. Revenue from Contracts with Customers

Set out below is the disaggregation of the Company's revenue from contracts with customers in addition to the segmented information provided in note 19.

<b>Contracts with Customers by Geographical Market</b>	Three months ended Sept 30		Nine months ended Sept 30	
	2019	2018	2019	2018
Raise Efficient Artificial Lift - Canada	\$ 239,406	\$ 80,840	\$ 414,415	\$ 206,218
Raise Efficient Artificial Lift - USA	65,972	–	334,474	82,150
Corporate and Other	4,656	–	4,724	1,050
<b>Total</b>	<b>\$ 310,034</b>	<b>\$ 80,840</b>	<b>\$ 753,613</b>	<b>\$ 289,418</b>