



Audited Financial Statements
Years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

Management is responsible for the integrity and fair presentation of the financial information contained in this annual report. Where appropriate, the financial information, including financial statements, reflects amounts based on best estimates and judgments of management. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Financial information presented elsewhere in the annual report is consistent with that disclosed in the financial statements.

The Company maintains internal accounting control systems that are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with external auditors and management to review the work of each and the priority of the discharge of their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors, the financial statements and the annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed Ernst & Young LLP as external auditors of the Company.



Eric Laing
President and Chief Executive Officer



Susan Scullion, CA
Chief Financial Officer

April 25, 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Raise Production Inc.**

Opinion

We have audited the financial statements of Raise Production Inc. (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net loss and comprehensive loss of \$2,547,766 during the period ended December 31, 2018 and as of that date, the Company had an accumulated deficit of \$25,158,008. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other

information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Jubenvill.

Ernst + Young LLP

Chartered Professional Accountants

Calgary, Canada

April 25, 2019

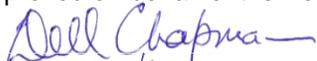
RAISE PRODUCTION INC.

Statements of Financial Position

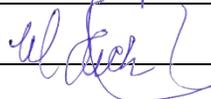
	As at December 31, 2018	As at December 31, 2017
Assets (note 5)		
Current assets:		
Cash and cash equivalents	\$ 2,005,486	\$ 729,124
Trade receivables (note 11)	62,012	252,294
Inventories (note 6)	686,637	308,808
Prepaid expenses and deposits	48,982	48,154
	<u>2,803,117</u>	<u>1,338,380</u>
Non-current assets:		
Property and equipment (note 7)	636,296	507,901
Intangible assets and goodwill (note 7)	6,037,708	6,164,196
Deposits	37,561	36,307
Total Assets	<u>\$ 9,514,682</u>	<u>\$ 8,046,784</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities	\$ 316,634	\$ 428,061
Other current financial liabilities (note 15)	15,865	30,000
Finance lease obligation (note 10)	28,817	13,154
Deferred revenue (note 16)	538,000	440,000
	<u>899,316</u>	<u>911,215</u>
Non-current liabilities:		
Finance lease obligation (note 10)	127,473	—
Total Liabilities	<u>1,026,789</u>	<u>911,215</u>
Commitments (note 10)		
Shareholders' equity:		
Share capital (note 8)	30,140,133	26,537,756
Warrants (note 8)	419,177	473,594
Contributed surplus	3,086,591	2,734,461
Deficit	(25,158,008)	(22,610,242)
Total Shareholders' Equity	<u>8,487,893</u>	<u>7,135,569</u>
Total Liabilities and Shareholders' Equity	<u>\$ 9,514,682</u>	<u>\$ 8,046,784</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

RAISE PRODUCTION INC.

Statements of Loss and Comprehensive Loss

Years ended December 31

	2018	2017
Revenue from contracts with customers (note 18)	\$ 335,091	\$ 333,824
Cost of sales (note 6)	270,037	258,838
Gross margin	65,054	74,986
Other income	26,649	22,381
Expenses:		
General and administration (note 13)	1,960,083	1,576,892
Stock-based compensation (note 8)	352,130	330,786
Research expenses	156,742	98,790
Depreciation and amortization (note 7)	91,634	100,703
Inventory impairment (note 6)	74,574	–
Finance costs	4,306	7,840
	2,639,469	2,115,011
Net loss and comprehensive loss	\$(2,547,766)	\$(2,017,644)
Net loss per common share (note 8(e)):		
Basic and diluted	\$ (0.02)	\$ (0.02)

See accompanying notes to financial statements.

RAISE PRODUCTION INC.

Statements of Changes in Shareholders' Equity

	Share Capital	Contributed Surplus	Warrants	Deficit	Total
	(note 8)	(note 8)	(note 8)		
Balance at December 31, 2016	\$ 24,780,142	\$ 2,503,279	\$ –	\$ (20,592,598)	\$ 6,690,823
Net loss	–	–	–	(2,017,644)	(2,017,644)
Shares issued	1,813,859	–	–	–	1,813,859
Warrants issued	–	–	473,594	–	473,594
Share issuance expenses	(216,720)	–	–	–	(216,720)
Stock-based compensation	–	287,707	–	–	287,707
Exercise of stock options	160,475	(56,525)	–	–	103,950
Balance at December 31, 2017	\$ 26,537,756	\$ 2,734,461	\$ 473,594	\$ (22,610,242)	\$ 7,135,569
Net loss	–	–	–	(2,547,766)	(2,547,766)
Shares issued	3,500,000	–	–	–	3,500,000
Share issuance expenses	(47,790)	–	–	–	(47,790)
Stock-based compensation	–	352,130	–	–	352,130
Exercise of agent warrants	143,386	–	(47,636)	–	95,750
Expiry of agent warrants	6,781	–	(6,781)	–	–
Balance at December 31, 2018	\$ 30,140,133	\$ 3,086,591	\$ 419,177	\$ (25,158,008)	\$ 8,487,893

See accompanying notes to financial statements.

RAISE PRODUCTION INC.

Statements of Cash Flows

Years ended December 31

	2018	2017
Operating activities:		
Net loss	\$(2,547,766)	\$(2,017,644)
Items not involving cash:		
Depreciation and amortization	91,634	100,703
Stock-based compensation (note 8)	352,130	330,786
Change in long-term deposits	(1,254)	(36,307)
Net change in non-cash operating working capital (note 12)	(112,938)	(171,136)
Cash used in operating activities	(2,218,194)	(1,793,598)
Financing activities:		
Private placement issuance (note 8)	3,452,210	2,070,733
Issuance of shares – agent warrant exercise (note 8)	95,750	–
Finance lease payments (note 10)	(17,920)	(71,544)
Issuance of shares – option exercise (note 8)	–	103,950
Cash provided by financing activities	3,530,040	2,103,139
Investing activities:		
Horizontal wellbore system development (note 7)	(32,951)	(461,922)
Horizontal wellbore system development recovery (note 7)	159,439	–
Purchase of property and equipment (note 7)	(58,972)	(59,895)
Net change in non-cash investing working capital (note 12)	(103,000)	165,725
Cash used in investing activities	(35,484)	(356,092)
Net increase (decrease) in cash	1,276,362	(46,551)
Cash, beginning of year	729,124	775,675
Cash, end of year	\$ 2,005,486	\$ 729,124
Cash interest received on bank balance	\$ 26,649	\$ 22,381
Cash interest paid on finance leases	\$ 1,791	\$ 5,668

See accompanying notes to financial statements.

RAISE PRODUCTION INC.

Notes to Financial Statements

Years ended December 31, 2018 and 2017

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 annual financial statements were approved and authorized for issuance by the Board of Directors (the “Board”) on April 25, 2019.

2. Going concern:

These annual 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 \$2,547,766 during the year ended December 31, 2018 and as of that date, the Company had an accumulated deficit of \$25,158,008. 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, if required, in order to fund operations. While the Company has been successful attracting external financing to date (see Note 8 and Note 11), 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 annual 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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

The preparation of these 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 financial statements are described in Note 4.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 2

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies:

Significant accounting policies applied in the preparation of the financial statements are as follows:

(a) Accounting policies adopted in 2018:

The Company adopted the following new and revised standards effective January 1, 2018, both of which did not require restatement of previous financial statements. The nature and effect of these changes are disclosed below.

i) IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)

The Company adopted IFRS 15 on January 1, 2018 using the modified retrospective method and has elected to apply this method to all contracts not completed as of this date.

IFRS 15 establishes a control based revenue recognition model under which revenue is recognized when control of the underlying goods or services for the particular performance obligation is transferred to the customer. This achieved by applying the following five steps:

1. Identify the contract with the customer;
2. Identify the performance obligation in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when, or as, the entity satisfies a performance obligation.

The adoption of IFRS 15 did not materially affect the timing or amount of revenue previously recognized, therefore, prior periods presented have not been restated.

Open contracts on January 1, 2018 consisted of the Company’s USA distribution agreement with Endurance Lift Solutions, LLC. (“ELS”) for its Raise Efficient Artificial Lift (“REAL”) system, previously referred to as the High Angle Lift Solution (“HALS”), and the Company’s contract liability with Shellbrook Energy Ltd. for \$440,000 in deferred revenue to be applied against future purchases of the Company’s Horizontal Artificial Recovery Technology (“HART”) as disclosed in note 16 and described as “Deferred Revenue” in the Statements of Financial Position.

The Company’s contracts with customers for the sale of its High Angle Reciprocating Pump (“HARP”), REAL and HART, have one performance obligation, the delivery of the HARP, REAL or HART (“Raise Product”) to the customer. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition and there is no impact on the opening Statements of Loss.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 3

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(a) Accounting policies adopted in 2018 (continued):

The typical timing of payment upon completion of the performance obligation is within 90 days of delivery of the Raise Product to the customer, which has no effect on the contract asset balance. The Company does not allow the right to return the product for a refund, thus the payment terms do not include variable components.

The Company does provide an assurance-type warranty for general repairs of defects in materials and workmanship that existed at the time of sale for a period of one year from the date of delivery, which the Company accounts for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

ii) IFRS 9, *Financial Instruments* (“IFRS 9”)

The Company adopted IFRS 9 retrospectively as of January 1, 2018. The application of this standard does not result in a material change to the classification and measurement of the Company’s financial instruments.

The Company’s financial instruments are represented by cash, trade receivables, deposits and trade payables. The classification and measurement of the Company’s financial instruments under the previous standard IAS 39 and IFRS 9 is as follows:

	IAS 39	IFRS 9
Cash	Amortized Cost	Amortized Cost
Trade receivables	Amortized Cost	Amortized Cost
Deposits	Amortized Cost	Amortized Cost
Trade payables	Amortized Cost	Amortized Cost

(b) Cash and cash equivalents:

Cash consists of operating and investment bank accounts. The Company earns a fixed interest of 1.75% per annum in its investment bank account for balances held over \$1,000,000.

(c) Inventories:

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (“FIFO”) method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realizable value is the estimated selling price less applicable selling expenses.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 4

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(d) Property and equipment:

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss and comprehensive loss during the period in which they are incurred.

Property and equipment are assessed for indicators of impairment at each reporting date. An item of property and equipment is derecognized when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of loss and comprehensive loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Property and equipment are depreciated over their estimated useful lives at the following rates and methods:

Leasehold improvements	term of lease	straight-line method
Shop equipment and office furniture	20%	declining balance method
Capital lease equipment	10%	declining balance method
Computer hardware and software	36%	straight-line method
Field trucks and trailers	36%	straight-line method

(e) Leases:

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement, which involves assessing whether the fulfillment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The classification of leases as financing or operating leases requires the Company to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly, whether the lease requires an asset and liability to be recognized on the balance sheet. Finance leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the Company are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 5

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(e) Leases (continued):

The Company leases assets, which consist of both operating leases and finance leases. Operating lease payments are recognized as an expense in the statement of loss and comprehensive loss on a straight-line basis over the lease term. Finance lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of loss and comprehensive loss when incurred.

Leasehold inducements are rent-free periods received by the Company on an operating lease for premises from the property owner. Inducements are amortized over the term of the lease and reduce rent expense.

(f) Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense on intangible assets with finite lives is recognized in the statement of loss and comprehensive loss.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually or when indicators of impairment are present, at the cash-generating unit level.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of loss and comprehensive loss when the asset is derecognized.

The Company's intangible assets are comprised of patented technology, licenses and rights and internally generated development costs with finite useful lives and goodwill with an indefinite useful life. The patents, licenses and rights are capitalized and amortized on a straight-line basis in the statement of loss and comprehensive loss over the period of their expected useful lives as follows:

Patented technology, licenses and rights	20%	straight-line method
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RAISE PRODUCTION INC.

Notes to Financial Statements, page 6

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(f) Intangible assets (continued):

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are capitalized and recognized as an intangible asset if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met.

The Company determined its Horizontal Artificial Recovery Technology (“HART” or the “System”), which was previously referred to as the Horizontal Wellbore Production System was in the development stage beginning April 1, 2013 and began capitalizing all development costs from that date. All costs incurred prior to this date, related to research were expensed in the statement of loss and comprehensive loss. The System will be amortized over its estimated useful life of twenty years when it is ready for use in the manner intended by management.

The Company has recognized research expenses related to the design and development of patent pending downhole tools that form part of the Company’s Raise Efficient Artificial Lift (“REAL”) system during the years ended December 31, 2018 and December 31, 2017. All costs incurred related to research have been expensed in the statement of operations.

(g) Impairment of non-financial assets:

Property and equipment and intangible assets are assessed for indicators of impairment at each reporting date. Intangible assets with an indefinite life, intangible assets that are not yet available for use and goodwill are tested for impairment at least annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of assessing indicators of impairment or measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs).

If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. The recoverable amount is determined as the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from the other assets or groups of assets. Fair value less costs of disposal may be determined using future net cash flows of the asset or CGU. Value in use is determined by estimating the present value of future net cash flows expected to be derived from the continued use of the asset.

If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of loss and comprehensive loss so as to reduce the carrying amount of the asset to its recoverable amount. Any previously recognized impairment loss will not be reversed unless there is a change in the estimates used to determine the asset’s or CGU’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset or CGU is increased to its recoverable amount.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 7

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(g) Impairment of non-financial assets (continued):

The recoverable amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior years. Such reversal is recognized in the statement of loss and comprehensive loss. Goodwill impairments are not reversed in subsequent periods even if the recoverable amount exceeds the carrying amount of the CGU.

(h) Revenue recognition:

The Company adopted IFRS 15 on January 1, 2018 as discussed above in note (4)(a)(i).

The Company currently generates revenue from the sale of a component of its proprietary REAL system, the High Angle Reciprocating Pump (“HARP”) and project technology development (“Project Revenue”).

Revenue from the sale of HARP’s and Project Revenue is recognized at a point in time when control of the underlying goods or services manufactured or developed for the particular performance obligation is transferred to the customer. This is generally met at the time the product is shipped and delivered to the customer and depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

A contract liability is recorded when payment has been received by the Company before delivery of a product or completion of services. If there is no unconditional right to defer delivery of a product or completion of services for a period greater than 12 months, the contract liability is classified as current, otherwise it is classified as long-term. Contract liabilities are recognized as revenue of the Company when the delivery of the product or completion of services occurs. Contract liabilities are removed as a liability of the Company and recognized in income if the product or services are no longer required to be completed.

As at and during the year ended December 31, 2017 (prior to the implementation of IFRS 15), the Company’s revenue recognition policy was as follows:

Revenue from Project Revenue was recognized by stage of completion of services contracted, when it is probable that the economic benefits will flow to the Company, the sales price is fixed or determinable, and collectability is reasonably assured. Stage of completion was measured by reference to the completion of pre-determined stages within each phase of the project completed to date as a percentage of the total phase completion required for each contract.

All other revenue was recognized when it was probable that the economic benefits will flow to the Company and delivery has occurred, the sales price was fixed or determinable, and collectability was reasonably assured. These criteria were generally met at the time the product was shipped and delivered to the customer and depending on the delivery conditions, title and risk had passed to the customer and acceptance of the product, when contractually required, had been obtained.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 8

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(i) Income taxes:

Income tax expense consists of current and deferred taxes. It is recognized in the statement of loss and comprehensive loss, except to the extent that the expense relates to items recognized directly in shareholders' equity, in which case, the income tax is also recognized directly in equity.

Current income tax is the expected tax payable or recoverable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or recoverable in respect of previous years. Current tax assets and current tax liabilities are offset if a legally enforceable right exists to offset the recognized amounts and the Company intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred income tax is the tax expected to be payable or recoverable on differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax assets are recognized to the extent that it is more likely than not that taxable profit will be available against which deductible temporary differences can be utilized and deferred tax liabilities are generally recognized for all taxable temporary differences. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax assets and liabilities are measured using rates that are expected to be applied to the temporary differences when they reverse. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer more likely than not that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The Company's policy is to recognize Scientific Research and Experimental Development ("SR&ED") credits when the research program is approved by the Canada Revenue Agency ("CRA") or is a continuation of a previously approved program. SR&ED credits are recorded as a reduction of capitalized assets.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(j) Financial instruments:

The Company adopted IFRS 9 on January 1, 2018 as discussed above in note (4)(a)(ii).

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the financial instrument's classification, as described below:

i) Fair Value through profit or loss ("FVTPL")

Financial assets and liabilities designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with subsequent changes in fair value charged to the Statements of Loss.

ii) Amortized cost

Amortized cost and other financial liabilities are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method, net of any impairment. The Company includes cash, trade receivables, deposits, trade payables and finance lease obligations within the amortized cost category.

iii) Fair value through other comprehensive income ("FVTOCI")

Financial assets designated at fair value through other comprehensive income are measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not currently have any financial assets classified as FVTOCI.

Any subsequent reclassification of financial assets and liabilities from their initial recognition will be reclassified on the first day of the reporting period.

As at and during the year ended December 31, 2017 (prior to the implementation of IFRS 9), the Company's financial instruments policy was as follows:

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(j) Financial instruments (continued):

At initial recognition, the Company classified its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit or loss: A financial asset or liability was classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category were recognized initially and subsequently at fair value. Transaction costs were expensed in the statement of loss and comprehensive loss.

Gains and losses arising from changes in fair value were presented in the statement of loss and comprehensive loss within other gains and losses in the period in which they arise. The Company had no financial assets or liabilities at fair value through profit or loss.

- Available-for-sale assets: A financial asset was classified in this category if it was a non-derivative financial asset that was designated as available for sale or was not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. The Company had no available-for-sale assets.
- Assets held-to-maturity: Assets held-to-maturity were non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity other than those classified as either fair value through profit or loss, available for sale or loans receivable. The Company had no assets held-to-maturity.
- Loans and receivables: Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. The Company's loans and receivables comprised trade receivables, prepaid deposits and cash. Loans and receivables were initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables were measured at amortized cost using the effective interest method less a provision for impairment.
- Financial liabilities at amortized cost: Financial liabilities at amortized cost comprised trade payables. Trade payables were initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables were measured at amortized cost using the effective interest method.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(k) Impairment of financial assets:

Impairment of financial assets is determined by measuring the assets' expected credit losses ("ECLs"). Due to the Company's financial assets not containing a significant financing component because they are due within 30 days of the invoice date, the Company uses the simplified approach and recognizes lifetime ECL's on its trade receivables. Lifetime ECLs are the anticipated ECLs that result from possible default events over the expected life of a financial asset based on historical observed default rates and adjusted for forward-looking estimates at each reporting date. ECLs are not required to be discounted using the simplified approach.

As at and during the year ended December 31, 2017 (prior to the implementation of IFRS 9), the Company's impairment of financial assets policy was as follows:

At each reporting date, the Company assessed whether there was objective evidence that a financial asset was impaired. If such evidence existed, the Company recognized an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset was reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost were reversed in subsequent periods if the amount of the loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized.

(l) Use of estimates and judgments:

These financial statements, prepared in accordance with IFRS, include estimates, judgments and assumptions by management that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

The accounting policies and practices that involve the use of estimates that have a significant impact on the Company's financial results include the allowance for doubtful accounts, valuation of inventory, depreciation and amortization, capitalization of development costs, impairment of non-financial assets and stock-based compensation and warrants.

Allowance for doubtful accounts

Customer receivables are regularly monitored and an allowance for doubtful accounts is established based upon lifetime ECL's using historical observed default rates and adjusted for forward-looking estimates at each reporting date.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 12

Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(l) Use of estimates and judgements (continued):

Valuation of inventory

Inventory is tested for impairment at each reporting date by comparing the cost of the inventory with its net realizable value. The net realizable value is determined from recent sales of the product less applicable selling expenses. If no recent sales by the Company have occurred, sales of the same or similar products by other similar companies will be reviewed if available. If no recent sales information is available, judgment is exercised by management as to whether there have been indicators of impairment such as a lack of market demand for the product and the likelihood of future sales. Management will determine whether a change in one or more indicators of impairment results in a change in the estimated net realizable value amount of the inventory.

Depreciation and amortization

Depreciation and amortization of the Company's property and equipment and intangible assets incorporate estimates of useful lives and residual values. These estimates may change as market conditions change and the future economic benefits from the use of the asset changes, thereby impacting the useful life and residual value of the property and equipment or intangible asset.

Development costs

Initial capitalization of development costs is based on management's judgment that the technological feasibility of the product being developed is confirmed such that the product will be available for sale and it is likely that future economic benefits attributable to the asset will flow to the Company. This judgment is made when the product development project has reached a defined milestone according to the established project management model. The amounts capitalized are expenditures incurred during the development of the asset.

Management determined its System project was in the development stage and began capitalizing all development costs beginning April 1, 2013. The Company is able to demonstrate the following conditions required for capitalization on this date:

- i) the technical feasibility of completing the System so that it will be available for use or sale;
- ii) its intention to complete the System and use or sell it;
- iii) its ability to use or sell the System;
- iv) how the System will generate future probable economic benefits;

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(l) Use of estimates and judgements (continued):

- v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the System; and
- vi) its ability to measure reliably the expenditures attributable to the System during its development.

Impairment

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. If fair value less costs of disposal is not determinable from recent sales transactions conducted at arm's length, management must estimate the fair value based on its prior sales experience with the product and current market conditions. Management may also use future net cash flows of the asset or CGU to determine fair value.

Value in use is determined by estimating the present value of future net cash flows expected to be derived from the continued use of the asset. Judgment is exercised by management when determining future sales of the asset and cash inflows, the appropriate discount factor, the timing of development and the likelihood of success of development.

Management has determined the Company has two CGU's. One CGU for its horizontal pump technologies, which includes HART development costs, patents, licenses, rights and goodwill (as it arose entirely from the acquisition of the horizontal pump technology). The second CGU is for its vertical rod pump technology (REAL), which includes the HARP and certain downhole tools, such as horizontal separation, sand control, and flow control assemblies.

Stock-based compensation and warrants

The fair value of stock options and warrants is based on the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures and estimated volatility of the Company's shares.

(m) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

(n) Stock-based compensation:

The Company grants equity-settled stock options to certain employees, directors and consultants. Each tranche of stock option grants is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(n) Stock-based compensation (continued):

Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service condition at the vesting date. The effect of any revision in forfeiture rates is recognized in the statement of loss and comprehensive loss with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds, together with the amounts previously recorded in contributed surplus, are recorded in share capital.

(o) Provisions:

Provisions for legal claims, where applicable, are recognized in other financial liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and where applicable, records provisions for such contracts.

Provisions for product warranties are recognized in other financial liabilities when the underlying products or services are sold. Provisions are measured at management's best estimate of the expenditure required to settle the obligation based on historical cost information and current information available about returns.

(p) Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net profit or loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is determined by dividing the net income or loss attributable to common shareholders by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares. Those potential common shares comprise share options and warrants granted, which are excluded from the calculation in periods where the Company reports a loss, as they are anti-dilutive.

(q) Future changes in accounting policies:

IFRS 16, *Leases* ("IFRS 16") replaces IAS 17 *Leases* and related interpretations and will be applied to annual periods beginning on January 1, 2019. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result 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.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

4. Summary of significant accounting policies (continued):

(q) Future changes in accounting policies (continued):

Classification as a finance or operating lease will determine how and when a lessor will recognize lease revenue and the type of assets to be recorded. The Company will adopt IFRS 16 using the modified retrospective approach and will not restate prior periods for the impact of IFRS 16.

On initial adoption, the Company is applying the following practical expedients permitted under the standard:

- i) Leases of low value that have been identified at January 1, 2019 will not be recognized on the Statements of Financial Position;
- ii) Leases with terms ending within 12 months of January 1, 2019 will be treated as short-term leases and not recognized on the Statements of Financial Position;
- iii) Initial direct costs will be excluded from the measurement of ROU assets for the purpose of initial measurement on transition; and
- iv) In their initial measurement upon transition, some leases having similar characteristics will be measured as a portfolio by applying a single discount rate.

The Company has 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 is expected to increase the Company's total assets and liabilities, and have a future impact on net income. Future net income will be impacted as the aggregate of depreciation of ROU assets and interest expense on lease liabilities will not correspond to the amount of related cash flows in any given period.

The Company's leases that will be 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:

	December 31, 2018	IFRS 16 Adjustments	January 1, 2019
Asset			
Right-of-use assets	190,607	\$ 508,239	\$ 698,846
Total	190,607	\$ 508,239	\$ 698,846
Liabilities			
Lease liabilities – current portion	\$ 28,817	\$ 145,402	\$ 174,219
Recoveries	127,473	362,837	490,310
Total	\$ 156,290	\$ 508,239	\$ 664,529

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

5. Credit facility:

The Company has 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 is 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.

At December 31, 2018, \$nil is available (December 31, 2017 - \$nil) to the Company for withdrawal and the Company is in compliance with all debt covenants.

6. Inventories:

	As at December 31, 2018	As at December 31, 2017
Finished goods and third-party products	\$ 605,944	\$ 246,712
Work-in-progress	55,558	53,377
Raw materials	25,135	8,719
	<u>\$ 686,637</u>	<u>\$ 308,808</u>

For the year ended December 31, 2018, the cost of inventories recognized as an expense and included in the cost of sales was \$220,751 (2017 - \$225,999).

For the year ended December 31, 2018, the cost of inventories written off and recognized as an expense and included in the statement of loss and comprehensive loss was \$74,574 (2017 - \$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.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

7. Non-current assets:

Property and equipment

	Capital lease equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Cost						
At December 31, 2016	\$ 395,535	\$ 470,850	\$ 63,569	\$ 44,648	\$ 59,815	\$ 1,034,417
Additions	2,570	43,327	13,998	-	-	59,895
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

	Capital lease equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Accumulated Depreciation						
At December 31, 2016	124,240	\$ 207,164	\$ 63,569	\$ 38,544	\$ 59,691	\$ 493,208
Depreciation	27,386	57,069	2,520	6,104	124	93,203
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

	Capital lease equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Net book value						
At December 31, 2017	\$ 246,479	\$ 249,944	\$ 11,478	\$ -	\$ -	\$ 507,901
At December 31, 2018	\$ 412,676	\$ 217,181	\$ 6,439	\$ -	\$ -	\$ 636,296

The capital lease equipment net book value included in the table above of \$412,676 at December 31, 2018 includes one machine under a finance lease with a net carrying amount of \$190,607 (December 31, 2017 - \$246,479).

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

7. Non-current assets (continued):

Intangible assets and goodwill

	Patents, licenses and rights	Horizontal Technology	Goodwill	Total
Cost				
At December 31, 2016	\$ 281,597	\$5,485,419	\$1,427,695	\$ 7,194,711
Additions	–	418,845	–	418,845
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

	Patents, licenses and rights	Horizontal Technology	Goodwill	Total
Accumulated amortization and impairment				
At December 31, 2016	\$ 274,096	\$ –	\$1,167,763	\$ 1,441,859
Amortization	7,501	–	–	7,501
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

Net book value				
At December 31, 2017	\$ –	\$ 5,904,264	\$ 259,932	\$ 6,164,196
At December 31, 2018	\$ –	\$ 5,777,776	\$ 259,932	\$ 6,037,708

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.

During the year ended December 31, 2018, \$nil of stock-based compensation was included in the carrying value of the HART (year ended December 31, 2017 - \$43,078 was deducted from the carrying value of the HART due to a reversal of stock option expense required for individuals that were no longer employed by the Company).

During the year ended December 31, 2018, a SR&ED recovery of \$56,439 has been included in the carrying value of the System and \$nil has been included in the statement of loss and comprehensive loss.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 19

Years ended December 31, 2018 and 2017

7. Non-current assets (continued):

Intangible assets and goodwill (continued):

The carrying amount of the horizontal pump technology CGU (including goodwill of \$259,932) was tested for impairment at December 31, 2018. The recoverable amount of this CGU was determined based on a value-in-use calculation using cash flow projections covering a five-year period with a terminal value assuming 1% growth into perpetuity, consistent with management's internal budgeting and forecasting period. The cash flow projections incorporate management's best estimates of revenue, gross profit, administration expenditures and capital expenditures. The recoverable amount exceeded the carrying amount of the horizontal pump technology CGU at December 31, 2018 and therefore no impairment was identified.

In assessing value-in-use, the Company reviewed the broad categories of risk within the CGU being general uncertainties related to the oilfield service industry (activity, competition, oil price, etc.) and those specifically related to the development and commercialization of the horizontal pump technology.

To best illustrate and understand these different categories, the Company has divided its quantification of these risks between the discount rate applied to the cash flows (capturing oilfield service industry risks) and the cash flow projections (technology and forecast risks). The after-tax discount rate applied to the cash flow projections was 14.30%, which is representative of the cost of equity in the oilfield service industry using a beta of 0.98 on an equity risk premium of 6.5% and adding a size premium of 5.78% and the Government of Canada long-term bond yield of 2.15%.

To account for the specific uncertainty associated with the horizontal pump technology, the Company applied variations in the amount and timing of future System sales taking into account a forward commodity price curve consistent with those forecasted by external reserve evaluators as at December 31, 2018 for the next five years as well as management's best estimate of System costing and System performance. A probability weighting was then applied to each scenario in calculating the total expected value of the CGU. The probability weighting consisted of:

- Is the Company's horizontal pump technology theory valid (75% correct; 25% incorrect);
- If the theory is valid, will the System performance be high (additional production > 18bbbls/day for a low productivity wellbore and >100bbbls/day for a high productivity wellbore) or low (additional production < 18bbbls/day for a low productivity wellbore and <100bbbls/day for a high productivity wellbore) with 50% applied to each option; and
- If the theory is valid, three variations of sales forecast were included (best estimate volumes at 50%, low volumes at 30% and high volumes at 20%)

This method has been adopted due to the early stage nature of the technology where the majority of the risks in the CGU are related to specific uncertainties involving development and commercialization of the System.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 20

Years ended December 31, 2018 and 2017

7. Non-current assets (continued):

Intangible assets and goodwill (continued):

The key assumptions to which the calculation of value-in-use is most sensitive is the risk adjustments related to the success of the horizontal pump technology theory, performance of the System and the discount rate. Management believes, at December 31, 2018, that there are no reasonable changes in the key assumptions that would lead to the recoverable amount of the horizontal pump technology CGU being less than the carrying amount.

This was assessed by reviewing sensitivity factors for the technology theory success, System performance and the discount rate. These factors would have to be individually adjusted to the following before any impairment in the CGU would be recorded:

- the technology theory success factor would have to be reduced to 35% from its current factor of 75%;
- the System performance factor would have to be decreased to 23% high performance from its current factor of 50%; or
- the discount rate would have to be increased to 21.96% from its current rate of 14.30%.

A risk reduction to these levels is deemed by management to be beyond a reasonable adjustment given its current assessment of key success factors.

However, although the likelihood of success related to the Company's System under development has been reflected in the risk weighting applied to cash flow projections, if further test results of this new technology show that it is not functional, operational, or commercial, and further development of the System is ceased, goodwill and intangible assets capitalized related to the development of the System would likely be required to be impaired.

8. 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.

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Years ended December 31, 2018 and 2017

8. Share capital (continued):

(b) Issued:

	Common Shares	Amount
Balance, December 31, 2016	88,941,691	\$ 24,780,142
Private placement issuance	8,932,144	1,597,139
Shares issued upon option exercise	742,500	160,475
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

For the year ended December 31, 2018, 383,005 agent warrants were exercised for cash proceeds of \$95,750 (2017 – 742,500 stock options were exercised for cash proceeds of \$103,950).

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.

In February 2017, the Company completed a private placement issuance of 8,932,144 units for total gross proceeds of \$2,233,036. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable for one common share of the Company for a period of eighteen months from the applicable closing date at an exercise price of \$0.40 per share, subject to accelerated expiry in certain circumstances at the discretion of the Company. The net proceeds, after share issuance costs of \$216,720, were allocated \$1,597,139 to the common shares and \$419,177 to the share purchase warrants.

In addition, in February 2017 the Company issued 437,529 agent warrants as compensation to the finders involved in the private placement issuance which were exercisable for one common share of the Company for a period of eighteen months from the applicable closing date at an exercise price of \$0.25 per share, subject to accelerated expiry in certain circumstances at the discretion of the Company. The agent warrants were valued at \$54,417 using the Black-Scholes option model, which is included in the share issuance costs and was netted against the proceeds of the offering. The fair value of the agent warrants was determined using the Black-Scholes option model and all agent warrants have been exercised or expired as of December 31, 2018 (see note 8(d)).

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

8. Share capital (continued):

(c) Stock options:

The Company grants stock options for the benefit of directors, officers, employees and consultants of the Company. On December 10, 2018, the Company received approval from the TSX Venture Exchange to implement an Amended and Restated Stock Option Plan. Under the Amended and Restated Stock Option Plan, the aggregate number of stock options authorized for issuance, at the discretion of the Board of Directors, is 10% of the Company's issued and outstanding common shares at any point in time compared to not more than 10,600,000 stock options issued as was required with the Company's previous fixed option plan.

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 and vesting terms vary by grant with one-third released at each of three specified dates during the vesting period.

The following movement of stock options occurred:

	Number	Weighted-average exercise price (\$)
Options outstanding, December 31, 2016	7,812,500	0.43
Options granted	3,393,750	0.23
Options exercised	(742,500)	0.14
Options forfeited	(1,825,000)	0.53
Options expired	(1,773,750)	0.46
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 exercisable, December 31, 2018	4,841,667	0.33

On February 19, 2019, 300,000 stock options held by two former Directors of the Company expired.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

8. Share capital (continued):

(c) Stock options (continued):

At December 31, 2018, 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	3.06	2,251,250	0.24
November 18, 2014	300,000	1.15	0.88	300,000	1.15
December 4, 2014	130,000	0.98	0.92	130,000	0.98
April 30, 2015	70,000	1.25	1.33	70,000	1.25
October 29, 2015	5,000	0.52	1.83	5,000	0.52
May 29, 2017	1,110,000	0.205	3.41	370,000	0.205
November 24, 2017	2,073,750	0.24	3.90	1,715,417	0.24
February 23, 2018	700,000	0.39	4.15	–	0.39
October 1, 2018	200,000	0.165	4.75	–	0.165
November 26, 2018	150,000	0.19	4.90	–	0.19
	6,990,000	0.31 ⁽¹⁾		4,841,667	0.33 ⁽¹⁾

(1) Weighted average

During 2018, \$352,130 (2017 - \$330,786) of stock-based compensation was recognized in the statement of loss and comprehensive loss and \$nil was capitalized and included in the carrying value of the System (2017 - \$43,078 was deducted from the carrying value of the System).

The following weighted average assumptions used in the Black-Scholes option pricing model to determine the fair value of options granted during the year are as follows:

	2018	2017
Weighted average share price	\$ 0.32	\$ 0.23
Risk free interest rate	2.1%	1.4%
Expected life	4.6 yrs	4.6 yrs
Expected volatility	120%	117%
Pre-vest forfeiture rate	12%	13%
Expected annual dividend yield	0%	0%

The weighted average fair value of options granted during the year ended December 31, 2018 was \$0.26 per option (2017 - \$0.18 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.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

8. Share capital (continued):

(d) Share purchase warrants:

	Warrants	Amount
Warrants outstanding, December 31, 2017	4,903,601	\$ 473,594
Agent warrants exercised	(383,005)	(47,636)
Agent warrants expired	(54,524)	(6,781)
Warrants outstanding, December 31, 2018	4,466,072	\$ 419,177

Each outstanding share purchase warrant issued in the February 2017 private placement is exercisable for one common share of the Company at an exercise price of \$0.40 with an initial expiry date of eighteen months from the applicable closing date, subject to accelerated expiry in certain circumstances at the discretion of the Company.

On July 23, 2018, the Corporation received approval from the TSX Venture Exchange to extend the term of the share purchase warrants (excluding the agent warrants) by six months. The new expiry dates of the outstanding warrants were February 11, 2019 and February 21, 2019. The exercise price of \$0.40 per share remained unchanged. On February 11, 2019, 3,556,072 share purchase warrants issued by the Company on February 10, 2017 expired and on February 21, 2019, 910,000 share purchase warrants issued by the Company on February 21, 2017 expired.

The fair value ascribed to these warrants was \$473,594 upon issuance, with \$54,417 of this amount attributable to the agent warrants, 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.

Each agent warrant issued through the February 2017 private placement was exercisable for one common share of the Company at an exercise price of \$0.25 until its expiry date. For the year ended December 31, 2018, 383,005 agent warrants were exercised for cash proceeds of \$95,751 and 54,524 agent warrants expired on August 11, 2018. 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.

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

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Years ended December 31, 2018 and 2017

8. 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 year ended December 31, 2018 is 107,977,625 (2017 – 97,450,231). 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.

9. Deferred income taxes:

The following table reconciles income taxes calculated at the Canadian statutory income tax rate to the Company's deferred income tax recovery:

	2018	2017
Loss before income taxes	\$ (2,547,766)	\$ (2,017,644)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	(687,897)	(544,764)
Decrease resulting from:		
Unrecognized deferred tax asset	641,948	450,037
Prior year true-ups and other	(29,726)	(8)
Non deductible expenses	99,119	94,735
Research tax credits	(23,444)	–
	\$ –	\$ –
Current income taxes	\$ –	\$ –
Deferred income taxes	–	–
	\$ –	\$ –

No deferred tax assets were recognized for the following deductible temporary differences:

	2018	2017
Non-capital losses	\$15,225,371	\$13,369,056
Deductible scientific research and development expenditures	4,259,029	3,803,429
Intangible assets	727,927	797,391
Property and equipment	393,171	389,484
Share issuance costs	206,468	260,633
Other	(14,135)	30,000
	\$ 20,797,831	\$18,649,993

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Years ended December 31, 2018 and 2017

9. Deferred income taxes (continued):

At December 31, 2018, the Company has non-capital loss carry forward balances of approximately \$15.2 million, which expire in years 2026 to 2038. The Company has not recognized the benefit of these non-capital losses.

The Company has non-refundable investment tax credits of \$1.2 million. These credits can be used to offset future federal income tax and expire in years 2027 to 2036. The Company has not recognized the benefit of these credits.

10. Commitments and contingencies:

Operating Lease Commitments

The Company has a long-term operating lease with respect to its Calgary premises, which expires August 31, 2020, and various other operating leases for office equipment. Future annual minimum lease payments as at December 31, 2018 are approximately as follows:

2019	\$ 234,325
2020	176,442
2021	2,666
2022	1,333
2023	—
	<u>\$ 414,766</u>

During the year ended December 31, 2018, the Company expensed \$211,934 (2017 - \$203,601), exclusive of operating costs and GST, relating to operating lease commitments and included in general and administration expenses.

Finance Lease Commitments

The Company has one long-term finance lease for a CNC Lathe machining unit bearing interest at 5.9%, repayable at USD\$2,390 per month that expires on October 20, 2023 with a \$nil purchase option.

The future minimum lease payments with the present value of net minimum lease payments as at December 31, 2018 are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Total finance lease obligation	\$ 180,033	\$ 23,743	\$ 156,290
Due no later than one year	(37,275)	(8,458)	(28,817)
Due between one and five years	\$ 142,758	\$ 15,285	\$ 127,473

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

11. Financial instruments and risk management:

The Company's financial instruments are represented by cash, trade receivables, deposits, trade payables 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.

As disclosed in note 8, the Company closed two tranches of a non-brokered private placement in May and June 2018 for gross proceeds of \$3,500,000 and net proceeds after share issuance costs of \$3,452,210. The Company believes this cash injection and projected revenues will be sufficient to complete its strategic objectives through 2019 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 December 31, 2018, cash was comprised of \$2,005,486, of which \$1,999,357 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.

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 financial statements as at December 31, 2018.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

11. Financial instruments and risk management (continued):

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 majority of the trade receivables balance at December 31, 2018 consists of amounts owing from five customers and the federal government for GST refunds. All of the balance owing was collected subsequent to the year-end with the exception of one customer invoice for \$22,357 that the Company has fully provided for 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.

12. Supplemental cash flow information:

Changes in non-cash operating assets and liabilities for the year ended December 31, 2018 and 2017 are as follows:

	2018	2017
Trade receivables	\$ 190,282	\$ (116,178)
Inventories	(377,830)	(99,637)
Prepaid expenses and deposits	(828)	49,516
Trade payables and accrued liabilities	(111,427)	204,341
Other current financial liabilities	(14,135)	30,000
Leasehold inducement	—	(4,051)
Deferred revenue	98,000	(69,402)
Change in non-cash working capital	\$ (215,938)	\$ (5,411)

	2018	2017
Change in non-cash operating working capital	\$ (112,938)	\$ (171,136)
Change in non-cash investing working capital	(103,000)	165,725
Change in non-cash working capital	\$ (215,938)	\$ (5,411)

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

13. General and administration expenses:

General and administration expenses for the year ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Salaries and benefits – HARP commercialization	\$ 597,118	\$ 418,547
Salaries and benefits – administration	578,581	503,420
Facilities	202,715	215,530
Legal, audit and accounting	190,232	135,960
Sub-contracted and consulting services	90,082	115,657
Other administration	301,355	187,778
	<u>\$ 1,960,083</u>	<u>\$ 1,576,892</u>

14. 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, contributed surplus and deficit. The following table summarizes the Company's capital as at December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Cash	\$ 2,005,486	\$ 729,124
Share capital	\$30,140,133	\$26,537,756
Warrants	419,177	473,594
Contributed surplus	3,086,591	2,734,461
Deficit	(25,158,008)	(22,610,242)
Shareholders' equity	\$ 8,487,893	\$ 7,135,569

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.

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Years ended December 31, 2018 and 2017

14. 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.

15. Provisions:

	Maintenance Warranty
Provision balance, December 31, 2017	\$ 30,000
Additions	30,000
Utilized	(44,135)
Provision balance, December 31, 2018	\$ 15,865

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 in the next financial year.

16. Deferred Revenue:

	Deferred Revenue
Balance, December 31, 2017	\$ 440,000
Additions	98,000
Balance, December 31, 2018	\$ 538,000

The majority of the Company's deferred revenue balance at December 31, 2018 consists of cash payments of \$440,000 (December 31, 2017 - \$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 December 31, 2018 consist of cash payments of \$98,000 (December 31, 2017 - \$nil) received for Project Revenue for which services have not yet been completed.

The amounts received have been recorded as current deferred revenue as at December 31, 2018 and December 31, 2017 and will be recognized into revenue as future purchases are completed, services completed or inventory delivered.

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

17. Related party transactions:

Compensation awarded to the officers and directors of the Company for the years ended December 31, 2018 and 2017 include the following:

	2018	2017
Salaries, bonuses and short-term employee benefits	\$ 546,583	\$ 469,557
Stock-based compensation	306,789	280,294
	<u>\$ 853,372</u>	<u>\$ 749,851</u>

During the year ended December 31, 2018, \$nil was paid to a corporation owned by the spouse of an officer of the Company for website development and marketing materials design services (2017 - \$7,009).

18. 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, previously referred to as the High Angle Lift Solution ("HALS"), 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 years ended December 31, 2018 and 2017.

The Hydraulic Submersible Pump ("HSP") inventory segment consists of sales of the Company's legacy inventory at cost to an external customer. Additional sales of this legacy inventory are not anticipated at this point in time.

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

RAISE PRODUCTION INC.

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Years ended December 31, 2018 and 2017

18. Segmented Information (continued):

Total Company Revenue	2018	2017
Raise Efficient Artificial Lift	\$ 333,741	\$ 260,442
HSP inventory	–	69,402
Corporate	27,999	26,362
Total	\$ 361,740	\$ 356,206

Net Loss	2018	2017
Raise Efficient Artificial Lift	\$ (797,765)	\$ (462,913)
Corporate	(1,750,001)	(1,554,731)
Total	\$(2,547,766)	\$(2,017,644)

Capital Expenditures (Recoveries)	2018	2017
Raise Efficient Artificial Lift	\$ 44,349	\$ –
Horizontal Artificial Recovery Technology (Recovery)	(126,488)	504,650
Corporate	32,544	17,167
Total	\$ (49,595)	\$ 521,817

Intangible Assets (including Goodwill)	2018	2017
Horizontal Artificial Recovery Technology	\$6,037,708	\$ 6,164,196
Total	\$6,037,708	\$ 6,164,196

Total Assets	2018	2017
Raise Efficient Artificial Lift	\$ 785,624	\$ 430,938
Horizontal Artificial Recovery Technology	6,296,687	6,456,019
Corporate	2,432,371	1,159,827
Total	\$9,514,682	\$ 8,046,784

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Years ended December 31, 2018 and 2017

18. Segmented Information (continued):

For year ended December 31, 2018, revenues from two customers amounted to \$141,812 and \$74,031 in the REAL segment. The Company does not rely on these customers due to the REAL product being in the initial stages of commercialization and new customers are continually being added.

19. 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 18.

Contracts with Customers by Geographical Market	2018	2017
Raise Efficient Artificial Lift - Canada	\$ 251,591	\$ 210,588
Raise Efficient Artificial Lift - USA	82,150	49,854
HSP inventory	–	69,402
Corporate	1,350	3,980
Total	\$ 335,091	\$ 333,824
