



Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

PRESIDENT'S UPDATE

The Company is pleased to provide an update to its shareholders on its financial results and recent activities related to its operations.

The Company has three systems that can be used independently or in combination in horizontal wellbores:

- 1) the High Angle Reciprocating Pump ("HARP™");
- 2) the Raise Efficient Artificial Lift ("REAL™") Horizontal Separator; and
- 3) the Horizontal Artificial Recovery Technology ("HART™").

As stated in the Company's press release dated September 30, 2020, the Company has entered into an exclusive distribution agreement with Q2 Artificial Lift Services ("Q2 ALS"), headquartered in Red Deer, Alberta, for the marketing, sale and installation of its HARP™ and REAL™ technologies for the North American market. The Company and Q2 ALS are also in discussions regarding the HART™ technology.

Since the initial announcement, the Company has been working closely with Q2 ALS to provide sales and marketing training for a Calgary and regional sales initiative, create marketing material that defines how the complimentary product lines of REAL™ and HARP™ are sold and in the future, the HART™ technology. Concurrently with the sales and marketing training, the Company has provided product assembly and quality control training for specific field locations in Canada where the Raise technology is a fit and has already gained traction with customers. This training and product assembly initiative is being expanded to include target locations in the USA and other Canadian areas. The Company intends to have all targeted locations trained and stocked with inventory including sales seminars at the field with customers by the beginning of 2021.

Raise is excited to gain increased visibility in the market with Q2 ALS's significantly larger customer base. The restrictions put in place due to Covid-19, such as work from home and group limiting protocols, have made it difficult for the Company to date in terms of any concentrated sales efforts in Calgary and conducting group training and field seminars in order to obtain new customers. The Company has moved its focus to webinars and other online meetings to reach new customers.

The Company believes that moving our operations and HARP™ distribution into the Q2 ALS locations will allow Raise to concentrate its efforts on the early commercial ready products such as the REAL™ and eventually the HART™ and move those to a commercial stage that can then be transferred seamlessly to the Q2 ALS distribution chain.

STRATEGIC ALTERNATIVES INITIATIVE AND CURRENT CASH POSITION

The review of strategic alternatives with Stifel FirstEnergy has concluded. The process was stalled significantly as a result of the Covid-19 pandemic. The Company determined that the exclusive distribution agreement with Q2 ALS was the best alternative to increase HARP™ and REAL™ sales at this point in time.

Raise has had to adapt quickly to the changing business landscape and reduced sales caused by the Covid-19 disruption. The Company believes its current cash position will be sufficient to satisfy its financial obligations into early 2021 based on its current sales forecasts and continued cost reductions. However, the global impact of COVID-19 as well as the recent decline in oil prices in Canada and the United States have resulted in significant uncertainty as to the health of the global economy and specifically the oil and gas industry. The potential impact that these events will have on the Company's future sales and financial results cannot be reasonably estimated at this time.

The Company's ability to accomplish its plans throughout 2020 and beyond is dependent upon the Company meeting its projected sales forecast for the remainder of the year and if this does not occur, obtaining additional financing to continue operations; however, there is no assurance that the Company will achieve these objectives.

The following steps have been taken to preserve cash while the Company continues to pursue additional cost reductions in all aspects of the business to weather through the Covid-19 disruption:

- A 33% reduction in employees through temporary layoffs and permanent terminations;
- Remaining staff have reduced working hours resulting in up to 40% salary reductions;
- The Canada Emergency Wage subsidy has been applied for and \$199,105 has been received to date for the first eight periods of the program;
- The Company's business model has been changed to focus on commercial products only with all research and development currently on hold except for minor modifications to existing products, if required;
- The Company terminated its office lease effective August 31, 2020 and moved to new premises which will result in over \$100k in annual savings;
- The Company shut down its internal manufacturing operations and sold existing unused machinery and equipment during the third quarter for net proceeds of \$160k; and
- The Company eliminated its finance lease liability of \$115k in October 2020 through the sale of its CNC ST-35Y machine no longer in use.

Eric Laing commented, "It's been a hard year simply due to the length of time the Covid-19 restrictions have been in place, weak demand and slow recovery of our industry. Uncertainty due to merger, consolidation and rapidly changing customer initiatives have affected most parts of the oil and gas industry. The Company has adapted to the new environment as has its employees. We believe we will be stronger and leaner with a focus on positive cash flow and profitability coming out of this difficult time."

All stakeholders are encouraged to view our regular corporate progress through the Company's LinkedIn Profile and its website.

The Board of Directors and Management would like to thank all shareholders for their support and encouragement as the Company continues to navigate through this extraordinary difficult period.



Eric Laing
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim financial statements of Raise Production Inc. ("Raise Production" or the "Company") as at and for the three and nine months ended September 30, 2020 as well as the audited financial statements and MD&A for the year ended December 31, 2019.

Information in this MD&A and the financial statements has been presented in Canadian dollars. The unaudited condensed interim financial statements for the three and nine months ended September 30, 2020 have been prepared in accordance with IAS 34 – Interim Financial Reporting.

This MD&A contains forward-looking information. Readers are referred to the advisories concerning such matters under the heading "Forward-Looking Information Disclaimer" below.

This MD&A is dated November 24, 2020. Additional information concerning Raise Production can be found on the SEDAR website at www.sedar.com.

ABOUT RAISE PRODUCTION

Raise Production is an independent Canadian public company, the principal business of which is utilizing its proprietary products to enhance and increase ultimate production in both conventional and unconventional horizontal oil and gas wells.

The Company is considered to be a development stage enterprise, as it is in the initial stages of the commercialization process of its Raise Efficient Artificial Lift ("REAL™") system, which includes the High Angle Reciprocating Pump ("HARP") and has not yet generated revenue from its initially planned principal business, the sale and distribution of its proprietary Horizontal Artificial Recovery Technology ("HART™" or the "System"). Similar to other development stage enterprises, the recoverability of amounts shown for product development and commercialization are dependent on many factors, including the ability of the Company to obtain necessary financing for its planned activities. Failure to obtain the necessary financing would impact the Company's ability to realize its assets and discharge its liabilities in the normal course of business. See "Operational and Business Risks" below.

COVID-19 PANDEMIC IMPLICATONS:

The Company has experienced a significant decline in customer revenue since the Covid-19 pandemic began in March 2020 as a result of the decline in oil prices in Canada and the United States, the reduced operating and capital budgets of its existing customers and not being able to effectively reach new customers due to Covid-19 restrictions during its critical commercialization phase.

As a result of the reduced revenue and incoming cashflow, the Company has taken significant steps to reduce its monthly operating expenses and preserve its cash position as discussed in the President's Message above. These measures included significantly reducing the Company's salary expense through layoffs, terminations, salary reductions and receiving government assistance (discussed below under Canada Emergency Wage Subsidy), moving the Company to a smaller facility to reduce monthly shop and office rent by 58%, shutting down the Company's internal manufacturing operations, selling its largest value machinery in July and October 2020 and reducing general operating expenses wherever possible.

During the cost reduction process, the Company has significantly reduced its contractual obligations due to short-term leases being signed for office and vehicle leases as well as the sale of machinery under a finance lease. The only remaining long-term lease as of the date of this report consists of the Company's photocopier as detailed in the Contractual Obligations section below.

FORWARD-LOOKING INFORMATION DISCLAIMER

The global impact of COVID-19 as well as the recent decline in oil prices in Canada and the United States have resulted in significant uncertainty as to the health of the global economy and specifically the oil and gas industry. The potential impact that these events will have on the Company's future sales and financial results cannot be reasonably estimated at this time. However, the influence of these recent developments has impacted the Company's customers' capital and operating spending budgets, which have resulted in a negative effect on the Company's short-term sales. The Company continues to implement actions to preserve its cash position while maintaining its ability to effectively service and supply its customers.

Certain information included in this MD&A constitutes forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain or can be identified by statements that include words such as "anticipate", "assume", "based", "believe", "can", "continue", "depend", "estimate", "expect", "forecast", "if", "intend", "may", "plan", "project", "propose", "result", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to: the Company's business strategy, short and long term objectives, strength and focus; strategic alternatives; the distribution agreement with Q2 ALS and the impact thereof, including the marketing, sale and installation of HARP™ and REAL™ systems; discussions with Q2 ALS regarding HART™ technology; sales and marketing activities, including the expansion of such activities to target locations in the USA and Canada; increased visibility in the market; estimates and source of funds of future product development and capital and operating expenditures; continued participation in the CEWS program; capital raising; the availability of credit; the Company's credit risk; continued usage of service providers and contractors; estimates regarding current cash resources and cash flow and its ability to meet strategic objectives into 2021; anticipated sales; profitability expectations; commercialization plans and the timing thereof; the results and timing of product testing; operating and other costs; the effect of oil and natural gas market conditions on the Company; financial results and the impacts of International Financial Reporting Standards on these statements.

Such forward-looking statements or information are based on a number of assumptions that may prove to be incorrect. Assumptions have been made regarding, among other things: commercialization of products and operations; the ability of Raise Production to meet projected sales forecasts and obtain required capital to finance its product development; the successful completion of product testing and timing thereof; the ability to adequately protect proprietary information and technology from its competitors; the ability to obtain partnering opportunities; the ability to attract and retain key personnel and key collaborators; the availability of skilled labour, services and equipment; general economic and financial market conditions, the legislative and regulatory environment of the jurisdictions where the Company carries on business, the ability to successfully compete in the targeted markets; the potential to increase recoverable reserves for customers by utilization of the HARP™, REAL™ and HART™ systems; estimates regarding current and projected cash resources and cash flow anticipated sales; the ability to implement strategic objectives and plans; the ability to expand the Company's training and product assembly initiative to target locations; the ability to attract new customers and develop and maintain existing customers, the Company's expectations regarding the impacts, direct and indirect, of the COVID-19 pandemic on Raise's business, customers, business partners, employees, supply chain, other stakeholders and the overall economy; and the future demand for the Company's services and equipment, in particular, in light of the recent decline in oil prices in Canada and the United States and the COVID-19 pandemic.

The forward-looking statements contained in this MD&A are made as of the date hereof and Raise Production does not undertake any obligation to publicly update or revise any of the included forward-looking statements, except as required by applicable Canadian securities law. Forward-looking statements are based upon the opinions and expectations of management of Raise Production as at the effective date of such statements and, in some cases, information supplied by third parties. Although Raise Production believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions and that information received from third parties is reliable, it can give no assurance that those expectations will prove to have been correct. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statement will not occur. These risks and uncertainties include but are not limited to: deployment and commercialization of the Company's products, regulatory changes, reliance on third party distributors including Q2 ALS, the risk that the low commodity price environment will be sustained for an indefinite period, the impact of the COVID-19 pandemic and the resulting effects on economic conditions, restrictions imposed by public health authorities or governments, fiscal and monetary responses by governments and financial institutions and disruptions to global supply chains and other general industry, economic, market and business conditions, delays or changes in plans with respect to developing, manufacturing, marketing and distributing and installing the Company's products. Readers are cautioned that the foregoing list of risks, uncertainties and assumptions are not exhaustive. Forward-looking statements are subject to certain risks and uncertainties that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements, including but not limited to those described under the headings "*Operational and Business Risks*" and "*Financial Instruments*". Accordingly, readers should not place undue reliance upon the forward-looking statements contained in this MD&A and such forward-looking statements should not be interpreted or regarded as guarantees of future outcomes.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Raise's cash position, profitability, sales, cost reductions, financing activities and components thereof, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as a set forth in the above paragraph. FOFI contained in this document was approved by management as of the date of this document and was provided for the purpose of providing further information about Raise's future business operations. Raise disclaims any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

RESULTS OF OPERATIONS

Statement of Operations

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|---|----------------------------|----------------|---------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue from contracts with customers | \$ 55,029 | \$ 305,378 | \$ 284,683 | \$ 748,889 |
| Cost of sales | 45,242 | 193,959 | 170,186 | 494,734 |
| Gross margin | 9,787 | 111,419 | 114,497 | 254,155 |
| Other income | 25,251 | 4,656 | 58,781 | 13,660 |
| Expenses: | | | | |
| General and administration | 271,173 | 1,629,010 | 902,788 | 2,574,621 |
| Finance costs | 61,818 | 8,637 | 194,301 | 29,066 |
| Depreciation and amortization | 26,043 | 59,839 | 143,130 | 176,792 |
| Stock-based compensation | 63,826 | 64,603 | 133,462 | 143,884 |
| Research expenses | – | 49,746 | 50,194 | 129,401 |
| Loss on disposal of assets | 16,709 | – | 16,709 | – |
| Inventory impairment | – | 44,576 | – | 44,576 |
| | 439,569 | 1,856,411 | 1,440,584 | 3,098,340 |
| Net loss and comprehensive loss | \$ (404,531) | \$ (1,740,336) | \$ (1,267,306) | \$ (2,830,525) |
| Net loss per share – basic and diluted | \$ (0.00) | \$ (0.02) | \$ (0.01) | \$ (0.02) |

Canada Emergency Wage Subsidy:

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) in order to help employers keep and/or return employees to payrolls in response to challenges posed by the Covid-19 pandemic. In July 2020, the program was redesigned and extended until December 2020, with the Government of Canada announcing in September 2020 a further extension of the CEWS until June 2021.

The Company determined that it met the employer eligibility criteria and applied for CEWS retroactively to March 15, 2020. The Company has received total gross subsidy to date of \$199,105 and intends to continue its participation in the CEWS program until June 2021, subject to meeting the eligibility requirements. The CEWS is reported as a reduction of salary expense in the Statement of Operations and Comprehensive Loss.

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. An impairment loss was recognized for the year ended December 31, 2019 for all costs incurred for this segment that were capitalized as HART™ development costs beginning April 1, 2013 consisting of the value of goodwill of \$259,932 and capitalized development costs since April 1, 2013 of \$5,829,892.

The Corporate segment includes interest earned on cash balances and costs related to administrative activities that support both the REAL and HART segments.

Revenue

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|-----------------------|----------------------------|------------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| REAL™ segment revenue | \$ 55,029 | \$ 305,378 | \$ 284,683 | \$ 748,889 |

The decrease in REAL™ revenue of \$250,349 or 82% for the three months ended September 30, 2020 compared to the same period in the prior year is primarily due to a \$184,377 or 77% reduction in the Company’s Canadian sales as well as the Company’s former USA distributor, Endurance Lift Solutions, LLC. (“ELS”) purchasing no HARP™ inventory during the third quarter of 2020 compared to \$65,972 purchased during the third quarter of 2019.

The decrease in REAL™ revenue of \$464,206 or 62% for the nine months ended September 30, 2020 compared to the same period in the prior year is primarily due to a \$168,505 or 41% reduction in the Company’s Canadian sales and a \$327,134 reduction in HARP™ inventory sales to ELS in 2020, offset by a \$31,433 increase in sales to CDI Oilfield Services, an ELS subsidiary.

Cost of Sales

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|---|----------------------------|------------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| REAL™ segment cost of inventory | \$ 36,072 | \$ 172,553 | \$ 145,943 | \$ 450,194 |
| Warranty provision | 6,480 | 15,000 | 16,320 | 30,750 |
| Field service & other cost of inventory | 2,690 | 6,406 | 7,923 | 13,790 |
| Total | \$ 45,242 | \$ 193,959 | \$ 170,186 | \$ 494,734 |

The decrease in REAL™ segment cost of inventory of \$148,716 or 77% for the three months ended September 30, 2020 and \$324,548 or 66% for the nine months ended September 30, 2020 compared to the same periods in the prior year is primarily due to the reduction in revenue as noted above.

Gross Margin

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|--------------|----------------------------|------------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Gross margin | \$ 9,787 | \$ 111,419 | \$ 114,497 | \$ 254,155 |

The decrease in gross margin of \$101,632 or 91% for the three months ended September 30, 2020 and \$139,658 or 55% for the nine months ended September 30, 2020 compared to the same periods in the prior year is consistent with the reduction in revenue as noted above.

The Company's gross margin as a percentage of revenue during the three months ended September 30, 2020 was 18% compared to 36% in the prior period. The reduction is mainly the result of the warranty provision and inventory shrinkage expenses incurred during the quarter that are included in cost of sales. Excluding these amounts, the gross margin percentage is 39% during the third quarter of 2020 and 45% during the third quarter of 2019.

The Company's gross margin as a percentage of revenue during the nine months ended September 30, 2020 was 40% compared to 34% in the prior period. The increase is primarily due to ELS inventory sales occurring in 2019 and none in 2020, which earn minimal margin, in addition to reduced manufacturing costs.

Other Income

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|-----------------|----------------------------|-----------------|---------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest income | \$ - | \$ - | \$ 886 | \$ 8,936 |
| Other income | 25,251 | 4,656 | 57,895 | 4,724 |
| Total | \$ 25,251 | \$ 4,656 | \$ 58,781 | \$ 13,660 |

The decrease in interest income for the nine months ended September 30, 2020, compared to the same period in 2019, is the result of the Company's lower cash balance during 2020 which also resulted in no interest being earned during the three months ended September 30, 2020.

The increase in other income for the three and nine months ended September 30, 2020, compared to the same periods in 2019, is primarily due to \$30,048 received from the Alberta government in June 2020 for the Company's 2017 Scientific Research and Experimental Development ("SR&ED") claim as well as \$13,957 received from Driving Force on the return of a leased vehicle and the sale of miscellaneous scrap items with no recorded value from the Company's shop.

General and Administration

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|--|----------------------------|--------------------|---------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Salaries and benefits ⁽¹⁾ | \$ 108,242 | \$ 159,838 | \$ 320,074 | \$ 490,642 |
| Salaries and benefits ⁽²⁾ | 29,290 | 212,793 | 212,853 | 589,206 |
| Legal | 19,975 | 50,789 | 72,045 | 98,204 |
| Sub-contracted and consulting services | 17,354 | 1,119,610 | 64,976 | 1,153,199 |
| Audit and accounting | 21,925 | 19,425 | 62,821 | 48,562 |
| Facilities | 17,410 | 16,783 | 47,618 | 63,852 |
| Insurance | 11,511 | 11,063 | 35,418 | 33,255 |
| Other | 45,466 | 38,709 | 86,983 | 97,701 |
| Total | \$ 271,173 | \$1,629,010 | \$ 902,788 | \$2,574,621 |

(1) Administration

(2) HARP commercialization

Overall general and administration expenses decreased \$1,357,837 or 83% for the three-month period ended September 30, 2020 compared to same period in 2019. Significant changes within the general and administration expenses consisted of:

- a \$1,102,256 decrease in sub-contracted and consulting fees due to the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company, on September 30, 2019 for total consideration of \$1,400,000 which was satisfied through the issuance of secured convertible debentures and resulted in a one-time \$1.1 million consulting fee being recognized;
- a \$183,503 decrease in salaries and benefits for HARP™ commercialization mainly due to two employees temporarily laid off in April 2020 and terminated in September 2020, work reduction schedules implemented for the remaining staff in June 2020 and \$43,807 in government assistance received through the Canada Emergency Wage Subsidy (“CEWS”) program in the third quarter of 2020; and
- a \$51,596 decrease in salaries and benefits for Administration mainly due to one employee temporarily laid off in April 2020 and terminated in October 2020, work reduction schedules implemented for the remaining staff in June 2020 and \$34,873 in government assistance received from the CEWS program in the third quarter of 2020.

Overall general and administration expenses decreased \$1,671,833 or 65% for the nine-month period ended September 30, 2020 compared to same period in 2019. Significant changes within the general and administration expenses consisted of:

- a \$1,088,223 decrease in sub-contracted and consulting fees due to the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company, on September 30, 2019 for total consideration of \$1,400,000 which was satisfied through the issuance of secured convertible debentures and resulted in a one-time \$1.1 million consulting fee being recognized;
- a \$376,353 decrease in salaries and benefits for HARP™ commercialization mainly due to two employees temporarily laid off in April 2020 and terminated in September 2020, work reduction schedules implemented for the remaining staff in June 2020 and \$95,461 in government assistance received from the CEWS program; and
- a \$170,568 decrease in salaries and benefits for Administration mainly due to one employee temporarily laid off in April 2020 and terminated in October 2020, work reduction schedules implemented for the remaining staff in June 2020 and \$75,698 in government assistance received from the CEWS program.

Finance Costs

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|------------------------------------|----------------------------|-----------------|---------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Accretion on convertible debenture | \$ 59,558 | \$ – | \$ 108,870 | \$ – |
| Interest on convertible debenture | – | – | 68,623 | – |
| Accretion on lease liabilities | 226 | 6,128 | 9,918 | 19,880 |
| Bank and other interest charges | 2,034 | 2,509 | 6,890 | 9,186 |
| Total | \$ 61,818 | \$ 8,637 | \$ 194,301 | \$ 29,066 |

The increase in finance costs for the three and nine months ended September 30, 2020 compared to same periods in the prior year is mainly due to the interest and accretion expense on the convertible debentures issued in September 2019.

Depreciation and Amortization

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|-------------------------------------|----------------------------|-----------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Depreciation of right-of-use assets | \$ 15,794 | \$ 41,362 | \$ 102,107 | \$ 122,592 |
| Depreciation of fixed assets | 10,249 | 18,477 | 41,023 | 54,200 |
| Total | \$ 26,043 | \$ 59,839 | \$ 143,130 | \$ 176,792 |

The \$25,568 or 62% decrease in depreciation of right-of-use assets for the three months ended September 30, 2020 and \$20,485 or 17% for the nine months ended September 30, 2020 compared to the same periods in the prior year is mainly due to the Company electing to not exercise its two-year office lease extension as of August 31, 2020 and cancelling its remaining vehicle lease, which originally expired on October 15, 2020, on June 30, 2020.

The \$8,228 or 45% decrease in depreciation of fixed assets for the three months ended September 30, 2020 and \$13,177 or 24% for the nine months ended September 30, 2020 compared to the same periods in the prior year is mainly due to the Company selling its HAAS Horizontal Machining unit which had a net book value of \$177,053 in July 2020.

Stock-based Compensation

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|--------------------------|----------------------------|-----------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Stock-based compensation | \$ 63,826 | \$ 64,603 | \$ 133,462 | \$ 143,884 |

Stock-based compensation expense relates to options granted to the Company's management, employees, consultants and directors and is recognized over the vesting period of the options. The Company uses the Black-Scholes model to calculate the fair value of the options at the time of grant.

The stock-based compensation expense for the three and nine months ended September 30, 2020 is consistent with the prior year.

The Company granted no stock options during the nine months ended September 30, 2020 and 3,000,000 stock options during the nine months ended September 30, 2019, which do not vest until the Company's 10-day volume weighted average trading price has equaled or reached \$0.18 per share.

The Company had 5,326,667 options exercisable at September 30, 2020 compared to 5,211,667 at September 30, 2019.

Research Expenses

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|-------------------|----------------------------|-----------|---------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Research expenses | \$ – | \$ 49,746 | \$ 50,194 | \$ 129,401 |

Research expenses decreased 100% and 61% for the three and nine months ended September 30, 2020 due to one employee temporarily laid off in May 2020 and \$6,607 in government assistance received from the CEWS program during the nine months ended September 30, 2020 (\$nil received during the third quarter of 2020).

Loss on Disposal of Assets

| | Three months ended Sept 30 | | Nine months ended Sept 30 | |
|----------------------------|----------------------------|------|---------------------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| Loss on disposal of assets | \$ 16,709 | \$ - | \$ 16,709 | \$ - |

The loss on disposal of assets of \$16,709 is mainly due to the sale of the Company's HAAS Horizontal Machining unit for net proceeds of \$159,424 in July 2020 which had a net book value of \$177,053 resulting in a loss of \$17,629, offset by a \$920 gain for the sale of two shop equipment items during the third quarter of 2020.

Deferred Income Taxes

The Company has not recognized any deferred income tax asset given the uncertainty of profitability with its future operations. At September 30, 2020, the Company has a non-capital loss carry forward balance and deductible scientific research and development expenditures totaling approximately \$22.9 million

Net Loss and Net Loss per Share

Net loss for the three months ended September 30, 2020 was \$404,531, compared to a net loss of \$1,740,336 for the same period in 2019, representing a 77% decrease. The \$1,335,805 decrease is mainly the result of a \$1,357,837 decrease in general and administration expenditures, a \$49,746 decrease in research expenses and a \$44,576 decrease in inventory impairment offset by a \$101,632 decrease in gross margin and a \$53,181 increase in finance costs, the details of which are explained above.

Net loss for the nine months ended September 30, 2020 was \$1,267,306, compared to a net loss of \$2,830,525 for the same period in 2019, representing a 55% decrease. The \$1,563,219 decrease is mainly the result of a \$1,671,833 decrease in general and administration expenditures, a \$79,207 decrease in research expenses and a \$44,576 decrease in inventory impairment offset by a \$139,658 decrease in gross margin and a \$165,235 increase in finance costs, the details of which are explained above.

The net loss per share of \$0.00 for the three months ended September 30, 2020 and \$0.02 for the nine months ended September 30, 2020 is consistent with the net loss per share for the same periods in 2019.

Cash Used in Operating Activities

Cash flows used in operating activities for the nine months ended September 30, 2020 of \$780,397 are 46% lower than cash flows used in operating activities for the nine months ended September 30, 2019 of \$1,434,021. The decrease is mainly due to a reduction in general and administration expenditures as explained above as well as a reduction in non-cash working capital between the periods due to the timing of receipts in trade receivables and timing of payments in trade payables and accrued liabilities.

Related Party Transactions

During the nine months ended September 30, 2020, \$3,500 was paid to Visual Strategies & Associates Inc., a corporation owned by the spouse of the Chief Financial Officer of the Company for website development services. Visual Strategies will continue to provide these services to the Company when requested by the Chief Executive Officer. The measurement basis used for this transaction was based on the actual invoice received and paid by the Company.

SUMMARY OF QUARTERLY RESULTS
(selected financial information)

| | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 |
|-----------|-------------|------------|------------|-------------|
| Revenue | \$ 80,280 | \$ 142,437 | \$ 120,746 | \$ 359,533 |
| Net loss | (404,531) | (256,725) | (606,048) | (6,798,631) |
| Per share | (0.00) | (0.00) | (0.01) | (0.06) |
| | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 |
| Revenue | \$ 310,034 | \$ 231,964 | \$ 220,550 | \$ 55,634 |
| Net loss | (1,740,336) | (557,072) | (533,116) | (821,688) |
| Per share | (0.02) | (0.00) | (0.01) | (0.01) |

The net loss increase of \$147,806 or 58% for the third quarter of 2020 compared to the second quarter of 2020 is mainly the result of a \$76,829 increase in general and administrative expenses mainly due to severances for two terminated employees and moving costs incurred during the third quarter, a \$59,617 increase in stock-based compensation, and a \$38,230 decrease in gross margin offset by a \$31,941 decrease in depreciation and amortization expense.

The net loss decrease of \$349,323 or 58% for the second quarter of 2020 compared to the first quarter of 2020 is mainly the result of a \$242,928 decrease in general and administrative expenses, a \$61,220 decrease in stock-based compensation, a \$23,771 decrease in research expenses and the receipt of \$30,048 for the Company's 2017 SR&ED claim.

The net loss decrease of \$6,192,583 or 91% for the first quarter of 2020 compared to the fourth quarter of 2019 is mainly the result of a goodwill and intangible asset impairment loss of \$6,089,824 recognized on December 31, 2019 for all capitalized costs incurred for the Company's HART™ segment.

The net loss increase of \$5,058,295 or 291% for the fourth quarter of 2019 compared to the third quarter of 2019 is mainly the result of a goodwill and intangible asset impairment loss of \$6,089,824 recognized on December 31, 2019; offset by a \$1,160,012 decrease in general and administrative expenses fees due to the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company for total consideration of \$1,400,000 which was satisfied through the issuance of secured convertible debentures and resulted in a one-time \$1.1 million consulting fee being recognized on September 30, 2019.

The net loss increase of \$1,183,264 or 212% in the third quarter of 2019 compared to the second quarter of 2018 is mainly the result of the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company, on September 30, 2019 for total consideration of \$1,400,000 which was satisfied through the issuance of secured convertible debentures and resulted in a one-time \$1.1 million consulting fee being recognized.

The net loss increase of \$23,956 or 4% in the second quarter of 2019 compared to the first quarter of 2019 is mainly the result of a \$22,006 increase in general and administration expense primarily in the HARPTM commercialization expenses.

The net loss decrease of \$288,572 or 35% in the first quarter of 2019 compared to the fourth quarter of 2018 is mainly the result of a \$139,550 decrease in general and administration expense due to the adoption of IFRS 16 resulting in previously reported general and administration operating lease

payments now being capitalized and included on the Statement of Financial Position as well as expense reductions in meals and travel expenses, bad debt expenses, audit expenses, legal expenses and public company costs; a \$80,192 increase in gross margin due to increased sales and a \$74,574 decrease in inventory impairment.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations as of the date of this report:

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|-----------------------------|------------------|-----------------|-----------------|-------------|-------------|
| Office lease | \$ 19,050 | \$ – | \$ – | \$ – | \$ – |
| Machines & equipment leases | 222 | 2,666 | 1,333 | – | – |
| Vehicle leases | 631 | – | – | – | – |
| Total | \$ 19,903 | \$ 2,666 | \$ 1,333 | \$ – | \$ – |

Office Lease:

The office lease commitment is for the Calgary manufacturing and assembly facility and office space located at 6708 – 30th Street S.E beginning September 1, 2020. Monthly rent excluding GST is \$6,350 per month until February 28, 2021.

Machine and Equipment Leases:

The Company committed to a sixty-month lease of a photocopier which expires June 30, 2022. The Company sold its CNC Lathe machine in October 2020 that originally had a sixty-month finance lease expiring on October 20, 2023.

Vehicle Leases:

The Company has committed to one vehicle lease with a six-month term expiring on December 31, 2020.

OUTSTANDING SHARE DATA

The Company's outstanding shares, options and warrants of the date of this report consist of:

| | Number |
|---|--------------------|
| Common shares: | |
| Balance, December 31, 2019 | 113,582,673 |
| Common shares, as of November 24, 2020 | 113,582,673 |
| Stock options: | |
| Balance, December 31, 2019 | 8,985,000 |
| Options forfeited | (205,000) |
| Options expired | (70,000) |
| Stock options outstanding, as of November 24, 2020 | 8,710,000 |
| Stock options exercisable, as of November 24, 2020 | 5,326,667 |

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2020, the Company had positive working capital of \$583,718, excluding deferred revenue of \$548,900. The Company's policy is to invest its cash only in an interest-bearing commercial investment account with a major international bank.

On September 30, 2019, the Company completed a \$900,000 private placement of secured convertible debentures concurrently with the closing of the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company, for consideration of \$1,400,000 in convertible debentures resulting in total convertible debentures issued of \$2,300,000. 1955554 Alberta Ltd held \$300,000 in cash upon closing.

The Company currently believes this cash injection and projected revenues will be sufficient to satisfy its financial obligations into early 2021 based on its current sales forecasts and continued cost reductions. However, the global impact of COVID-19 as well as the recent decline in oil prices in Canada and the United States have resulted in significant uncertainty as to the health of the global economy and specifically the oil and gas industry. The potential impact that these events will have on the Company's future sales and financial results cannot be reasonably estimated at this time.

The Company has taken significant steps to reduce its monthly operating expenses to preserve its cash position during the Covid-19 disruption. These measures included significantly reducing the Company's salary expense through layoffs, terminations, salary reductions and receiving government assistance, moving to a smaller facility to reduce monthly shop and office rent, shutting down the Company's internal manufacturing operations, selling its largest value machinery in July and October 2020 and reducing general operating expenses wherever possible. The Company's ability to accomplish its plans throughout 2020 and beyond is dependent upon the Company meeting its projected sales forecast for the remainder of the year and if this does not occur, obtaining additional financing to continue operations; however, there is no assurance that the Company will achieve these objectives. Refer to the going concern discussion in note 2 of the Company's condensed interim financial statements for the three months and nine ended September 30, 2020.

The Company initiated a strategic process to identify, review and evaluate a broad range of potential strategic alternatives in late January 2020. This process concluded with the execution of the exclusive distribution agreement with Q2 ALS.

FINANCIAL INSTRUMENTS

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

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 matures on September 30, 2022.

The Company currently believes its current cash position and projected revenues will be sufficient to satisfy its financial obligations into early 2021 based on its current sales forecasts and continued cost reductions. However, the global impact of COVID-19 as well as the recent decline in oil prices in

Canada and the United States have resulted in significant uncertainty as to the health of the global economy and specifically the oil and gas industry. The potential impact that these events will have on the Company's future sales and financial results cannot be reasonably estimated at this time.

The Company's ability to accomplish its plans throughout 2020 and beyond is dependent upon the Company meeting its projected sales forecast for the remainder of the year and if this does not occur, obtaining additional financing to continue operations; however, there is no assurance that the Company will achieve these objectives. Refer to the going concern discussion in note 2 of the Company's condensed interim financial statements for the three months and nine ended September 30, 2020

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, 2020, cash was comprised of \$283,172, of which \$74,304 was held on deposit in a HSBC commercial investment account which does not earn interest for any balances less than \$1,000,000, thus the Company has no exposure to fluctuating market interest rates.

At September 30, 2020, the Company's outstanding convertible debt of \$2,300,000 contained a fixed rate of interest at 6% per annum. The Company has no floating interest rate debt and is not exposed to interest rate risk at this time.

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 condensed interim financial statements as at September 30, 2020.

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, 2020 consists of amounts owing from five customers and the federal government for the Canadian Emergency Wage Subsidy program and GST refunds. The majority of the balance owing has been collected subsequent to quarter-end, other than invoices provided for in its Allowance for Doubtful Accounts provision. The Company has fully provided for two customer invoices in the amount of \$50,242 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 portion of the Company's incoming revenue is currently earned in U.S. dollars, but a substantial portion of its operating expenses is currently 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.

OPERATIONAL AND BUSINESS RISKS

Information with respect to the operational and business risks faced by the Company is included in the Company's MD&A for the year ended December 31, 2019.