



Condensed Interim Financial Statements (Unaudited)
As at and for the three and nine months ended September 30, 2020

Notice of No Auditor Review of Condensed Interim Financial Statements

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

The accompanying unaudited condensed interim financial statements of Raise Production Inc. (the "Company") for the three and nine months ended September 30, 2020 have been prepared by and are the responsibility of the Company's management.

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



Eric Laing
President and Chief Executive Officer



Susan Scullion, CPA, CA
Chief Financial Officer

November 24, 2020

RAISE PRODUCTION INC.

Interim Statements of Financial Position (Unaudited)

	As at September 30, 2020	As at December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 283,172	\$ 1,034,069
Trade receivables (note 11)	37,416	253,413
Inventories (note 5)	463,610	450,185
Prepaid expenses and deposits	27,056	89,888
	811,254	1,827,555
Non-current assets:		
Property and equipment (note 6)	178,026	395,533
Right-of-use assets (note 7)	162,968	524,314
Total Assets	\$ 1,152,248	\$ 2,747,402
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities	\$ 140,898	\$ 362,951
Warranty provision (note 16)	52,391	41,000
Current portion of lease liabilities (note 9)	34,247	173,720
Deferred revenue (note 17)	548,900	538,000
	776,436	1,115,671
Non-current liabilities:		
Long-term convertible debt (note 8)	2,101,841	1,992,971
Long-term lease liabilities (note 9)	85,714	316,659
Total Liabilities	2,963,991	3,425,301
Shareholders' equity:		
Share capital (note 10)	30,140,133	30,140,133
Contributed surplus	4,102,594	3,969,132
Deficit	(36,054,470)	(34,787,164)
Total Shareholders' Equity	(1,811,743)	(677,899)
Total Liabilities and Shareholders' Equity	\$ 1,152,248	\$ 2,747,402

See accompanying notes to condensed interim financial statements.

Subsequent Events (note 21)

RAISE PRODUCTION INC.

Interim Statements of Operations and Comprehensive Loss (Unaudited)

	Three months ended Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Revenue from contracts with customers (note 20)	\$ 55,029	\$ 305,378	\$ 284,683	\$ 748,889
Cost of sales (note 5)	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 (note 14)	271,173	1,629,010	902,788	2,574,621
Finance costs (note 13)	61,818	8,637	194,301	29,066
Depreciation and amortization (notes 6, 7)	26,043	59,839	143,130	176,792
Stock-based compensation (note 10)	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 common share (note 10(d)):				
Basic and diluted	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.02)

See accompanying notes to condensed interim financial statements.

RAISE PRODUCTION INC.

Interim Statements of Changes in Shareholders' Equity (Unaudited)

For the nine months ended September 30

	Share Capital	Contributed Surplus	Warrants	Deficit	Total
	(note 10)	(note 10)	(note 10)		
Balance at December 31, 2018	\$ 30,140,133	\$ 3,086,591	\$ 419,177	\$(25,158,008)	\$ 8,487,893
Net loss	–	–	–	(2,830,525)	(2,830,525)
Stock-based compensation	–	143,884	–	–	143,884
Expiry of share purchase warrants	–	419,177	(419,177)	–	–
Balance at September 30, 2019	\$ 30,140,133	\$ 3,649,652	\$ –	\$(27,988,533)	\$ 5,801,252
Balance at December 31, 2019	\$ 30,140,133	\$ 3,969,132	\$ –	\$(34,787,164)	\$ (677,899)
Net loss	–	–	–	(1,267,306)	(1,267,306)
Stock-based compensation	–	133,462	–	–	133,462
Balance at September 30, 2020	\$ 30,140,133	\$ 4,102,594	\$ –	\$(36,054,470)	\$ (1,811,743)

See accompanying notes to condensed interim financial statements.

RAISE PRODUCTION INC.

Interim Statements of Cash Flows (Unaudited)

For the nine months ended September 30

	2020	2019
Operating activities:		
Net loss	\$(1,267,306)	\$(2,830,525)
Items not involving cash:		
Depreciation and amortization	143,130	176,792
Stock-based compensation	133,462	143,884
Accretion on convertible debenture (note 13)	108,870	–
Loss on disposal of property and equipment	16,709	–
Finance costs on lease liabilities (note 9)	15,395	26,523
Unrealized foreign exchange loss on lease liabilities (note 9)	3,830	3,175
Unrealized gain on vehicle lease liability	(129)	–
Consulting Fee	–	1,100,000
Change in long-term deposits	–	454
Net change in non-cash operating working capital (note 12)	65,642	(54,324)
Cash used in operating activities	(780,397)	(1,434,021)
Financing activities:		
Lease payments (note 9)	(130,273)	(156,734)
Long-term debt issuance (note 8)	–	1,111,650
Cash used in financing activities	(130,273)	954,916
Investing activities:		
Sale of property and equipment (note 6)	161,797	–
Purchase of property and equipment (note 6)	(2,024)	(15,844)
Horizontal wellbore system development	–	(36,865)
Cash provided by (used in) investing activities	159,773	(52,709)
Net decrease in cash and cash equivalents	(750,897)	(531,814)
Cash, beginning of period	1,034,069	2,005,486
Cash, end of period	\$ 283,172	\$ 1,473,672
Cash interest received	\$ 886	\$ 8,936
Cash interest paid	\$ 5,511	\$ 7,373

See accompanying notes to condensed interim financial statements.

RAISE PRODUCTION INC.

Notes to Condensed Interim Financial Statements (Unaudited)

As at and for the three and nine months ended September 30, 2020

1. Corporate information:

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

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

These condensed interim financial statements for the three and nine months ended September 30, 2020 were approved and authorized for issuance by the Board of Directors (the “Board”) on November 24, 2020.

2. Going concern:

These condensed interim 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 \$1,267,306 during the nine months ended September 30, 2020 and as of that date, the Company had an accumulated deficit of \$36,054,470. The Company has not generated significant revenues or cash flows from operations since inception. The continuation of the Company as a going concern is dependent upon the successful commercialization of its proprietary research and development projects and the ability of the Company to continue to obtain external financing in order to fund operations. While the Company has been successful attracting external financing to date (see Notes 8 and 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 condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

3. Basis of presentation:

These condensed interim financial statements are unaudited and have been prepared in accordance with *IAS 34 - Interim Financial Reporting* as at and for the three and nine months ended September 30, 2020. These condensed interim financial statements do not include all the necessary annual disclosures in accordance with International Financial Reporting Standards (“IFRS”) and accordingly should be read in conjunction with the Company’s financial statements and notes thereto for the year ended December 31, 2019.

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

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

3. Basis of presentation (continued):

The preparation of these condensed interim 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 to the financial statements for the year ended December 31, 2019.

These condensed interim financial statements have been prepared using the same accounting policies and methods as the financial statements for the year ended December 31, 2019, except for the addition of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

IAS 20, Accounting for Government Grants and Disclosure of Government Assistance

The Company's policy is to recognize government grants and assistance when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants are recorded as a reduction of the related expense in the Statement of Operations and Comprehensive Loss in the same period as the expenses for which the grant is intended to compensate.

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 or is a continuation of a previously approved program. SR&ED credits are recorded as a reduction of capitalized assets or as other income in the Statement of Operations and Comprehensive Loss to the extent the carrying amount of the related asset is nil.

4. Significant Accounting Estimates and Judgements

Covid-19 Implications:

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 has implemented actions to preserve its cash position and will continue to do so while maintaining its ability to effectively service and supply its customers.

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.

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

4. Significant Accounting Estimates and Judgements (continued):

The Company determined that it met the employer eligibility criteria and applied for CEWS retroactively to March 15, 2020. The Company has recorded a total gross subsidy under the CEWS program of \$78,680 for the three months ended September 30, 2020 and \$177,766 for the nine months ended September 30, 2020. The CEWS is reported as a reduction of salary expense in the Statement of Operations and Comprehensive Loss.

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 intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements. There are no unfulfilled conditions or other contingencies attaching to the current CEWS program.

5. Inventories:

	As at September 30, 2020	As at December 31, 2019
Finished goods and third-party products	\$ 436,957	\$ 410,604
Raw materials	26,653	28,124
Work-in-progress	–	11,457
	<u>\$ 463,610</u>	<u>\$ 450,185</u>

For the three months ended September 30, 2020, the cost of inventories recognized as an expense and included in the cost of sales was \$36,072 (2019 - \$172,297).

For the nine months ended September 30, 2020, the cost of inventories recognized as an expense and included in the cost of sales was \$144,895 (2019 - \$450,194).

6. Non-current assets:

Property and equipment

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Cost						
At December 31, 2018	\$ 598,994	\$ 533,317	\$ 77,567	\$ 44,648	\$ 59,815	\$ 1,314,341
Additions	–	22,807	–	–	–	22,807
Transfer to right-of-use asset	(200,639)	–	–	–	–	(200,639)
At December 31, 2019	398,355	556,124	77,567	44,648	59,815	1,136,509
Additions	–	2,024	–	–	–	2,024
Dispositions	(372,776)	(13,477)	–	–	–	(386,253)
At September 30, 2020	<u>\$ 25,579</u>	<u>\$ 544,671</u>	<u>\$ 77,567</u>	<u>\$ 44,648</u>	<u>\$ 59,815</u>	<u>\$ 752,280</u>

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

6. Non-current assets (continued):

Property and equipment (continued)

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Accumulated Depreciation						
At December 31, 2018	\$ 186,318	\$ 316,136	\$ 71,128	\$ 44,648	\$ 59,815	\$ 678,045
Depreciation	22,207	45,717	5,039	–	–	72,963
Transfer to right-of-use asset	(10,032)	–	–	–	–	(10,032)
At December 31, 2019	198,493	361,853	76,167	44,648	59,815	740,976
Depreciation	10,330	29,293	1,400	–	–	41,023
Dispositions	(195,723)	(12,022)	–	–	–	(207,745)
At September 30, 2020	\$ 13,100	\$ 379,124	\$ 77,567	\$ 44,648	\$ 59,815	\$ 574,254

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Net book value						
At December 31, 2019	\$ 199,862	\$ 194,271	\$ 1,400	\$ –	\$ –	\$ 395,533
At September 30, 2020	\$ 12,479	\$ 164,547	\$ –	\$ –	\$ –	\$ 178,026

7. Right-of-Use assets:

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

	Office Lease	Machines and equipment	Vehicles	Total
Cost				
At January 1, 2019	\$ 449,658	\$ 209,213	\$ 50,007	\$ 708,878
Additions	–	–	–	–
At December 31, 2019	449,658	209,213	50,007	708,878
Additions	–	–	–	–
Dispositions	(254,814)	–	(4,425)	(259,239)
At September 30, 2020	\$ 194,844	\$ 209,213	\$ 44,582	\$ 449,639

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

7. Right-of-Use assets (continued):

	Office Lease	Machines and equipment	Vehicles	Total
Accumulated Depreciation				
At January 1, 2019	\$ –	\$ 10,032	\$ –	\$ 10,032
Depreciation	122,634	21,510	30,388	174,532
At December 31, 2019	122,634	31,542	30,388	184,564
Depreciation	72,210	14,703	15,194	102,107
At September 30, 2020	\$ 194,844	\$ 46,245	\$ 45,582	\$ 286,671
Net book value				
At December 31, 2019	\$ 327,024	\$ 177,671	\$ 19,619	\$ 524,314
At September 30, 2020	\$ –	\$ 162,968	\$ –	\$ 162,968

8. Long-term convertible debt:

Balance, December 31, 2019	\$ 1,992,971
Accretion on convertible debenture	108,870
Balance, September 30, 2020	\$ 2,101,841

On September 30, 2019, the Company completed a \$900,000 private placement of secured convertible debentures (the "Debentures") concurrently with the closing of the acquisition of 1955554 Alberta Ltd., an arms-length private consulting company for consideration of \$1,400,000 of Debentures. The Debentures are secured by general security over all the Company's assets.

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

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

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

8. Long-term convertible debt (continued):

The Debentures are comprised of both a debt and equity portion. The debt component represents the discounted present value of the principal payment required at maturity, using an interest rate of 10% that would have been applicable to a non-convertible debt instrument of comparable risk and term at the date of issuance. The equity component represents the conversion feature and is included in Contributed Surplus. Debenture issuance costs of \$97,223 have been netted against the debt portion and \$10,946 netted against the equity portion.

At September 30, 2020, the Company is in compliance with all of its debt covenants.

9. Lease liabilities:

The Company's lease liabilities as of September 30, 2020, consist a CNC Lathe machining unit (the "CNC Lathe"), repayable at USD\$2,390 per month expiring on October 20, 2023 with a \$nil purchase option and one photocopier repayable at \$222 per month expiring on June 30, 2022.

	Lease liabilities
Total lease liabilities, December 31, 2019	\$ 490,379
Office and vehicle lease disposals	(259,370)
Lease payments	(130,273)
Interest expense	15,395
Effect of movement in foreign exchange rates	3,830
Total lease liabilities, September 30, 2020	\$ 119,961
Less: current portion of lease liabilities	\$ 34,247
Long-term lease liabilities, September 30, 2020	\$ 85,714

As of September 30, 2020, lease liabilities, including two short-term lease commitments for office space and one vehicle, mature over the next five fiscal years as follows:

2020	\$ 43,848
2021	40,819
2022	39,485
2023	31,794
2024	—
	\$ 155,946

The Company sold its CNC Lathe in October 2020. The CNC Lathe lease liability balance included in the above schedule amounts to \$117,637. The Company elected to not exercise its two-year office lease extension as of August 31, 2020 and cancel its remaining vehicle lease which originally expired on October 15, 2020 on June 30, 2020.

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

9. Lease liabilities (continued):

During the quarter ended September 30, 2020, the Company expensed \$11,574 (2019 - \$15,979), relating to low value lease commitments, \$7,222 (2019 - \$11,566) of variable lease payments for its office space and \$8,312 relating to short-term lease commitments (2019 – nil), all of which are exclusive of GST and included in general and administration expenses.

During the nine months ended September 30, 2020, the Company expensed \$43,328 (2019 - \$47,831) relating to low value lease commitments, \$24,124 (2019 - \$35,863) of variable lease payments for its office space and \$8,312 relating to short-term lease commitments (2019 – nil), all of which are exclusive of GST and included in general and administration expenses. In addition, the Company applied a practical expedient for rent concessions received as a direct consequence of the Covid-19 pandemic resulting in a \$7,793 reduction in office lease operating expenses included in general and administration expenses.

10. 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

(b) Issued:

	Common Shares	Amount
Balance, December 31, 2018	113,582,673	\$ 30,140,133
Balance, December 31, 2019	113,582,673	\$ 30,140,133
Balance, September 30, 2020	113,582,673	\$ 30,140,133

(c) Stock options:

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

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

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

10. Share capital (continued):

(c) Stock options (continued):

The following movement of stock options occurred:

	Number	Weighted-average exercise price (\$)
Options outstanding, December 31, 2018	6,990,000	0.31
Options granted	3,000,000	0.11
Options forfeited	(675,000)	0.34
Options expired	(330,000)	1.08
Options outstanding, December 31, 2019	8,985,000	0.21
Options forfeited	(205,000)	0.25
Options expired	(70,000)	1.25
Options outstanding, September 30, 2020	8,710,000	0.20
Options exercisable, September 30, 2020	5,326,667	0.25

At September 30, 2020, 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	1.31	2,251,250	0.24
May 29, 2017	860,000	0.205	1.66	860,000	0.205
November 24, 2017	1,748,750	0.24	2.15	1,698,750	0.24
February 23, 2018	700,000	0.39	2.40	466,667	0.39
November 26, 2018	150,000	0.19	3.15	50,000	0.19
September 4, 2019	3,000,000	0.11	3.93	–	0.11
	8,710,000	0.20 ⁽¹⁾		5,326,667	0.25 ⁽¹⁾

(1) Weighted average

During the three months ended September 30, 2020, \$63,826 (2019 - \$64,603) of stock-based compensation was recognized in the Statement of Loss and Comprehensive Loss.

During the nine months ended September 30, 2020, \$133,462 (2019 - \$143,884) of stock-based compensation was recognized in the Statement of Loss and Comprehensive Loss.

No stock options were granted during the nine months ended September 30, 2020. The following weighted average assumptions used in the Black-Scholes option pricing model to determine the fair value of options granted during the year ended December 31, 2019 are as follows:

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

10. Share capital (continued):

(c) Stock options (continued):

	2020	2019
Weighted average share price	\$ -	\$ 0.11
Risk free interest rate	-	1.2%
Expected life	-	4.6 yrs
Expected volatility	-	124%
Pre-vest forfeiture rate	-	12%
Expected annual dividend yield	-	0%

The weighted average fair value of options granted during the year ended December 31, 2019 was \$0.07 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 period prior to the stock option grant date equal to the expected life of the option.

(d) Loss per share calculation:

The weighted average number of common shares used in calculating the net loss per share for the three months ended September 30, 2020 is 113,582,673 (2019 – 113,582,673) and nine months ended September 30, 2020 is 113,582,673 (2019 – 113,582,673). 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.

11. Financial instruments and risk management:

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.

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

11. Financial instruments and risk management (continued):

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.

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.

RAISE PRODUCTION INC.

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

As at and for the three and nine months ended September 30, 2020

11. Financial instruments and risk management (continued):

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.

12. Supplemental cash flow information:

Changes in non-cash operating assets and liabilities for nine months ended September 30, 2020 and 2019 are as follows:

	2020	2019
Trade receivables	\$ 215,998	\$ (278,405)
Inventories	(13,426)	169,932
Prepaid expenses and deposits	62,832	29,010
Trade payables and accrued liabilities	(222,053)	6,414
Other current financial liabilities	11,391	18,725
Deferred revenue	10,900	–
Change in non-cash working capital	\$ 65,642	\$ (54,324)

13. Finance costs:

Finance costs for the three and nine months ended September 30, 2020 and 2019 consisted of the following:

	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
	\$ 61,818	\$ 8,637	\$ 194,301	\$ 29,066

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14. General and administration expenses:

General and administration expenses for the three and nine months ended September 30, 2020 and 2019 consisted of the following:

	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	212,293	212,853	589,206
Legal, audit & accounting	41,900	70,214	134,866	146,766
Sub-contracted and consulting services	17,354	1,119,610	64,976	1,153,199
Facilities	17,410	16,783	47,618	63,852
Other administration	56,977	50,272	122,401	130,956
	\$ 271,173	\$1,629,010	\$ 902,788	\$ 2,574,621

(1) Administration

(2) HARP commercialization

15. 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, long-term debt and shareholders' equity. The following table summarizes the Company's capital as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Cash	\$ 283,172	\$ 1,034,069
Long-term convertible debenture	\$ 2,300,000	\$ 2,300,000
Share capital	\$30,140,133	\$30,140,133
Contributed surplus	4,102,594	3,969,132
Deficit	(36,054,470)	(34,787,164)
Shareholders' equity	\$ (1,811,743)	\$ (677,899)

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15. Capital management (continued):

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.

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.

16. Warranty Provision:

	Maintenance Warranty
Provision balance, December 31, 2019	\$ 41,000
Additions	16,320
Utilized	(4,929)
Provision balance, September 30, 2020	\$ 52,391

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

17. Deferred Revenue:

	Deferred Revenue
Balance, December 31, 2019	\$ 538,000
Additions	62,600
Recognized in revenue	(51,700)
Balance, September 30, 2020	\$ 548,900

The majority of the Company's deferred revenue balance at September 30, 2020 consists of cash payments of \$440,000 (December 31, 2019 - \$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.

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As at and for the three and nine months ended September 30, 2020

17. Deferred Revenue (continued):

The additional balances in deferred revenue at September 30, 2020 consist of cash payments received amounting to \$10,900 (December 31, 2019 - \$nil) for one HARP that has been ordered but not yet delivered to the customer and cash payments of \$98,000 (December 31, 2019 - \$98,000) received for project revenue for which services have not yet been completed.

The amounts received have been recorded as current deferred revenue as at September 30, 2020 and December 31, 2019 and will be recognized into revenue as future purchases are completed, services completed, or inventory delivered.

18. Related party transactions:

During the nine months ended September 30, 2020, \$3,500 was paid to a corporation owned by the spouse of an officer of the Company for website development services (2019 - \$nil).

19. Segmented Information:

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

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

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

An impairment loss was recognized for the year ended December 31, 2019 for the HART segment as detailed in Note 8 to the financial statements 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 all segments.

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As at and for the three and nine months ended September 30, 2020

19. Segmented Information (continued):

Revenue	Three months ended Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Raise Efficient Artificial Lift	\$ 55,029	\$ 305,378	\$ 284,683	\$ 748,889
Corporate	25,251	4,656	58,781	13,660
Total	\$ 80,280	\$ 310,034	\$ 343,464	\$ 762,549

Depreciation and Amortization	Three months ended Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Raise Efficient Artificial Lift	\$ 4,289	\$ 12,302	\$ 28,059	\$ 36,685
Corporate	21,754	47,537	115,071	140,107
Total	\$ 26,043	\$ 59,839	\$ 143,130	\$ 176,792

Net Loss	Three months ended Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Raise Efficient Artificial Lift	\$ (18,792)	\$ (184,936)	\$ (132,466)	\$ (477,323)
Corporate	(385,739)	(1,555,400)	(1,134,840)	(2,353,202)
Total	\$ (404,531)	\$ (1,740,336)	\$ (1,267,306)	\$ (2,830,525)

Capital Expenditures (Recoveries)	Three months ended Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Raise Efficient Artificial Lift	\$ –	\$ –	\$ –	\$ –
Horizontal Artificial Recovery Technology	–	1,421	–	36,865
Corporate	2,950	8,209	2,024	15,844
Total	\$ 2,950	\$ 9,630	\$ 2,024	\$ 52,709

Total Assets	Sept 30,	December 31,
	2020	2019
Raise Efficient Artificial Lift	\$ 595,242	\$ 847,313
Corporate	557,006	1,900,089
Total	\$ 1,152,248	\$ 2,747,402

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19. Segmented Information (continued):

For the nine months ended September 30, 2020, revenues from two customers were greater than 10% of the Company's total revenue amounting to \$155,099 and \$38,773 of revenue earned in the REAL segment.

20. Revenue from Contracts with Customers:

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

Contracts with Customers by Geographical Market	Three months ended Sept 30		Nine months ended Sept 30	
	2020	2019	2020	2019
Raise Efficient Artificial Lift - Canada	\$ 55,029	\$ 239,406	\$ 245,910	\$ 414,415
Raise Efficient Artificial Lift - USA	–	65,972	38,773	334,474
Total	\$ 55,029	\$ 305,378	\$ 284,683	\$ 748,889

21. Subsequent Events:

Effective October 1, 2020, the Company 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 REAL technologies, which includes the HARP, for the North American market.

Q2 ALS is one of the top 3 fully integrated downhole rod pump companies in North America and specializes in the sales, service, engineering and manufacturing of downhole reciprocating pumps. It currently has over 30 repair and service locations strategically located across Western Canada and the United States.

Terms of the agreement include Q2 ALS purchasing a majority of the Company's existing HARP inventory over a 6-month period valued at approximately \$390,000. Raise will continue to maintain relationships with its existing customers while Q2 ALS receives the training and technical information needed to add the HARP and REAL technology to its product line. Raise's technical support for its customers and Q2 ALS will remain in place for the foreseeable future.