



Audited Financial Statements
Years ended December 31, 2019 and 2018
(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 28, 2020

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, 2019 and 2018, 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 \$9,629,156 during the year ended December 31, 2019 including a goodwill and intangible asset impairment loss of \$6,089,824 and as of that date, the Company had an accumulated deficit of \$34,787,164. 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 IFRS, 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 Kim Wiggins.

The logo for Ernst & Young LLP is written in a black, cursive script font. The letters are fluid and connected, with a prominent 'E' and 'Y'.

Chartered Professional Accountants

Calgary, Canada

April 28, 2020

RAISE PRODUCTION INC.

Statements of Financial Position

	As at December 31, 2019	As at December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,034,069	\$ 2,005,486
Trade receivables (note 14)	253,413	62,012
Inventories (note 7)	450,185	686,637
Prepaid expenses and deposits	89,888	48,982
	<u>1,827,555</u>	<u>2,803,117</u>
Non-current assets:		
Property and equipment (note 8)	395,533	636,296
Right-of-use assets (note 9)	524,314	–
Intangible assets and goodwill (note 8)	–	6,037,708
Deposits	–	37,561
Total Assets	<u>\$ 2,747,402</u>	<u>\$ 9,514,682</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities	\$ 362,951	\$ 316,634
Warranty provision (note 19)	41,000	15,865
Current portion of lease liabilities (note 11)	173,720	28,817
Deferred revenue (note 20)	538,000	538,000
	<u>1,115,671</u>	<u>899,316</u>
Non-current liabilities:		
Long-term convertible debt (note 10)	1,992,971	–
Long-term lease liabilities (note 11)	316,659	127,473
Total Liabilities	<u>3,425,301</u>	<u>1,026,789</u>
Shareholders' equity:		
Share capital (note 12)	30,140,133	30,140,133
Warrants (note 12)	–	419,177
Contributed surplus	3,969,132	3,086,591
Deficit	(34,787,164)	(25,158,008)
Total Shareholders' Equity	<u>(677,899)</u>	<u>8,487,893</u>
Total Liabilities and Shareholders' Equity	<u>\$ 2,747,402</u>	<u>\$ 9,514,682</u>

See accompanying notes to financial statements.

Subsequent Events (note 24)

Approved on behalf of the Board:



Director



Director

RAISE PRODUCTION INC.

Statements of Loss and Comprehensive Loss

Years ended December 31

	2019	2018
Revenue from contracts with customers (note 23)	\$1,100,624	\$ 334,791
Cost of sales (note 7)	705,613	270,037
Gross margin	395,011	64,754
Other income	21,458	26,949
Expenses:		
Goodwill and intangible asset impairment (note 8)	6,089,824	–
General and administration (note 16)	3,043,618	1,960,083
Depreciation and amortization (notes 8,9)	247,495	91,634
Stock-based compensation (note 12)	241,553	352,130
Research expenses	171,441	156,742
Inventory impairment (note 7)	156,874	74,574
Finance costs (note 17)	94,820	4,306
	10,045,625	2,639,469
Net loss and comprehensive loss	\$(9,629,156)	\$(2,547,766)
Net loss per common share (note 12(e)):		
Basic and diluted	\$ (0.08)	\$ (0.02)

See accompanying notes to financial statements.

RAISE PRODUCTION INC.

Statements of Changes in Shareholders' Equity

	Share Capital	Contributed Surplus	Warrants	Deficit	Total
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 (note 12)	3,500,000	–	–	–	3,500,000
Share issuance expenses (note 12)	(47,790)	–	–	–	(47,790)
Stock-based compensation (note 12)	–	352,130	–	–	352,130
Exercise of agent warrants (note 12)	143,386	–	(47,636)	–	95,750
Exercise of agent warrants (note 12)	6,781	–	(6,781)	–	–
Balance at December 31, 2018	\$ 30,140,133	\$ 3,086,591	\$ 419,177	\$(25,158,008)	\$ 8,487,893
Net loss	–	–	–	(9,629,156)	(9,629,156)
Stock-based compensation (note 12)	–	241,553	–	–	241,553
Expiry of share purchase warrants (note 12)	–	419,177	(419,177)	–	–
Equity component of convertible debt (note 10)	–	232,757	–	–	232,757
Equity component of convertible debt issuance costs (note 10)	–	(10,946)	–	–	(10,946)
Balance at December 31, 2019	\$ 30,140,133	\$ 3,969,132	\$ –	\$(34,787,164)	\$ (677,899)

See accompanying notes to financial statements.

RAISE PRODUCTION INC.

Statements of Cash Flows

Years ended December 31

	2019	2018
Operating activities:		
Net loss	\$(9,629,156)	\$(2,547,766)
Items not involving cash:		
Goodwill and intangible asset impairment (note 8)	6,089,824	–
Consulting fee (note 5)	1,100,000	–
Depreciation and amortization	247,495	91,634
Stock-based compensation (note 12)	241,553	352,130
Finance costs on lease liabilities	34,127	–
Accretion of convertible debenture	22,951	–
Unrealized foreign exchange on lease liabilities	640	–
Change in long-term deposits	37,561	(1,254)
Net change in non-cash operating working capital (note 15)	75,598	(112,938)
Cash used in operating activities	(1,779,407)	(2,218,194)
Financing activities:		
Long-term convertible debt issuance (notes 5,10)	1,200,000	–
Long-term convertible debt issuance costs (note 10)	(108,170)	–
Lease payments (note 11)	(208,917)	(17,920)
Private placement issuance (note 12)	–	3,452,210
Issuance of shares – agent warrant exercise (note 12)	–	95,750
Cash provided by financing activities	882,913	3,530,040
Investing activities:		
Horizontal wellbore system development (note 8)	(52,116)	(32,951)
Purchase of property and equipment (note 8)	(22,807)	(58,972)
Horizontal wellbore system development recovery (note 8)	–	159,439
Net change in non-cash investing working capital (note 15)	–	(103,000)
Cash used in investing activities	(74,923)	(35,484)
Net increase (decrease) in cash	(971,417)	1,276,362
Cash, beginning of year	2,005,486	729,124
Cash, end of year	\$ 1,034,069	\$ 2,005,486
Cash interest received on bank balance	\$ 12,390	\$ 26,649
Cash interest paid on lease liabilities and long-term debt	\$ 43,410	\$ 1,791

See accompanying notes to financial statements.

RAISE PRODUCTION INC.

Notes to Financial Statements

Years ended December 31, 2019 and 2018

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 28, 2020.

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 \$9,629,156 during the year ended December 31, 2019 including a goodwill and intangible asset impairment loss of \$6,089,824 and as of that date, the Company had an accumulated deficit of \$34,787,164. The Company has not generated significant revenues or cash flows from operations since inception. The continuation of the Company as a going concern is dependent upon the successful commercialization of its proprietary research and development projects and the ability of the Company to continue to obtain external financing in order to fund operations. While the Company has been successful attracting external financing to date (see Notes 10, 12 and 14), 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, 2019 and 2018

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 2019:

IFRS 16 Leases

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

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

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

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

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

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

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

RAISE PRODUCTION INC.

Notes to Financial Statements, page 3

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(a) Accounting policies adopted in 2019 (continued):

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

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

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

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

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

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

RAISE PRODUCTION INC.

Notes to Financial Statements, page 4

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(a) Accounting policies adopted in 2019 (continued):

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

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

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

(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.

(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.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 5

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(d) Property and equipment (continued):

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
Machines and equipment	10%	declining balance method
Computer hardware and software	36%	straight-line method
Field trucks and trailers	36%	straight-line method

(e) Leases:

The Company adopted IFRS 16 on January 1, 2019 as discussed above in note (4)(a).

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

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

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

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

RAISE PRODUCTION INC.

Notes to Financial Statements, page 6

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(e) Leases (continued):

As at and during the year ended December 31, 2018 (prior to the implementation of IFRS 16), the Company's leases policy was as follows:

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.

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.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 7

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(f) Intangible assets (continued):

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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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 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, 2019 and December 31, 2018. 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).

RAISE PRODUCTION INC.

Notes to Financial Statements, page 8

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

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

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.

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 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.

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

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.

(j) Financial instruments:

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.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 10

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(j) Financial instruments (continued):

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, lease obligations and long-term convertible debt 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.

(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.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 11

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(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.

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

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

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

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 was 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;
- 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.

As disclosed in note 8, an annual impairment test of the carrying amount of the System development costs was conducted at December 31, 2019. An impairment was recognized for the carrying amount of the horizontal pump technology CGU in the Statement of Loss and Comprehensive Loss of \$6,089,824, including goodwill of \$259,932.

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.

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

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

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.

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.

RAISE PRODUCTION INC.

Notes to Financial Statements, page 14

Years ended December 31, 2019 and 2018

4. Summary of significant accounting policies (continued):

(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.

5. Acquisition and Amalgamation of 1955554 Alberta Ltd.:

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

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

1955554 Alberta Ltd. was amalgamated with the Company on December 23, 2019.

6. Credit facility:

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

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

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

7. Inventories:

	As at December 31, 2019	As at December 31, 2018
Finished goods and third-party products	\$ 410,604	\$ 605,944
Work-in-progress	11,457	55,558
Raw materials	28,124	25,135
	\$ 450,185	\$ 686,637

For the year ended December 31, 2019, the cost of inventories recognized as an expense and included in the cost of sales was \$642,984 (2018 - \$220,751).

For the year ended December 31, 2019, the cost of inventories written off and recognized as an expense and included in the statement of loss and comprehensive loss was \$156,874 (2018 - \$74,574). The inventory write-off is related to the impairment of the HART CGU including the HART inventory as well as inventory parts developed in conjunction with the Company's first-generation HARP that are no longer usable.

8. Non-current assets:

Property and equipment

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Cost						
At December 31, 2017	\$ 398,105	\$ 514,177	\$ 77,567	\$ 44,648	\$ 59,815	\$ 1,094,312
Additions	200,889	19,140	-	-	-	220,029
At December 31, 2018	598,994	533,317	77,567	44,648	59,815	1,314,341
Additions	-	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

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Accumulated Depreciation						
At December 31, 2017	\$ 151,626	\$ 264,233	\$ 66,089	\$ 44,648	\$ 59,815	\$ 586,411
Depreciation	34,692	51,903	5,039	-	-	91,634
At December 31, 2018	186,318	316,136	71,128	44,648	59,815	678,045
Depreciation	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

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

8. Non-current assets (continued):

Property and equipment (continued):

	Machines & equipment	Shop equipment & office furniture	Computer hardware & software	Leasehold improvements	Field trucks & trailers	Total
Net book value						
At December 31, 2018	\$ 412,676	\$ 217,181	\$ 6,439	\$ -	\$ -	\$ 636,296
At December 31, 2019	\$ 199,862	\$ 194,271	\$ 1,400	\$ -	\$ -	\$ 395,533

The machines and equipment net book value included in the table above of \$412,676 at December 31, 2018 included one machine under a finance lease with a net carrying amount of \$190,607. This finance lease is reported as a right-of-use asset in Note 9 as of December 31, 2019.

Intangible assets and goodwill

	Patents, licenses and rights	Horizontal Technology	Goodwill	Total
Cost				
At December 31, 2017	\$ 281,597	\$5,904,264	\$1,427,695	\$7,613,556
Additions	-	32,951	-	32,951
Recoveries	-	(159,439)	-	(159,439)
At December 31, 2018	281,597	5,777,776	1,427,695	7,487,068
Additions	-	52,116	-	52,116
At December 31, 2019	\$ 281,597	\$5,829,892	\$1,427,695	\$7,539,184

	Patents, licenses and rights	Horizontal Technology	Goodwill	Total
Accumulated amortization and impairment				
At December 31, 2017	\$ 281,597	\$ -	\$1,167,763	\$1,449,360
Amortization	-	-	-	-
At December 31, 2018	281,597	-	1,167,763	1,449,360
Amortization	-	-	-	-
Impairment	-	5,829,892	259,932	6,089,824
At December 31, 2019	\$ 281,597	\$5,829,892	\$1,427,695	\$7,539,184

RAISE PRODUCTION INC.

Notes to Financial Statements, page 17

Years ended December 31, 2019 and 2018

8. Non-current assets (continued):

Intangible assets and goodwill (continued)

Net book value					
At December 31, 2018	\$	–	\$ 5,777,776	\$ 259,932	\$ 6,037,708
At December 31, 2019	\$	–	\$ –	\$ –	\$ –

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.

The annual impairment test of the carrying amount of the horizontal pump technology CGU and HART segment (as disclosed in note 22) was conducted at December 31, 2019 (the “Impairment Test”). The recoverable amount of this CGU was determined based on a value-in-use calculation using cash flow projections covering a five-year period, consistent with management’s internal budgeting and forecasting period, and applying a terminal value thereafter. The cash flow projections incorporate management’s best estimates of revenue, gross profit, administration expenditures and capital expenditures.

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. Although the Company believes its horizontal pump technology remains key to its long-term success, further development has been on hold since mid-2017. The Company requires a partner to assist in development and commercialization of the HART for deeper and higher-pressure wellbores. The difficulties being experienced by the oil and gas industry over the last few years have resulted in the Company being unable to find a development and commercialization partner to date. The key assumptions used in the Impairment Test assume a partner is found in late 2020 and funding, development and testing occurs in 2021 and 2022, resulting in commercialization of the HART system beginning in late 2022.

As a result of the delay in commercialization of the HART system, calculating the present value of the projected five years of cash flows with a terminal value assuming 1% growth in perpetuity and an after-tax discount rate of 15.4% resulted in a negative value for the horizontal pump technology CGU at December 31, 2019 and therefore, an impairment was recognized for the carrying amount of the horizontal pump technology CGU in the Statement of Loss and Comprehensive Loss of \$6,089,824, including goodwill of \$259,932.

Management believes, at December 31, 2019, that there are no reasonable changes in the key assumptions that would lead to the recoverable amount of the horizontal pump technology CGU being higher than the carrying amount.

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

9. Right-of-Use assets:

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

	Office lease	Machines and equipment	Vehicles	Total
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

	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

Net book value				
At January 1, 2019	\$ 449,658	\$ 199,181	\$ 50,007	\$ 698,846
At December 31, 2019	\$ 327,024	\$ 177,671	\$ 19,619	\$ 524,314

10. Long-term convertible debt:

Balance, December 31, 2018	\$ –
Convertible debenture issuance	2,300,000
Equity component of convertible debenture	(232,757)
Debenture issuance costs	(97,223)
Accretion on convertible debenture	22,951
Balance, December 31, 2019	\$ 1,992,971

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

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

10. Long-term convertible debt (continued):

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.

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 December 31, 2019, the Company is in compliance with all of its debt covenants.

11. Lease liabilities:

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

	Lease liabilities
Total lease liabilities, January 1, 2019	\$ 664,529
Lease payments	(208,917)
Interest expense	34,127
Effect of movement in foreign exchange rates	640
Total lease liabilities, December 31, 2019	\$ 490,379
Less: current portion of lease liabilities	\$ 173,720
Long-term lease liabilities, December 31, 2019	\$ 316,659

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

11. Lease liabilities (continued):

As of December 31, 2019, lease liabilities, including the two-year office lease extension using the current monthly lease rate, mature over the next five fiscal years as follows:

2020	\$ 199,939
2021	179,627
2022	132,693
2023	33,467
2024	—
	<u>\$ 545,726</u>

During the year ended December 31, 2019, the Company expensed \$63,857 (2018 - \$59,279), relating to low value lease commitments and \$47,429 (2018 - \$44,660) of variable lease payments for its office space, both of which are exclusive of GST and included in general and administration expenses.

12. Share capital:

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

(a) Authorized

Unlimited number of common shares, no par value

Unlimited number of preferred shares, no par value

(b) Issued:

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

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

For the year ended December 31, 2018, 383,005 agent warrants were exercised for cash proceeds of \$95,750 and 54,524 agent warrants expired on August 11, 2018 which were originally issued through the February 2017 private placement financing. The initial fair value ascribed to these warrants and recorded against share issuance costs was \$54,417 upon issuance based on the Black-Scholes valuation model using an expected life of 1.5 years, a risk-free interest rate of 0.60% and an expected volatility rate of 107% as the underlying

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

12. Share capital (continued):

assumptions. Upon the exercise of the 383,005 agent warrants, \$47,636 of fair value was included in the value of the shares issued for a total share capital value of \$143,386. The remaining fair value of \$6,781 ascribed to the expiry of 54,524 agent warrants was reversed against share issuance costs where it was originally reported, thus increased the value of share capital (which is net of share issuance costs) by the same amount.

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

(c) Stock options:

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

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

The following movement of stock options occurred:

	Number	Weighted-average exercise price (\$)
Options outstanding, December 31, 2017	6,865,000	0.32
Options granted	1,050,000	0.32
Options forfeited	(225,000)	0.39
Options expired	(700,000)	0.42
Options outstanding, December 31, 2018	6,990,000	0.31
Options granted	3,000,000	0.11
Options forfeited	(675,000)	0.34
Options expired	(330,000)	1.08
Options outstanding, December 31, 2019	8,985,000	0.21
Options exercisable, December 31, 2019	5,014,999	0.26

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

12. Share capital (continued):

At December 31, 2019, the following options were outstanding and exercisable:

Grant date	Options outstanding			Options exercisable	
	Number of options	Exercise price (\$)	Years to expiry	Number of options	Exercise price (\$)
August 24, 2012	2,251,250	0.24	2.06	2,251,250	0.24
April 30, 2015	70,000	1.25	0.33	70,000	1.25
October 29, 2015	5,000	0.52	0.83	5,000	0.52
May 29, 2017	860,000	0.205	2.41	573,333	0.205
November 24, 2017	1,948,750	0.24	2.90	1,832,083	0.24
February 23, 2018	700,000	0.39	3.15	233,333	0.39
November 26, 2018	150,000	0.19	3.90	50,000	0.19
September 4, 2019	3,000,000	0.11	4.68	–	0.11
	8,985,000	0.21 ⁽¹⁾		5,014,999	0.26 ⁽¹⁾

(1) Weighted average

During the year ended December 31, 2019, \$241,553 (2018 - \$352,130) of stock-based compensation was recognized in the statement of loss and comprehensive loss.

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:

	2019	2018
Weighted average share price	\$ 0.11	\$ 0.32
Risk free interest rate	1.2%	2.1%
Expected life	4.6 yrs	4.6 yrs
Expected volatility	124%	120%
Pre-vest forfeiture rate	12%	12%
Expected annual dividend yield	0%	0%

The weighted average fair value of options granted during the year ended December 31, 2019 was \$0.07 per option (2018 - \$0.26 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.

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Years ended December 31, 2019 and 2018

12. Share capital (continued):

(d) Share purchase warrants:

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

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

(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, 2019 is 113,582,673 (2018 – 107,977,625). The effect of all stock options outstanding has been excluded from the calculation in periods where the Company reported a loss, as they are anti-dilutive.

13. 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:

	2019	2018
Loss before income taxes	\$ (9,629,156)	\$ (2,547,766)
Statutory income tax rate	26.50%	27.00%
Expected income tax recovery	(2,551,726)	(687,897)
Decrease resulting from:		
Unrecognized deferred tax asset	2,545,549	641,948
Prior year true-ups and other	113	(29,726)
Non-deductible expenses	357,362	99,119
Impact of tax rate changes	(351,298)	–
Research tax credits	–	(23,444)
	\$ –	\$ –
Current income taxes	\$ –	\$ –
Deferred income taxes	–	–
	\$ –	\$ –

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Years ended December 31, 2019 and 2018

13. Deferred income taxes (continued):

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

	2019	2018
Non-capital losses	\$17,282,339	\$15,225,371
Property and equipment	5,822,899	393,171
Deductible scientific research and development expenditures	4,496,702	4,259,029
Intangible assets	858,274	727,927
Share issuance costs	197,830	206,468
Other	(41,000)	(14,135)
	<u>\$28,617,044</u>	<u>\$20,797,831</u>

At December 31, 2019, the Company has non-capital loss carry forward balances of approximately \$17.3 million, which expire in years 2026 to 2039. 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 2037. The Company has not recognized the benefit of these credits.

Due to Canadian federal and provincial enacted corporate income tax rate changes, the statutory income tax rate for the Company was 26.5% in 2019 and 27.0% in 2018.

14. 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.

As disclosed in note 10, the Company closed a Debenture private placement for gross proceeds of \$900,000 as well as acquired the assets of 1955554 Alberta Ltd which included \$300,000 in cash for consideration of \$1.4 million of Debentures, both of which closed on September 30, 2019. The Company currently believes this cash injection and projected revenues will be sufficient to complete its strategic objectives through 2020 based on its current sales forecasts. However, the global

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Years ended December 31, 2019 and 2018

14. Financial instruments and risk management (continued):

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 December 31, 2019, cash was comprised of \$1,034,069, of which \$863,418 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.

At December 31, 2019, the Company's outstanding convertible debt 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 consolidated financial statements as at December 31, 2019.

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

The Company manages its credit risk with respect to trade receivables and deposits by performing credit evaluations of its customers and only grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. The trade receivables balance at December 31, 2019 consists of amounts owing from eight customers and the federal government for GST refunds. The majority of the balance owing has been collected subsequent to year-end.

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.

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Years ended December 31, 2019 and 2018

14. Financial instruments and risk management (continued):

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 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. The Company's only exposure to U.S. denominated financial instruments at December 31, 2019 was a receivable of USD\$41,664.

15. Supplemental cash flow information:

Changes in non-cash operating assets and liabilities for the year ended December 31, 2019 and 2018 are as follows:

	2019	2018
Trade receivables	\$ (191,401)	\$ 190,282
Inventories	236,453	(377,830)
Prepaid expenses and deposits	(40,906)	(828)
Trade payables and accrued liabilities	46,317	(111,427)
Other current financial liabilities	25,135	(14,135)
Deferred revenue	–	98,000
Change in non-cash working capital	\$ 75,598	\$ (215,938)

	2019	2018
Change in non-cash operating working capital	\$ 75,598	\$ (112,938)
Change in non-cash investing working capital	–	(103,000)
Change in non-cash working capital	\$ 75,598	\$ (215,938)

16. General and administration expenses:

General and administration expenses for the year ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Sub-contracted and consulting services	\$ 1,198,803	\$ 90,082
Salaries and benefits – HARP commercialization	704,754	597,118
Salaries and benefits – administration	648,520	578,581
Legal, audit and accounting	220,861	190,232
Facilities	82,488	202,715
Other administration	188,192	301,355
	\$ 3,043,618	\$ 1,960,083

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Years ended December 31, 2019 and 2018

17. Finance costs:

Finance costs for the year ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Interest on convertible debenture	\$ 34,784	\$ –
Accretion on lease liabilities	34,128	–
Accretion on convertible debenture	22,951	–
Bank and other interest charges	2,957	4,306
	\$ 94,820	\$ 4,306

18. 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 December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Cash	\$ 1,034,069	\$ 2,005,486
Long-term convertible debenture	\$ 2,300,000	\$ –
Share capital	\$30,140,133	\$30,140,133
Warrants	–	419,177
Contributed surplus	3,969,132	3,086,591
Deficit	(34,787,164)	(25,158,008)
Shareholders' equity	\$ (677,899)	\$ 8,487,893

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

RAISE PRODUCTION INC.

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Years ended December 31, 2019 and 2018

18. Capital management (continued):

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.

19. Warranty Provision:

	Maintenance Warranty
Provision balance, December 31, 2018	\$ 15,865
Additions	37,160
Utilized	(12,025)
Provision balance, December 31, 2019	\$ 41,000

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.

20. Deferred Revenue:

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

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

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

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

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Years ended December 31, 2019 and 2018

21. Related party transactions:

Compensation awarded to the officers and directors of the Company for the years ended December 31, 2019 and 2018 include the following:

	2019	2018
Salaries, bonuses and short-term employee benefits	\$ 539,298	\$ 546,583
Stock-based compensation	241,330	306,789
	\$ 780,628	\$ 853,372

On September 30, 2019, \$494,000 of secured convertible debentures (the "Debentures") were issued to six officers and directors of the Company in exchange for cash and the Company paid \$28,644 of interest related to Debentures to officer and directors on December 31, 2019.

The Debentures have a coupon of 6.00% per annum and are convertible into units of the Company 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 in note 10.

22. 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 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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Years ended December 31, 2019 and 2018

22. Segmented Information (continued):

Revenue	2019	2018
Raise Efficient Artificial Lift	\$ 1,100,624	\$ 334,791
Corporate	21,458	26,949
Total	\$ 1,122,082	\$ 361,740

Depreciation and Amortization	2019	2018
Raise Efficient Artificial Lift	\$ 49,449	\$ 10,032
Corporate	198,046	81,602
Total	\$ 247,495	\$ 91,634

Net Loss	2019	2018
Raise Efficient Artificial Lift	\$ (469,016)	\$ (797,765)
Horizontal Artificial Recovery Technology	(6,200,081)	—
Corporate	(2,960,059)	(1,750,001)
Total	\$ (9,629,156)	\$ (2,547,766)

Capital Expenditures (Recoveries)	2019	2018
Raise Efficient Artificial Lift	\$ —	\$ 44,349
Horizontal Artificial Recovery Technology (Recovery)	52,116	(126,488)
Corporate	22,807	32,544
Total	\$ 74,923	\$ (49,595)

Intangible Assets (including Goodwill)	2019	2018
Horizontal Artificial Recovery Technology	\$ —	\$ 6,037,708
Total	\$ —	\$ 6,037,708

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Years ended December 31, 2019 and 2018

22. Segmented Information (continued):

Total Assets	2019	2018
Raise Efficient Artificial Lift	\$ 847,313	\$ 785,624
Horizontal Artificial Recovery Technology	–	6,296,687
Corporate	1,900,089	2,432,371
Total	\$ 2,747,402	\$ 9,514,682

For the year ended December 31, 2019, revenues from one customer was greater than 10% of the Company's total revenue amounting to \$389,883 of revenue earned in the REAL segment.

23. 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 22.

Contracts with Customers by Geographical Market	2019	2018
Raise Efficient Artificial Lift - Canada	\$ 710,699	\$ 252,641
Raise Efficient Artificial Lift - USA	389,925	82,150
Total	\$1,100,624	\$ 334,791

24. Subsequent Events

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 is currently implementing actions to preserve its cash position while maintaining its ability to effectively service and supply its customers.