RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	June 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		**2,971**	**2,841**
Restricted cash	4	**3,755**	**1,384**
Accounts receivable	12	**20,150**	**16,367**
Prepaid expenses and deposits		**3,196**	**769**
Inventory	5	**627**	**747**
		30,699	**22,108**
Commodity contracts	12	**120**	-
Property, plant and equipment	6	**167,161**	**217,058**
TOTAL ASSETS		**197,980**	**239,166**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	**42,189**	**43,798**
Commodity contracts	12	**2,035**	**573**
Decommissioning obligations	9	**2,757**	**2,382**
Current portion of lease obligation	8	**1,084**	**1,321**
Current portion of long-term debt	7	**8,607**	**9,145**
		56,672	**57,219**
Non-Current			
Long-term debt	7	**74,111**	**64,047**
Long-term lease obligation	8	**1,448**	**435**
Flow-through share premium liabilities	11	**471**	**-**
Decommissioning obligations	9	**98,495**	**152,236**
TOTAL LIABILITIES		**231,197**	**273,937**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	11	**33,736**	**29,358**
Contributed surplus	11	**1,207**	**977**
Deficit		**(68,160)**	**(65,106)**
		(33,217)	**(34,771)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**197,980**	**239,166**
Future Operations	2		
Commitments and Contingencies	13		
Subsequent Events	8,12		

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(UNAUDITED)

(Stated in thousands of Canadian dollars, except per share amounts)	Note	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
REVENUES					
Commodity sales from production		**39,866**	16,260	**74,500**	29,644
Blending and processing revenue		**916**	776	**1,819**	2,144
Other revenue		**521**	149	**1,003**	552
Total revenues	14	**41,303**	17,185	**77,322**	32,340
Royalties		**(10,241)**	(2,193)	**(17,873)**	(3,454)
Net revenues		**31,062**	14,992	**59,449**	28,886
Other income	17	**964**	557	**996**	1,125
Realized (loss) gain on commodity contracts	12	**(496)**	(52)	**132**	(52)
Unrealized gain (loss) on commodity risk	12	**857**	(1,004)	**(856)**	(922)
		32,387	14,493	**59,721**	29,037
EXPENSES					
Operating		**18,833**	12,193	**35,655**	24,781
Transportation and treating		**995**	583	**1,952**	1,221
Blending and processing		**381**	521	**705**	962
General and administrative		**2,256**	929	**3,374**	2,144
Bad debt (recovery)		**(880)**	82	**(788)**	139
Share-based compensation		**143**	-	**230**	-
Financing	15	**4,097**	2,573	**7,666**	4,984
Depletion, depreciation and amortization	6	**5,400**	3,250	**10,933**	6,143
Realized foreign exchange loss (gain)		**(120)**	55	**(97)**	75
Unrealized foreign exchange (gain) loss		**945**	(149)	**530**	(233)
Loss on disposition	6	**2,615**	-	**2,615**	-
		34,665	20,037	**62,775**	40,216
Loss before income tax		**(2,278)**	(5,544)	**(3,054)**	(11,179)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		**(2,278)**	(5,544)	**(3,054)**	(11,179)
NET LOSS PER SHARE					
Basic and diluted	16	**(0.09)**	(0.26)	**(0.13)**	(0.53)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficiency)
December 31, 2020		27,540	694	(82,844)	(54,610)
Net loss		-	-	(11,179)	(11,179)
June 30, 2021		**27,540**	**694**	**(94,023)**	**(65,789)**
December 31, 2021		29,358	977	(65,106)	(34,771)
Shares issued	11	5,000	-	-	5,000
Premium on flow-through shares	11	(471)	-	-	(471)
Share Issue costs	11	(151)	-	-	(151)
Share–based compensation	11	-	230	-	230
Net loss		-	-	(3,054)	(3,054)
June 30, 2022		**33,736**	**1,207**	**(68,160)**	**(33,217)**

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating Activities					
Net loss for the period		**(2,278)**	(5,544)	**(3,054)**	(11,179)
Adjustments for non-cash items:					
Unrealized (gain) loss on commodity risk management	12	**(857)**	1,004	**856**	922
Unrealized (gain) loss on foreign currency translation		**945**	(126)	**530**	(210)
Gain on disposition	6	**(789)**	(3)	**(789)**	(3)
Other income	17	**(612)**	(527)	**(612)**	(926)
Financing costs	15	**4,097**	2,573	**7,666**	4,984
Depletion, depreciation and amortization	6	**5,398**	3,224	**10,881**	6,150
Share-based compensation	11	**143**	-	**230**	-
Decommissioning costs incurred	9	**(127)**	(229)	**(445)**	(282)
(Purchase) sale commodity contracts		**(54)**	(10)	**486**	(518)
Changes in non-cash working capital	18	**(4,551)**	41	**(12,030)**	(2,053)
Net cash flows from (used in) operating activities		**1,315**	403	**3,719**	(3,115)
Financing Activities					
Proceeds from long-term debt	7	**-**	**-**	**14,128**	14,006
Repayment of long-term debt	7	**(5,867)**	(1,820)	**(7,448)**	(1,907)
Deferred financing cost	7	**-**	-	**(1,952)**	(2,649)
Payment of lease obligation	8	**(963)**	(605)	**(2,129)**	(1,007)
Interest expense	15	**630**	379	**(1,301)**	(1,125)
Proceeds from issue of common shares	11	**5,000**	-	**5,000**	-
Share issuance costs	11	**(151)**	-	**(151)**	-
Changes in non-cash working capital	18	**(1,659)**	(685)	**-**	-
Net cash flows from (used in) financing activities		**(3,010)**	(2,731)	**6,147**	7,318
Investing Activities					
Capital expenditures	6	**(9,402)**	(6,209)	**(14,791)**	(7,068)
Proceeds from government grants for assets	6	**2,236**	1,363	**3,284**	1,363
Restricted cash	4	**(58)**	(327)	**(2,371)**	(1,081)
Changes in non-cash working capital	18	**2,975**	4,229	**4,331**	4,267
Net cash flows used in investing activities		**(4,249)**	(944)	**(9,547)**	(2,519)
Foreign currency translation		**(85)**	(36)	**(189)**	(72)
Change in cash and cash equivalents		**(6,029)**	(3,308)	**130**	1,612
Cash and cash equivalents, beginning of period		**9,000**	6,018	**2,841**	1,098
Cash and cash equivalents, end of period		**2,971**	2,710	**2,971**	2,710
Cash interest paid		**1,028**	305	**1,300**	1,126

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS AT JUNE 30, 2022 AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021
(*Amounts expressed in Canadian dollars, except as otherwise noted*)

1. CORPORATE INFORMATION

Razor Energy Corp. (“Razor” or the “Company”) is a publicly listed company incorporated in the province of Alberta, Canada and its shares are listed on the TSX Venture Exchange ("**TSXV**"). The address of its head office is 800, 500-5th Avenue SW, Calgary, Alberta, Canada, T2P 3L5. Razor is engaged in the exploration, development and production, and the acquisition of oil and natural gas properties in western Canada. The Company trades under the symbol “RZE.V“ on the TSXV.

2. BASIS OF PRESENTATION

FUTURE OPERATIONS

As at June 30, 2022, the Company has a working capital deficit of $26.0 million, of which $3.0 million is comprised of cash and cash equivalents. Further, at June 30, 2022, the Company has contractual repayments of $63.0 million due in less than one year (refer to note 12 – “Liquidity Risk”).

While the Company anticipates reducing the working capital deficit, it is still projecting to have a working capital deficit at September 30, 2022, which would result in non-compliance with the working capital covenant requirement under the Alberta Investment Management Corporation (“AIMCo”) facility of 1:1 at September 30, 2022. Further, there can be no assurance that the Company will be able to obtain a waiver for the potential covenant default or an amendment, if necessary, to revise the working capital ratio covenant from AIMCo prior to September 30, 2022. This potential covenant default may result in the AIMCo Term Loan being due on demand. The potential covenant default would also result in a potential cross-covenant default for the Arena Amended and Restated Term Loan and certain other loans and leases at the same time. The Company does not have the financial ability to repay the AIMCo Term Loan, Arena Amended and Restated Term Loan and certain other loans and leases should they come due as a result of the default.

Although the support of the lenders and lessors is important to the Company remaining a going concern, the fact remains that the Company has a significant working capital deficit and contractual payments with the potential for covenant and cross-covenant violations commencing September 30, 2022. The Company anticipates funding the working capital deficit and contractual repayments, which include the Arena Amended and Restated Term Loan, with a combination of cash from operations, other new debt or equity financings. The Company is employing the following specific strategies to assist in reducing the working capital deficit and making the contractual payments:

- Strategic investment in high quality reactivations to provide ongoing increases in production volumes to maximize monthly revenue and cashflows in the current strong commodity price environment
- Conducting operations under a disciplined approach to capital and operating cost expenditures
- Working proactively with vendors on payment terms
- Working with partners to bring non-operated production back on stream
- Strategic acquisitions
- Equity financing (refer to note 11)
- Debt financing (refer to note 7)

While commodity prices have shown a significant improvement in 2022, a material uncertainty remains as to whether the Company can generate sufficient positive cash flow from operations to meet all of its obligations as they come due. In addition, the AIMCo Term Loan has certain covenants that will come into effect in 2022, specifically the working capital ratio as noted above, that based on current financial results will be difficult to maintain.

Due to the conditions noted above there remains a material uncertainty surrounding the Company's ability to generate adequate cash flow from operations to enable the Company to address the working capital deficit and contractual payment obligations. These material uncertainties create significant doubt with respect to the Company's ability to meet its obligations as they come due and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The unaudited condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for the unaudited condensed consolidated financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

STATEMENT OF COMPLIANCE

The unaudited interim condensed consolidated financial statements are prepared according to International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") effective as of June 30, 2022. They do not include all the disclosures required in annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2021.

These unaudited interim condensed consolidated financial statements include the accounts of Razor Energy Corp. and its wholly owned subsidiaries, Blade Energy Services Corp. ("Blade"), FutEra Power Corp. ("FutEra") and its subsidiary Swan Hills Geothermal Power Corp., Razor Royalties Limited Partnership ("RRLP"), Razor Holdings GP Corp. and Razor Resources Corp. All inter-entity transactions have been eliminated.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors, on August 25, 2022.

BASIS OF MEASUREMENT

These unaudited interim condensed consolidated financial statements are prepared on a historic cost basis; except for financial instruments which are measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's and its wholly owned subsidiary's functional currency. Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in net income or loss.

3. ESTIMATION UNCERTAINTY

USE OF ESTIMATES AND JUDGMENTS

Management makes judgements and assumptions about the future in deriving estimates used in preparation of these unaudited interim condensed consolidated financial statements in accordance with IFRS. Sources of estimation uncertainty include estimates used to determine economically recoverable oil, natural gas, and natural gas liquids reserves, the recoverable amount of long-lived assets or cash generating units, the fair value of financial derivatives, the provision for asset retirement obligations and the provision for income taxes and the related deferred tax assets and liabilities.

Operating Environment and the COVID-19 Pandemic

The COVID-19 pandemic had a significant negative impact on global economic conditions in 2020 which included a large decrease in oil demand which combined with other macro-economic conditions resulted in significant volatility of commodity prices as well as increased economic uncertainty. In response to the COVID-19 pandemic, the Company is following all applicable rules and regulations as set out by the relevant health authorities and has implemented many health and safety protocols into its operations.

Throughout 2021 and 2022, there has been an economic recovery providing for more positive outlooks on commodity prices and general market and industry conditions as COVID-19 vaccination rates continue to increase and government restrictions are slowly eased. Additionally, in 2022 Russia's invasion of Ukraine has raised global concerns over oil and natural gas supply and significantly increased benchmark commodity prices resulting in inflationary pressures on governments, businesses, and communities.

Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the COVID-19 pandemic and Russia's invasion of Ukraine, the Company is unable, at this time, to predict its long-term impact on its operations, liquidity, financial condition and results, but the impact may be material.

Climate Change and Environmental Regulation

Climate-related considerations are integrated into key business planning and risk management processes throughout the Company.

Regulatory Update

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance (ESG) and climate reporting, the International Sustainability Standards Board ("ISSB") has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators ("CSA") published for comment Proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. The comment period for the proposed National Instrument has closed and the Company is awaiting further guidance from the ISSB and CSA.

If the Company is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified. The Company continues to monitor the evolving ESG regulations and its potential impact on the Company.

4. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account as collateral under the terms of the commodity contracts totaling $2.3 million ($USD 1.8 million) and is considered not available for general use by the Company. In addition, as per the terms of the Arena Amended and Restated Term Loan $0.4 million ($USD 0.3 million) is held as restricted cash as at June 30, 2022. In May 2022, the Company issued a letter of credit in favor of a utility provider in the amount of $1.0 million. As security, the Company has set aside an equivalent GIC at the financial institution that issued the letter of credit. The Company held a total of $3.8 million as restricted cash at June 30, 2022 (December 31, 2021 - $1.4 million).

5. INVENTORY

Razor's product inventory consists of the Company's unsold crude oil barrels, which is valued at the lower of cost and net realizable value. Costs include operating expenses and depletion associated with the unsold crude oil barrels on a CGU basis.
As at June 30, 2022, the Company held 13,009 barrels of oil (December 31, 2021 – 15,200 barrels) in inventory. The inventory at June 30, 2022 was valued at an average cost of $48.18 per barrel (December 31, 2021 - $49.15 per barrel) for a total value of $0.6 million (December 31, 2021 - $0.7 million). Included in this amount is $0.1 million of depletion expense for the period ended June 30, 2022 (December 31, 2021 - $0.2 million). For the current period there were no inventory impairments (December 31, 2021, no inventory impairments).

6. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment (PP&E) is as follows:

($000's)	**Total**
Cost	
December 31, 2021	**297,255**
Capital expenditures	14,791
Right-of-use asset	2,905
Non-monetary disposition[1]	(5,700)
Government grants	(3,284)
Change in decommissioning obligations	(48,159)
June 30, 2022	**257,808**
Accumulated depletion, depreciation and amortization	
December 31, 2021	**80,197**
Depletion, depreciation and amortization	10,881
Accumulated depletion on disposition	(431)
June 30, 2022	**90,647**
Net book value	
December 31, 2021	**217,058**
June 30, 2022	**167,161**

[1] On May 1, 2022, Razor received notice that a non-operated partner had reclaimed their interest in certain properties in the Swan Hills area where Razor has a non-operated working interest. The operator of the properties has re-allocated the reclaimed interest from the remaining parties' proportionate to their working interests for no additional consideration. The transaction has been recorded as a non-monetary transaction which resulted in a loss on disposition of $2.6 million. Included in the loss is a provision of $3.4 million related to a potential adjustment of net operating income to an assumed effective date of June 12, 2020. Given the estimation uncertainty surrounding the provision, management is continuing to assess the provision on an ongoing basis as well as exploring legal and other alternatives. When more information is available the provision will revised as required.

At the end of each reporting period, the Company assesses whether there were indicators of impairment or reversals of prior period impairments. The assessment factors in the following criteria: changes in reserves; changes in forecasted commodity prices from the previous reserve report; interest rates; the health of the oil and gas industry; the status of the general economy; well performance; and near term development plans. As at June 30, 2022, Razor concluded there are no indicators of impairment.

At December 31, 2021, Razor assessed whether there were indicators of impairment or reversals of prior period impairments. It was determined that there were indicators for impairment reversals for the Kaybob and Southern Alberta Cash Generating Units ("CGU's") based on increased market capitalization and increases in prices from the last time an impairment test was performed, and as a result, the CGU's were tested for impairment reversal. The Companies Swan Hills CGU has not had previous impairments. Management determined that the recoverable amount for the CGU's that were tested had significantly exceeded their carrying amount and therefore impairment reversals were calculated. The recoverable amount was calculated as the fair value of the assets which was determined using a discounted cash flow approach based on the December 31, 2021 reserve evaluation of proved plus probable reserves provided by an independent reserve evaluation.

CGU description	Recoverable amount	Risk adjusted discount rate	Impairment reversal
Kaybob	25,910	17.5	17,131
Southern Alberta	17,311	17.5	7,175
	43,221		24,306

The impairment reversal in these 2 CGU's was primarily attributable to the increase in oil and natural gas prices as used in the reserve evaluation.

As at June 30, 2022, future development costs required to develop proved and probable reserves in the amount of $62.6 million are included in the depletion calculation for PP&E (December 31, 2021 - $63.9 million).

7. LONG-TERM DEBT

Loan with AIMCo

On February 16, 2021, the Company extended the Amended Term Facility with AIMCo (the "AIMCo Term Loan") for an amended principal amount of $50.1 million, being the amounts outstanding with AIMCo on such date. Principal under the extended AIMCo Term Loan is due in full on January 31, 2024, with an interest rate of 10%, payable semi-annually. There were no additional proceeds received from the AIMCo Term Loan. Including the contingent consideration of $3.5 million (see below), the effective interest rate of the Amended Term Loan Facility is 12% per annum (December 31, 2021 - 12%).

As consideration for the AIMCo Term Loan, FutEra, a wholly owned subsidiary of Razor at the time, granted AIMCo common shares of FutEra representing 22.4% of the total outstanding common shares and these shares were held in trust, contingent on Razor receiving funding for the Swan Hills Geothermal Project by July 31, 2021. The Swan Hills Geothermal Project was not funded by July 31, 2021, and the shares held in trust as part of this transaction were returned to Razor and $3.5 million was added to the principal amount due at maturity as part of the AIMCo Term Loan. The AIMCo Term Loan is secured by a first charge on all present and after-acquired personal property as well as a floating charge on land pursuant to a general security agreement and a promissory note. Razor has obtained exemptions to the first charge from AIMCo for certain field equipment for which Razor obtained loans or lease financing, in addition, Razor has obtained exemptions to the first charge from AIMCo to allow Arena Investors LP to have first lien security on all assets within Razor Royalties Limited Partnership and Razor Holdings GP Corp.

The AIMCo Term Loan is subject to the following financial covenants:

- a maximum adjusted net debt-to-adjusted cash flow ratio of 5:1 commencing for each fiscal year ended December 31, 2022, and December 31, 2023; and
- a minimum working capital ratio of 1:1 from and after each fiscal quarter commencing September 30, 2022.

Adjusted net debt is the sum of current liabilities, long-term debt (principal), and the fair value of commodity contracts classified as liabilities, less the sum of current assets and the fair value of commodity contracts classified as assets. Adjusted cash flow for the year is calculated as cash provided by (or used in) operating activities less changes in non-cash working capital, plus the sum of i) interest paid ii) income taxes paid and iii) finance costs paid. Working capital ratio is the ratio of (i) current assets, excluding the fair value of commodity contracts classed as assets, to (ii) the current liabilities, excluding the current portion of long-term debt and excluding the fair value of commodity contracts classed as liabilities. All financial covenant calculations exclude FutEra Power Corp. and its Subsidiaries.

As at June 30, 2022, Razor was in compliance with all of its non-financial debt covenants. As at June 30, 2022, the Company has a working capital deficit of $26.0 million. While the Company expects to reduce the working capital deficit over the next three months, it is projecting to have a working capital ratio of less than 1:1 as at September 30, 2022. There can be no assurance that the Company will be able to obtain a waiver for the potential covenant default or an amendment, if necessary, to revise the working capital ratio covenant from AIMCo prior to September 30, 2022. This potential covenant default may result in the AIMCo debt potentially being due on demand. The potential covenant default would also then result in a potential cross-covenant default for the Arena Amended and Restated Term Loan and certain other loans and leases at that time. The Company does not have the financial ability to repay the AIMCo debt, Arena Amended and Restated Term Loan and certain other loans and leases should they come due as a result of the default.

Loan with Arena Investors, LP

On February 16, 2021, RRLP, a wholly owned subsidiary of Razor, entered into a new term loan with Arena Investors, LP ("the Arena Term Loan") of US$11,042,617 (CAD$14,006,455).

The Arena Term Loan was to be repaid over 29 months with principal and interest payments of approximately US$0.4 million per month, commencing April 1, 2021, and full and final repayment with interest of the loan on August 1, 2023. The funded principal amount, after the original issuer discount, is US$10,035,000 (CAD $12,702,532). The Arena Term Loan carries a fixed annual interest rate of 7.875%. Security consists of a first lien on all assets within RRLP and Razor Holdings GP Corp. The Arena Term Loan is also secured by a second lien on the assets of Razor, excluding Razor's subsidiaries Blade, FutEra and its subsidiaries, and Razor Resources Corp.

On August 12, 2021, RRLP entered into an amendment agreement on its Arena Term Loan ("Arena Amended Term Loan") with Arena Investors, LP for an additional US$8,833,922 (CAD $11,035,336). The term of the amended loan was extended to April 1, 2024. Monthly principal and interest payments are approximately US$0.7 million in 2022. The additional funded principal amount of the Amended Arena Term Loan, after the original issuer discount was US $8,000,000 (CAD $9,993,600).

On March 9, 2022, the Company entered a definitive agreement and closed senior debt financing specifically for its Co-produced Geothermal Power Project in Swan Hills, Alberta.

The financing is funded by Arena Investors, LP by way of amending the Amended Arena Term Loan (the "Arena Amended and Restated Term Loan") for an additional principal amount of US$11,042,403 (CAD$ 14,127,650) (the "Term Loan 3"). Term Loan 3 has the following terms:

- 48-month maturity.
- First lien security on the assets held within Swan Hills Geothermal Power Corp. along with FutEra's equity in Swan Hills Geothermal Power Corp.

<u>Months 1 to 24</u>

- Interest payments only on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 7.7875%;
- Accrued interest on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 3%.

<u>Months 25 to 48</u>

- Principal payments at an amortization rate of 5% on the prevailing monthly principal balance of Term Loan 3;
- Interest payments on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 7.7875%;
- Accrued interest on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 3%;
- The principal balance of Term Loan 3 at maturity is expected to be US$3.8 million (CAD$4.8 million).

The funded principal amount for the Term Loan 3, after the original issuer discount, is US$10 million (CAD $12,793,941), less related fees and expenses. At June 30, 2022, the principal balance of the Arena Amended and Restated Term Loan is US$23.5

million (CAD $30.3 million). Other terms of the Arena Amended and Restated Term Loan are materially unchanged from Arena Amended Term Loan.

The Arena Amended and Restated Term Loan is subject to the following covenants:

- Use at least US$6,700,000 (CAD $8,481,013) to complete the activities outlined in an agreed development plan for the period ended June 30, 2022;
- Minimum hedge requirements for not less than 80% of RRLP's 20 month forward projected overriding royalty;
- Commencing in April 1, 2022, maintain minimum production 4,150 boe/day; and
- The general and administrative expenses of RRLP shall not exceed US$100,000 in any fiscal year.

As at June 30, 2022, Razor was in compliance with all of its non-financial debt covenants.

The changes in long-term debt are as follows:

($000's)	**June 30, 2022**	**December 31, 2021**
Balance, beginning of period	**73,192**	50,878
Arena Term Loan[1]	**-**	14,006
Arena Amended Term Loan [3]	**-**	11,035
Arena Amended and Restated Term Loan 3[5]	**14,128**	-
Arena Term 3 PIK interest	**134**	-
Unrealized FX gain on US denominated debt	**341**	78
AIMCo Term Loan – FutEra consideration	**-**	3,500
Deferred financing costs	**(1,952)**	(7,697)
Repayment of AIMCo deferred interest [4]	**(2,767)**	-
Repayment of Arena Amended Term Loan	**(4,494)**	(5,022)
Repayment of Promissory Notes	**(187)**	(356)
Amortization of deferred financing costs	**1,572**	2,162
AIMCo Amended Term Loan Facility – Interest deferral [2]	**-**	1,841
AIMCo Amended Term Loan Facility – Interest deferral [4]	**-**	2,767
AIMCo Amended Term Loan Facility – interest deferral [6]	**2,751**	-
Balance, end of period	**82,718**	73,192

1) The Arena Term Loan is U.S. dollar denominated debt of $11,042,617 converted at February 16, 2021 fx rate – date of inception and revalued at each statement of financial position date.

2) The interest payment due June 30, 2021 for the period of February 16, 2021 to June 30, 2021 was added to the existing $50.145 million principal based on 10% interest.

3) The Arena Amended Term Loan is U.S. dollar denominated debt of $8,833,922 converted at August 12, 2021 fx rate – date of inception and revalued at each statement of financial position date.

4) The interest payment due December 31, 2021 for the period of July 1, 2021 to December 31, 2021 was deferred and is to be repaid including additional accrued interest in three payments on April 30, 2022, May 31, 2022 and June 30, 2022.

5) The Arena Amended and Restated Term 3 Loan is U.S. dollar denominated debt of $11,042,403 converted at March 9, 2022 fx rate – date of inception and revalued at each statement of financial position date.

6) The interest payment due June 30, 2022 for the period of Jan 1, 2022 to June 30, 2022 was deferred and is to be repaid including additional accrued interest in three payments on October 31, 2022, November 30, 2022 and December 31, 2022. Razor has also agreed to prepay the interest due December 31, 2022 for the period of July 1, 2022 to December 31, 2022, in three equal installments in Q4 2022.

As at June 30, 2022 and December 31, 2021, Razor had the following outstanding long-term debt:

($000's)	Final Maturity	**June 30, 2022**	**December 31, 2021**
AIMCo Term Loan – principal	Jan-2024	**55,486**	50,145
AIMCo Term Loan – FutEra consideration	Jan-2024	**-**	3,500
AIMCo Term Loan – interest deferral	Jan-2024	**-**	1,841
AIMCo Term Loan – interest deferral	Jun-2022	**-**	2,767
AIMCo Term Loan – interest deferral	Dec-2022	**2,751**	-
Arena Amended and Restated Term Loan (1&2)	Apr-2024	**15,896**	20,108
Arena Amended and Restated Term 3 Loan	Apr-2026	**14,366**	-
Promissory Note-1	Sep-2022	**71**	211
Promissory Note-2	Dec-2022	**27**	52
Promissory Note-3	May-2024	**91**	113
		88,688	78,737
Deferred financing costs		**(5,970)**	(5,545)
Total debt		**82,718**	73,192
Current portion		**8,607**	9,145
Long-term portion		**74,111**	64,047
Total debt		**82,718**	73,192

Deferred financing costs totaling $9.4 million were netted against debt. Deferred financing costs related to the AIMCo Term Loan are comprised of FutEra consideration of $3.5 million and legal fees of $111 thousand. Deferred financing costs related to the original Arena Term Loan and the Arena Amended Term Loan (1&2) are comprised of the original issuer discount of CAD$2.3 million and various fees and expenses totaling CAD$1.8 million. The Arena Amended and Restated Term Loan 3 added additional deferred financing costs which are comprised of the original issuer discount of CAD$1.3 million and various fees and expenses totaling CAD$0.6 million.

8. LEASE OBLIGATIONS

The changes in lease obligations are as follows: *($000's)*	**June 30, 2022**	**December 31, 2021**
Balance, beginning of period	**1,756**	3,294
Liabilities incurred	**2,905**	398
Liabilities settled	**(2,205)**	(2,102)
Interest expense	**76**	166
Balance, end of period	**2,532**	1,756
Current portion	**1,084**	1,321
Long-term portion	**1,448**	435
Lease obligation	**2,532**	1,756

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $2.5 million.

Razor's minimum lease payments are as follows:

($000's)	June 30, 2022	December 31, 2021
Within one year	**1,244**	1,383
Later than one year but not later than three years	**1,183**	348
Later than three years	**533**	216
Minimum lease payments	**2,960**	1,947
Amount representing finance charge	**(428)**	(191)
Present value of net minimum lease payments	**2,532**	1,756

The Company has lease liabilities for contracts related to office space, vehicles, field equipment and surface leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates during the six months ended June 30, 2022 were between 4.99% and 14.0% (2021 – between 4.99% and 8.95%), depending on the duration of the lease term. Certain of the leases are still subject to cross covenant default clauses that if triggered may accelerate and require immediate repayment of amounts outstanding. Subsequent to June 30, 2022, the Company renewed its Calgary office space lease for a three year period with a total lease commitment of $1.2 million.

9. DECOMMISSIONING OBLIGATIONS

Decommissioning obligations represent the present value of the future costs to be incurred to abandon and reclaim the Company's wells, facilities, and pipelines.

The changes in decommissioning obligations are as follows:

($000's)	June 30, 2022	December 31, 2021
Balance, beginning of period	**154,618**	139,177
Acquisition (Disposition)	**(6,058)**	473
Government subsidy for decommissioning expenditures	**(612)**	(1,861)
Decommissioning expenditures	**(445)**	(1,734)
Effect of change in discount rate and inflation [1]	**(47,887)**	16,174
Revisions to estimates	**(272)**	(48)
Accretion expense	**1,908**	2,437
Balance, end of period	**101,252**	154,618
Current portion	**2,757**	2,382
Long-term portion	**98,495**	152,236
Decommissioning obligations	**101,252**	154,618

1) Decommissioning obligations acquired as part of a business acquisition in 2021 were initially measured at fair value using a credit-adjusted risk-free rate to discount estimated future cash outflows. The revaluation of liabilities acquired using the risk-free rate at the end of the period results in an increase in the present value of the obligation reported in the Consolidated Statements of Financial Position. Impact of the adjustment from credit-adjusted risk-free rate to the risk-free rate on acquisition was nil (as at December 31, 2021 was $9.1 million).

The provision for the costs of decommissioning production wells, facilities and pipelines at the end of their economic lives has been estimated using existing technology, at current prices or long-term assumptions and based upon the expected timing of the activity. Revisions to estimates were primarily driven by revisions to estimates in the timing of projected cash outflows on decommissioning obligations.

The significant assumptions used to estimate the decommissioning obligations are as follows:

	June 30, 2022	December 31, 2021
Undiscounted cash flows (000's)	**142,052**	148,813
Discount rate (%)	**3.14**	1.68
Inflation rate (%)	**1.78**	1.82
Weighted average expected timing of cash flows (years)	**28**	28

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

1. Retain access to capital markets
2. Ensure its ability to meet all financial obligations and meet its operational and strategic objectives

Razor's capital structure consists of shareholders' equity and long-term debt and leases. The Company makes adjustments to its capital structure based on changes in economic conditions and its planned requirements. Razor adjusts its capital structure by issuing new common or preferred equity, or debt, changing its dividend policy, or making adjustments to its capital expenditure program, subject to restrictions and covenants in the AIMCo Term Loan and the Arena Amended and Restated Term Loan.

11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series.

AUTHORIZED AND ISSUED

A reconciliation of the number and dollar amount of outstanding shares is shown below.

	June 30, 2022		December 31, 2021	
Common Shares	**Number**	**($000's)**	**Number**	**($000's)**
Shares outstanding, beginning of period	**23,314,466**	**29,358**	21,064,466	27,540
Private placement	**-**	**-**	2,250,000	1,890
Rights offering	**1,960,784**	**5,000**	-	-
Premium on flow-through shares	**-**	**(471)**	-	-
Share issuance costs	**-**	**(151)**	-	(72)
Shares outstanding, end of period	**25,275,250**	**33,736**	23,314,466	29,358

On October 22, 2021, Razor closed a private placement of common shares. A total of 2,250,000 common shares were issued at a subscription price of $0.84 per share for total gross proceeds of $1,890,000.

RIGHTS OFFERING

On March 31, 2022, the Company announced a rights offering (the "Rights Offering") for eligible holders of its common shares (the "Common Shares") of record at the close of business on April 7, 2022 (the "Record Date").

Each holder of Common Shares resident in a province or territory in Canada (the "Eligible Jurisdictions") received one right (a "Right") for each 1 Common Share held. Each whole Right entitled the holder to subscribe for 0.0841016 of a Common Share. As a result, holders of Common Shares needed to exercise 11.8903796 Rights to acquire one Common Share. A holder of Rights paid $2.55 to purchase one Common Share.

The Common Shares issued as a result of the rights offering were issued on a "flow-through" basis in respect of Canadian renewable and conservation expense ("CRCE") within the meaning of the Income Tax Act (Canada). Upon issuing the Common Shares to shareholders of Razor at the closing of the Rights Offering, Razor renounced 100% of the to-be-incurred eligible expenses to the Rights Offering subscribers which can be deducted from ordinary income in calculating the subscriber's liability for income tax. Razor and its subsidiaries are committed to incur an amount of eligible expenses equal to the Rights Offering proceeds prior to December 31, 2023.

The Rights Offering closed on May 11, 2022. A total of 23,314,466 rights were exercised, resulting in the issuance of 1,960,784 Common Shares for gross proceeds of $5.0 million.

AWARD BASED INCENTIVE PLANS

Razor Energy Corp.

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The number and weighted-average exercise prices of stock options are as follows:

	June 30, 2022		December 31, 2021	
	Number	**Price ($)**	**Number**	**Price ($)**
Outstanding, beginning of period	**-**	**-**	-	-
Granted	**1,056,000**	**1.44**	-	-
Forfeited	**(25,100)**	**1.00**	-	-
Outstanding, end of period	**1,030,900**	**1.45**	-	-
Vested and exercisable, end of period	**-**	**-**	-	-

The following weighted average assumptions were used to value the options granted using the Black-Scholes pricing model with the following inputs:

Period ending	June 30, 2022
Risk-free interest rate	**1.93%**
Expected life (years)	**5**
Forfeiture rate	**5%**
Expected volatility	**108%**
Fair value of options granted	**$1.06**

FutEra Power Corp.

On October 1, 2021, the Company initiated a stock option plan for its subsidiary, FutEra Power Corp. The number and weighted-average exercise prices of stock options are as follows:

	June 30, 2022		December 31, 2021	
	Number	**Price ($)**	**Number**	**Price ($)**
Outstanding, beginning of the period	**261,000**	**1.74**	-	-
Granted	**3,000**	**1.74**	261,000	1.74
Outstanding, end of the period	**264,000**	**1.74**	261,000	1.74
Vested and exercisable, end of period	**200,000**	**1.74**	200,000	1.74

The following weighted average assumptions were used to value the options granted using the Black-Scholes pricing model with the following inputs:

Period ending	June 30, 2022	December 31, 2021
Risk-free interest rate	**1.61%**	1.07%
Expected life (years)	**5**	4.75
Expected volatility	**108%**	107%
Fair value of options granted	**$1.36**	$1.35

Total share-based compensation expense of $0.1 million and $0.2 million was recorded for the three and six months ended June 30, 2022 respectively (2021 - $0).

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgement.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company uses quoted market prices when available to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The fair value hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 valuations are based on inputs, including quoted forward prices for commodities, market interest rates and volatility factors, which can be observed or corroborated in the marketplace.
- Level 3: inputs for the asset or liability that are not based on observable market data, such as the Company's internally developed assumptions about market participant assumptions used in pricing an asset or liability.

The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities	Measured initially at fair value, then at amortized cost after initial recognition. Fair value approximates carrying value due to their short-term nature.
Long-term debt	Measured initially at fair value, then at amortized cost after initial recognition using the effective interest method. Fair value is determined using discounted cash flows at the current market interest rate. (Level 2)
Measured at Fair Value	
Commodity contracts	Financial contracts are classified as commodity contracts and are measured at fair value with the changes during the period recorded in profit or loss as unrealized gains or losses. Determined using observable period-end forward curves. (Level 2)

The carrying value and fair value of the Company's financial instruments at June 30, 2022 are as follows:

($000's)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**2,971**	2,971
Restricted cash	**3,755**	3,755
Accounts receivable	**20,150**	20,150
Commodity contract asset	**120**	120
Accounts payable and accrued liabilities	**42,189**	42,189
Commodity contract liability	**2,035**	2,035
Minimum lease obligation	**2,960**	2,960
Promissory notes	**189**	179
Term Loan Facilities (AIMCo and Arena)	**85,748**	82,341

MARKET RISK

Razor is exposed to normal market risks inherent in the oil and natural gas business, including, but not limited to, liquidity risk, commodity price risk, credit risk, interest rate risk, and foreign exchange risk. The Company seeks to mitigate these risks through various business processes and management controls.

Management has overall responsibility for the establishment of risk management strategies and objectives. Razor's risk management policies are established to identify the risks faced, to set appropriate risk limits, and to monitor adherence to risk limits and to comply with banking requirements. Risk management policies are reviewed regularly to reflect changes in market conditions and Razor's activities.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity is managed through cash, debt and equity management strategies, when available. Razor manages its liquidity requirements by use of both short-term and long-term cash forecasts (refer to Future Operations – note 2).

The table below summarizes the Company's contractual obligations as at June 30, 2022:

($000's)	Recognized in Financial Statements	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Accounts payable and accrued liabilities	Yes-Liability	**42,189**	42,189	-	-	-
AIMCo Term Loan	Yes-Liability	**55,486**	-	55,486	-	-
Arena Amended and Restated Term Loan 1&2	Yes-Liability	**15,896**	9,083	6,813	-	-
Arena Amended and Restated Term 3 Loan	Yes-Liability	**14,366**	-	8,264	6,102	-
Promissory notes	Yes-Liability	**189**	144	45	-	-
Commodity contracts	Yes-Liability	**2,035**	2,035	-	-	-
Flow-through Share eligible expenditures	Yes-Liability	**5,000**	-	5,000	-	-
Minimum lease obligation	Yes-Liability	**2,960**	1,244	1,183	533	-
Interest payable [1 2]	No	**15,300**	8,259	6,417	539	85
Lease operating costs [3]	No	**-**	-	-	-	-
Transportation services	No	**1,056**	71	253	186	546
Total		**154,477**	**63,025**	**83,461**	**7,360**	**631**

1) Interest costs incurred but unpaid are included as part of the accrued liabilities in the financial statements.

2) Excludes interest paid on minimum lease obligation and lease liability.

3) Subsequent to June 30, 2022, the Company renewed its Calgary office space lease for a three year period with a total lease commitment of $1.2 million.

Commodity Price Risk

Razor is exposed to commodity price risk as prices for oil and natural gas products fluctuate in response to many factors including local and global supply and demand, weather patterns, pipeline transportation, political stability, and economic factors. Commodity price fluctuations are an inherent part of the oil and gas business. As part of the requirements of the Arena Amended and Restated Term Loan, Razor has entered into hedge contracts on a portion of its future production to protect cash flows. The Company does not apply hedge accounting for these contracts.

As at June 30, 2022, Razor had the following derivative contracts outstanding:

Oil - Upside enhanced traditional collars [1]

Reference point	Volume (bbls/mth)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl	Fair Value (CAD 000's)
NYMEX WTI financial futures	11,000	Jul 31'22-Sept 30'23	50.00	65.00	75.00	(1,203)

Oil - options

Reference point	Volume (bbls/mth)	Remaining Term		Option type	Strike price	Fair Value (CAD 000's)
NYMEX WTI financial futures	9,000	Sept 30'22	Long	Call	110.00	51
NYMEX WTI financial futures	11,000	Oct 31'23-Jan 31'24	Long	Put	50.00	234
NYMEX WTI financial futures	11,000	Jul 31'22-Dec 31'22	Short	Put	100.00	(822)
NYMEX WTI financial futures	15,000	Sept 31'22	Short	Put	100.00	(175)

1) These contracts are upside enhanced traditional collars whereby the Company receives the floor price/bbl when the market price is below the floor price/bbl, and receives the ceiling price/bbl when the market price is above the ceiling price/bbl, unless the market price rises above the long upside call, at which point the maximum price would be the NYMEX WTI oil index less the difference between the ceiling price and the long upside call strike price.

As at June 30, 2022, the Company recorded the fair value of the oil commodity contracts as an asset of $0.1 million and a liability of $2.0 million (December 31, 2021 – liability of $0.6 million) on the Statement of Financial Position. The Company recorded an unrealized gain of $0.9 million and an unrealized loss of $0.9 million for the three and six month periods ended June 30, 2022 (June 30, 2021 – unrealized loss of $1.0 million and $0.9 million for the three and six months respectively) and a realized loss of $0.5 million and a realized gain of $0.1 million in earnings for the three and six month periods ended June 30, 2022 (June 30, 2021 – realized loss of $0.1 million for the three and six months). In conjunction with entering into the above contracts Razor received CAD $0.4 million (US$0.3 million).

Subsequent to June 30, 2022, the Company has purchased certain commodity contracts as follows:

Oil - options

Reference point	Volume (bbls/mth)	Remaining Term		Option type	Strike price
NYMEX WTI financial futures	11,000	Feb 29'24	Long	Put	50.00
NYMEX WTI financial futures	1,000	Sept 30'22	Long	Call	110.00

Credit Risk

Razor is exposed to third party credit risk through its contractual arrangements with its partners in jointly owned assets, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Razor, such failures could have a material adverse effect. The maximum credit risk that the Company is exposed to is the carrying value of cash and cash equivalents, restricted cash, and accounts receivable.

The Company's accounts receivables of $20.1 million at June 30, 2022, (December 31, 2021 - $16.4 million) are non-interest bearing. The Company's receivables are summarized as follows:

($000's)	**June 30, 2022**	**December 31, 2021**
Trade receivables	**14,622**	13,754
Joint venture receivables	**5,026**	2,610
Other receivables	**575**	282
Allowance for doubtful accounts	**(73)**	(279)
	20,150	16,367

The majority of the credit exposure on trade receivables as at June 30, 2022, pertains to revenue for accrued June 2022 production volumes. Receivables from the oil and gas marketing companies are typically collected on the 25th day of the month following production. Razor mitigates the credit risk associated with these receivables by establishing relationships with credit worthy purchasers. Razor has not experienced any collection issues with its oil and gas marketers.

Receivables from partners in jointly owned assets are typically collected within one to three months of the bill being issued to the partner. The Company mitigates the risk from joint interest billings by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with partners in jointly owned assets as disagreements occasionally arise which increases the potential for non-collection. To protect against credit losses with joint asset partners, the Company has the ability to withhold sale proceeds from production or offset outstanding partner invoices in the event of non-payment and also, the ability to obtain the partners' share of capital expenditures in advance of a project.

The Company's accounts receivable is aged as follows:

($000's)	June 30, 2022	December 31, 2021
Current (less than 30 days)	**15,730**	12,432
31 to 90 days	**2,870**	2,724
Over 90 days	**1,550**	1,211
Total receivables	**20,150**	16,367

The Company does not believe that the amounts outstanding for more than 90 days are impaired.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and long-term debt. Razor manages its interest rate risk by entering into fixed interest rates on the AIMCo Term Loan, Arena Amended and Restated Term Loan, lease obligation, and Promissory Notes. See notes 7 and 8.

The AIMCo Term Loan Facility matures on January 31, 2024 and bears interest at the rate of 10% per annum (paid semi-annually on June 30 and December 31). The Arena Amended and Restated Term Loan facility matures on March 9, 2026 and bears interest at the rate of 7.875% per annum and paid monthly. The Promissory Notes mature on September 12, 2022, December 13, 2022, and May 8, 2024, and interest is paid monthly at 6.1%, 6.5% and 7.94% per annum along with the principal.

Consequently, there is no exposure to fluctuations in market interest rates.

Foreign Exchange Risk

Razor's business is conducted primarily in Canadian dollars. However, the Company's commodity contracts, the Arena Amended and Restated Term Loan and restricted cash are denominated in U.S. dollars. Razor's primary exposure is from fluctuations in the Canadian dollar relative to the U.S. dollar.

The sensitivity analysis below shows the impact that a change in the USD/CDN exchange rate would have on income/loss:

	USD/CDN exchange Rate	
	1% increase	1% decrease
Income statement gain/(loss)	(257,000)	257,000

13. COMMITMENTS AND CONTINGENCIES

The Company has a firm commitment for oil and gas transportation services that includes contracts to transport oil and natural gas through third party owned pipeline systems. The Company also has a firm commitment for gas processing services that includes contracts to process natural gas through third party owned processing facilities (see note 12).

Razor assumed decommissioning liabilities included in its Swan Hills, Kaybob and District South acquisitions. In Q2 2022, the Company spent $739 thousand on abandonment, reclamation and remediation expenditures for a six month total of $1,057 thousand (2021 - $756 thousand and $1,208 for the three and six months, respectively) which includes $612 thousand related to government grants earned for well site rehabilitation through the SRP program (2021 - $527 thousand and $926 thousand for the three and six months, respectively).

The Alberta Energy Regulator (AER) released its new Liability Management Framework under Directive 88. Under this new framework which takes effect in 2022, all industry licensees have a mandatory spend target for end of life abandonment and reclamation activity as part of the Industry Reduction Program. Razor has been assigned a mandatory spend of $2.38 million for 2022.

In May 2022, the Company issued a letter of credit in favor of a utility provider in the amount of $1.0 million. As security, the Company has set aside an equivalent GIC at the financial institution that issued the letter of credit. The Company held a total of $3.8 million as restricted cash at June 30, 2022 (December 31, 2021 - $1.4 million).

As a result of the Flow-through Share Issuance, Razor and its subsidiaries are committed to incur an amount of eligible expenses equal to the Rights Offering proceeds of $5.0 million prior to December 31, 2023.

In the normal course of its operations, the Company may be subject to litigation and claims and records provisions for claims as required.

During the third quarter of 2020, the Company was served a statement of claim from a joint venture partner demanding immediate payment for past services totaling $4.6 million. The Company did not have any amounts owing to this joint venture partner as at June 30, 2022. During the fourth quarter of 2021, Razor filed a Statement of Defence and a Counterclaim which alleges the joint venture partner over charged the joint account, underpaid revenue, conducted work without authorization and generally mis handled the joint account to the detriment of Razor.

14. REVENUES

The significant components recognized in revenues are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
($000's)	**2022**	**2021**	**2022**	**2021**
Crude oil	**31,636**	13,774	**60,573**	24,960
Gas	**3,242**	940	**4,952**	1,831
NGL	**4,988**	1,546	**8,975**	2,853
Blending and processing	**916**	776	**1,819**	2,144
Road use	**216**	122	**391**	263
Other revenue[1]	**305**	27	**612**	289
	41,303	17,185	**77,322**	32,340

1) Primarily comprised of trucking and road maintenance.

Razor sells its production of crude oil, natural gas, and NGL pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. Fees associated with blending and processing services are primarily based on fixed price contracts.

Razor's revenue transactions do not contain any significant financing components and payments are typically due within 30 days of revenue recognition. The Company does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

15. FINANCING COSTS

Financing costs are comprised of interest expense on the AIMCo Term Loan, the Arena Amended and Restated Term Loan, the Promissory Notes, the lease obligation, accretion of the discount on provisions, and amortization of deferred financing costs.

The components of financing costs are summarized below.

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2022**	**2021**	**2022**	**2021**
Interest expense	**2,256**	1,462	**4,186**	2,966
Amortization of deferred financing costs (note 8)	**836**	559	**1,572**	792
Accretion (note 10)	**1,005**	552	**1,908**	1,226
	4,097	2,573	**7,666**	4,984

Accretion relates to the time value change of the Company's decommissioning obligation.

16. PER SHARE AMOUNTS

Per share amounts are calculated by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted per share amounts are calculated by adjusting the weighted average number of common shares outstanding for potentially dilutive instruments. The net loss and average number of shares used to calculate the per share amounts are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Weighted average shares outstanding (basic and diluted)				
Basic and Diluted [1]	**24,391,820**	21,064,466	**23,856,119**	21,064,466
Net loss for the period (000's)	**$ (2,278)**	$ (5,544)	**(3,054)**	$ (11,179)
Net loss per share				
Basic and Diluted [1]	**$ (0.09)**	$ (0.26)	**(0.13)**	$ (0.53)

(1) For the three and six months ended June 30, 2022, 1,056,000 stock options were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

17. OTHER INCOME

The components for other income are summarized below.

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2022**	**2021**	**2022**	**2021**
Insurance proceeds	**340**	-	**340**	135
Interest and other	**12**	30	**44**	64
SRP subsidy for decommissioning expenditures (note 10)	**612**	527	**612**	926
	964	557	**996**	1,125

During Q2 2022, there were insurance proceeds received of $0.3 million (Q2 2021 - $0) and for the six months ended June 30, 2022, insurance proceeds received were $0.3 million (Q2 2021 - $0.1 million).

18. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital are summarized below.

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2022**	**2021**	**2022**	**2021**
Accounts receivable	**307**	93	**(3,783)**	(925)
Prepaid expenses and deposits	**(2,835)**	(1,971)	**(2,427)**	(1,629)
Inventory	**(111)**	11	**120**	(220)
Accounts payable and accrued liabilities	**(596)**	5,452	**(1,609)**	4,988
	(3,235)	3,585	**(7,699)**	2,214

The changes in non-cash working capital have been allocated to the following activities:

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2022**	**2021**	**2022**	**2021**
Operating	**(4,551)**	41	**(12,030)**	(2,053)
Financing	**(1,659)**	(685)	**-**	-
Investing	**2,975**	4,229	**4,331**	4,267
	(3,235)	3,585	**(7,699)**	2,214

CORPORATE INFORMATION

MANAGEMENT

Doug Bailey
President and Chief Executive Officer

Michael Blair
Chief Operating Officer

Kevin Braun
Chief Financial Officer

Lisa Mueller
Vice President, New Ventures
President and Chief Executive Officer of FutEra Power Corp.

Devin Sundstrom
Vice President, Production

Stephen Sych
Vice President, Operations

BOARD OF DIRECTORS

Doug Bailey

Sonny Mottahed (1) (2) (3)

Frank Muller

Sean Phelan (1) (2) (3)

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BANK
National Bank of Canada

AUDITORS
KPMG LLP

LEGAL COUNSEL
McCarthy Tétrault LLP

INDEPENDENT RESERVE EVALUATORS
Sproule Associates Limited

STOCK SYMBOL
RZE.V
TSX Venture Exchange

(1) Audit Committee
(2) Reserves and Environment Committee
(3) Corporate Governance and Compensation Committee