RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	September 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**3,443**	2,239
Restricted cash	4	**—**	1,810
Accounts receivable	13	**11,901**	6,069
Prepaid expenses and deposits		**2,086**	1,316
Inventory	5	**438**	1,205
Commodity contracts	13	**516**	8,265
		18,384	20,904
Deferred tax asset		**—**	320
Property, plant and equipment	7	**187,489**	136,713
TOTAL ASSETS		**205,873**	**157,937**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**29,651**	16,311
Decommissioning obligations	10	**4,804**	2,880
Current portion of lease obligation	9	**1,658**	1,017
Current portion of long-term debt	8	**1,037**	279
		37,150	20,487
Non-Current			
Long-term debt	8	**44,165**	43,553
Long-term lease obligation	9	**3,492**	2,843
Decommissioning obligations	10	**117,034**	76,310
Other liabilities		**—**	128
TOTAL LIABILITIES		**201,841**	143,321
SHAREHOLDERS' EQUITY			
Share capital	12	**27,082**	18,057
Contributed surplus/warrants	12	**694**	694
Deficit		**(23,744)**	(4,135)
		4,032	14,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**205,873**	**157,937**
Future Operations	2		
Commitments and Contingencies	14		

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(Stated in thousands of Canadian dollars, except per share amounts)	Note	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
REVENUES					
Commodity sales from production		**17,548**	28,964	**60,016**	79,105
Sales of commodities purchased from third parties		**122**	4,256	**8,576**	11,287
Blending and processing revenue		**2,395**	2,625	**6,968**	8,560
Other revenue		**1,232**	189	**1,857**	2,064
Total revenues	15	**21,297**	36,034	**77,417**	101,016
Royalties		**(3,244)**	(6,755)	**(9,513)**	(15,664)
		18,053	29,279	**67,904**	85,352
Realized loss on commodity contracts settlement		**(658)**	(920)	**(2,816)**	(3,635)
Unrealized gain (loss) on commodity risk management	13	**547**	(264)	**(7,748)**	(888)
		17,942	**28,095**	**57,340**	**80,829**
EXPENSES					
Operating		**11,785**	15,951	**38,818**	40,972
Transportation and treating		**732**	945	**2,585**	2,885
Commodities purchased from third parties		**—**	3,957	**8,564**	10,905
Blending and processing		**742**	1,380	**2,712**	4,019
General and administrative		**1,300**	1,925	**4,373**	4,450
Acquisition and transaction	6	**213**	—	**213**	16
Financing	16	**1,867**	1,976	**5,595**	5,554
Depletion, depreciation and amortization	7	**4,538**	4,756	**13,310**	12,292
Foreign exchange loss (gain)		**(18)**	40	**85**	(83)
		21,159	**30,930**	**76,255**	**81,010**
Gain on asset swap	6	**—**	—	**780**	836
Income (loss) before income tax		**(3,217)**	**(2,835)**	**(18,135)**	**655**
Deferred income tax expense (recovery)		**2,966**	(530)	**(415)**	189
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**(6,183)**	**(2,305)**	**(17,720)**	466
NET INCOME (LOSS) PER SHARE					
Basic and diluted	17	**(0.38)**	(0.15)	**(1.14)**	0.03

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	Share Capital	Warrants	Deficit	Total Shareholders' Equity
December 31, 2017		18,333	694	(4,334)	14,693
Shares issued		409	—	—	409
Shares repurchased and cancelled	12	(376)	—	(571)	(947)
Dividends		—	—	(2,549)	(2,549)
		—	—	466	466
September 30, 2018		**18,366**	**694**	**(6,988)**	**12,072**
December 31, 2018		**18,057**	**694**	**(4,135)**	**14,616**
Shares issued	12	9,168	—	—	9,168
Share issuance costs	12	(30)	—	—	(30)
Shares repurchased and cancelled	12	(113)	—	(115)	(228)
Dividends	12	—	—	(1,774)	(1,774)
Net loss		—	—	(17,720)	(17,720)
September 30, 2019		**27,082**	**694**	**(23,744)**	**4,032**

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 September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Operating Activities					
Net income (loss) for the period		**(6,183)**	(2,305)	**(17,720)**	466
Adjustments for non-cash items:					
Unrealized loss (gain) on commodity risk	13	**(547)**	264	**7,748**	888
Loss (gain) on foreign currency translation		**(18)**	40	**85**	(83)
Gain on sale of assets	6	**—**	—	**(780)**	(836)
Financing costs	16	**1,867**	1,976	**5,595**	5,554
Lease inducement		**—**	(3)	**—**	(9)
Depletion, depreciation and amortization	7	**4,540**	4,756	**13,113**	12,292
Impairment		**28**	—	**28**	—
Decommissioning costs incurred	10	**(14)**	(1,687)	**28**	(2,164)
Deferred income tax expense (recovery)		**2,966**	(530)	**(415)**	189
Changes in non-cash working capital	18	**(2,685)**	3,913	**4,634**	(633)
Net cash flows from (used in) operating activities		**(46)**	**6,424**	**12,316**	**15,664**
Financing Activities					
Proceeds from long-term debt	8	**—**	1,021	**—**	16,021
Repayment of long-term debt	8	**(71)**	—	**(208)**	—
Deferred financing costs	8	**—**	—	**—**	(190)
Payment of lease obligation	9	**(186)**	(248)	**(797)**	(248)
Repayment of director loans		**(528)**	—	**(528)**	—
Interest expense	16	**(1,236)**	(1,204)	**(3,665)**	(3,383)
Share issuance costs		**(30)**	—	**(30)**	—
Shares repurchased and cancelled		**—**	(947)	**(228)**	(947)
Dividends	12	**(637)**	—	**(1,774)**	—
Changes in non-cash working capital	18	**1,134**	1,134	**1,116**	1,134
Net cash flows from (used in) financing activities		**(1,554)**	**(244)**	**(6,114)**	**12,387**
Investing Activities					
Property acquisitions	7	**(168)**	272	**(256)**	(3,878)
Asset dispositions	7	**—**	—	**—**	800
Capital expenditures	7	**(2,518)**	(4,060)	**(9,977)**	(26,082)
Proceeds from government grants for assets	7	**1,980**	—	**4,436**	—
Restricted cash	4	**1,073**	(102)	**1,810**	(863)
Changes in non-cash working capital	18	**(666)**	(339)	**(926)**	(70)
Net cash flows used in investing activities		**(299)**	**(4,229)**	**(4,913)**	**(30,093)**
Foreign currency translation		**18**	(40)	**(85)**	83
Change in cash and cash equivalents		**(1,881)**	**1,911**	**1,204**	**(1,959)**
Cash and cash equivalents, beginning of period		**5,324**	3,617	**2,239**	7,487
Cash and cash equivalents, end of period		**3,443**	**5,528**	**3,443**	**5,528**
Cash interest paid		**101**	70	**2,549**	2,249

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

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

These 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.

As at September 30, 2019, the Company has a working capital deficit of $18.8 million, of which only $3.4 million is comprised of cash and cash equivalents. Further, in the third quarter of 2019, the Company had negative cash flow from operating activities and has contractual repayments of $37.4 million due in less than one year. The Company anticipates funding the working capital deficit and contractual repayments with a combination of cash from operations and potential new debt financing. However, the operational challenges that impacted production and operating costs along with a volatile economic environment continues to negatively impact operating cash flows and as such 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, no assurance can be provided that the Company will be able to obtain new debt financing with terms that are acceptable to the Company.

Due to the conditions noted above there remains a material uncertainty surrounding the Company’s ability to generate adequate cash flow from operations or obtain new financing to fund the working capital deficit and contractual payments. 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.

These consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

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 September 30, 2019. They do not include all the disclosures required in annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018. Certain comparative figures have been reclassified to conform with current period presentation.

These unaudited interim condensed consolidated financial statements include the accounts of Razor Energy Corp. and its wholly owned subsidiaries, Blade Energy Services Corp., Razor Power 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 November 28, 2019.

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.

3. CHANGES IN ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements are prepared following the same accounting policies used in the Company’s audited consolidated financial statements as at December 31, 2018, except as described below.

GOVERNMENT GRANTS

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. If a grant is received but compliance with any attached condition is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item, it is recognized as income in the period in which the costs are incurred. Where the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and then subsequently in net income (loss) over the expected useful life of the related asset through lower charges to impairment and/or depletion, depreciation and amortization.

LEASES

The Company applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information before the initial application has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 9.

At inception of a contract, Razor assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contracts entered into, or changed, on or after January 1, 2019.

The Company may elect not to apply the lessee accounting model to:

- leases with a lease term of 12 months or less that do not contain a purchase option; and
- leases for which the underlying asset is of low value when it is new.

At inception or on reassessment of a contract that contains a lease component, Razor allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. For the leases of building spaces in which it is a lessee, Razor has elected to separate non-lease components, and account for the lease and non-lease components as a separate lease component. Any additional payment for the operating costs is a non-lease component and is accounted for as a rent expense.

The lease liability is initially measured at the present value of the lease payments that are not paid at the initial application date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, Razor uses its incremental borrowing rate as the discount rate.

The Company recognizes a right-of-use (ROU) asset on a lease-by-lease basis as the amount equal to the lease liability on January 1, 2019 with no impact to retained earnings. The right-of-use asset is subsequently depreciated using the straight-line method from the initial application date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The following table show the impact of IFRS 16 implementation on opening balances:

($000's)	**January 1, 2019**
Right-of-use asset	339
Lease liabilities	(467)
Other liabilities	128
Retained earnings	—

The following table shows the impact of IFRS 16 implementation on the operating lease commitments previously disclosed:

($000's)	
Operating lease commitments at December 31, 2018 as disclosed in the Company's consolidated financial statements	1,116
Non-lease component included in the above	(812)
Lease component of lease commitment at December 31, 2018	304
Discounted using the lessee's incremental borrowing rate at the date of initial application	269
Add: lease liabilities recognized on adoption of IFRS 16	198
Lease liability recognized at January 1, 2019	467

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the unaudited interim condensed consolidated financial statements once adopted.

4. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account as collateral under the terms of the commodity contracts and is considered not available for general use by the Company. As at September 30, 2019, the Company had no restricted cash (December 31, 2018 - $1.8 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. Cost includes operating expenses and depletion associated with the unsold crude oil barrels on a CGU basis.

As at September 30, 2019, the Company held 11,378 barrels of oil in inventory valued at cost of $38.53 per barrel (December 31, 2018 - 35,267 barrels at $34.18 per barrel). As at September 30, 2019, the Company recorded $0.4 million of costs to inventory (December 31, 2018 - $1.2 million). During the three months ended September 30, 2019, no product inventory was recorded as an expense (2018 - $Nil).

6. ACQUISITIONS

LITTLE ROCK ACQUISITION

On September 11, 2019, Razor completed the strategic acquisition ("Acquisition") of Little Rock Resources Ltd. ("Little Rock") in order to provide Razor with a second core region in southern Alberta, with significant presence in the Jumpbush, Majorville, Badger, Enchant and Chin Coulee areas.

The Acquisition is valued at $13.2 million, subject to post close adjustments, including the issuance of $9.6 million in Common Shares and the assumption of Little Rock's net debt of $3.6 million (consisting of working capital deficit, director loans and convertible debentures).

Pursuant to the Acquisition, 95.11% of the total issued and outstanding Little Rock common shares were exchanged for 0.45 of a common share of Razor (each, a "Common Share") resulting in the issuance of an aggregate of 5,689,532 Common Shares valued at $1.61 per share, based on the weighted average price of Razor common shares on September 11, 2019. Razor acquired the balance of the Little Rock Shares by way of a compulsory acquisition on the same terms as the original offer, resulting in the issuance of an additional 292,500 Common Shares on October 4, 2019.

Fair value of net assets acquired and liabilities assumed	
Property, plant and equipment	16,578
Decommissioning	(2,515)
Working capital deficit	(2,416)
Director loans	(528)
Convertible debentures	(744)
Deferred tax	(735)
Total net assets acquired	9,640

Consideration	*($000's)*
Shares issued (5,982,032 shares)[1]	9,640

1) Includes 292,500 shares issued subsequent to quarter end.

Total transaction costs of $0.2 million for legal and advisory services related to the Little Rock acquisition were expensed.

Asset Swap

On February 6, 2019, Razor completed a non-monitory asset swap whereby Razor increased its working interest positions in its Virginia Hills Unit 1 and completely disposed its working interest in Kaybob Beaverhill Lake Unit 1. This transaction increases Razor's operated working interest position in Virginia Hills Unit 1 to 100% and completely disposes it's working interest in Kaybob Beaverhill Lake Unit 1. The acquisition had an effective date of December 1, 2018.

This acquisition was accounted for using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired, and liabilities assumed by Razor were based on the more readily available information being the asset given up versus that of the acquired assets.

Based on the fair value of the assets given up Razor recorded $2.7 million of decommissioning obligation estimated using the credit adjusted rate of 15% and removed $0.2 million of net book value of property, plant and equipment and the associated risk-free decommissioning obligation of $3.7 million. The Company recognized a gain on disposition of $0.8 million as a result of the swap.

7. 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)	
Cost	
December 31, 2018	163,040
Property acquisitions	16,834
Capital expenditures	9,976
Right-of-use assets (Note 3)	1,731
Disposals and derecognition	(992)
Change in decommissioning obligations	39,997
Government grants	(4,436)
September 30, 2019	**226,150**
Accumulated depletion, depreciation and amortization	
December 31, 2018	26,327
Depletion, depreciation and amortization	13,114
Disposals and derecognition	(780)
September 30, 2019	**38,661**
Net book value	
December 31, 2018	136,713
September 30, 2019	**187,489**

Effective January 1, 2019, Razor applied IFRS 16 accounting policy for its office lease contracts and certain land surface leases and recognized a right-of-use (ROU) asset on a lease-by-lease basis as the amount equal to the lease liability. See Note 9.

At each reporting period, Razor evaluates its developed and producing assets on a cash generating unit basis for indicators of any potential impairment. As a result of this assessment, the Company did not identify any indicators of impairment at September 30, 2019.

There were no borrowing costs capitalized in the quarter, as the Company did not have any qualifying assets. Equipment not yet put in service and undeveloped land costs excluded from the costs subject to depletion for the three months ended September 30, 2019 total $3.1 million (December 31, 2018 - $0.8 million), offset by $3.2 million in government grants. As at September 30, 2019, future development costs required to develop proved and probable reserves in the amount of $81.4 million are included in the depletion calculation for PP&E (December 31, 2018 - $60.6 million).

8. LONG-TERM DEBT

On January 31, 2017, Razor entered into a $30.0 million senior secured term loan facility ("Term Loan Facility") with Alberta Investment Management Corporation ("AIMCo"). The Company issued 1,024,128 common shares to AIMCo, as consideration for Term Loan Facility representing approximately 10.05% of the issued and outstanding common shares of the Company at the time.

On January 15, 2018, Razor secured an increase of $15.0 million in its existing non-revolving Term Loan Facility from AIMCo, for an amended principal amount of $45.0 million (the "Amended Term Loan Facility"). As consideration for the Amended Term Loan Facility, 255,600 common shares have been issued to AIMCo.

The terms of the Amended Term Loan Facility are materially unchanged from the Term Loan Facility. The Amended Term Loan Facility matures on January 31, 2021 and bears interest at the rate of 10% per annum (paid semi-annually on June 30 and December 31). The Amended Term Loan Facility 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.

The proceeds of the Amended Term Loan Facility were used by Razor to fund its development program and for general corporate purposes. The effective interest rate of the Amended Term Loan Facility is 12% per annum (December 31, 2018 - 12%).

On September 12, 2018, the Company entered into a $1.0 million promissory note and security agreement ("Promissory Note-1") with an unrelated third party for the purpose of purchasing a power generator. Promissory Note-1 is secured by the power generator purchased with the term ending and last payment to be made on September 12, 2022. Promissory Note-1 bears interest of 6.1% per annum. Monthly payments of $24.0 thousand include interest and principal.

On December 13, 2018, the Company entered into a $0.2 million promissory note and security agreement ("Promissory Note-2") with an unrelated third party for the purpose of purchasing field service equipment with the term ending and last payment to be made on December 13, 2022. Promissory Note-2 bears interest of 6.50% per annum. Monthly payments of $4.5 thousand include interest and principal.

The changes in long-term debt are as follows:

($000's)	**September 30, 2019**	**December 31, 2018**
Balance, beginning of period	**43,832**	27,161
Proceeds of Amended Term Loan Facility	**—**	15,000
Proceeds from Promissory Notes	**—**	1,211
Repayment of Promissory Notes	**(208)**	(57)
Deferred financing costs	**—**	(598)
Amortization of deferred financing costs	**834**	1,115
Convertible debentures acquired[1]	**744**	—
Balance, end of period	**45,202**	43,832

1) Razor acquired $690,000 of convertible debentures as part of the Little Rock Acquisition. In accordance with the terms of the Debenture Indenture, upon a change of control of Little Rock, Razor is obligated to offer the purchase or convert into common shares of Razor all the convertible debentures outstanding. The Company anticipates the convertible debenture holders will elect to have Razor purchase rather than convert to common shares, and therefore has recorded the liability at the redemption offer of 108% of the principal amount.

As at September 30, 2019, Razor had the following outstanding long-term debt:

($000's)	Interest Rate	Maturity	**September 30, 2019**	**December 31, 2018**
Amended Term Loan Facility	10%	Jan-2021	**45,000**	45,000
Promissory Note-1	6.1%	Sep-2022	**788**	964
Promissory Note-2	6.5%	Dec-2022	**158**	190
Convertible Debentures	—	Nov-2019	**744**	—
Deferred financing costs			**(1,488)**	(2,322)
Long-term debt			**45,202**	**43,832**
Current portion			**1,037**	279
Long-term portion			**44,165**	43,553
Long-term debt			**45,202**	**43,832**

Deferred financing costs related to the Amended Term Loan Facility have been presented net against the debt obligation and will be accreted such that the debt balance equals the principal of $45.0 million at maturity. As at September 30, 2019, deferred financing costs are comprised of legal fees of $348 thousand (December 31, 2018 - $348 thousand) and the fair value of the shares issued to AIMCo of $3.9 million (December 31, 2018 - $3.9 million) (see Note 12).

Subsequent to quarter end, the covenants were amended and the Amended Term Loan Facility is now subject to the following financial covenants:

- a maximum adjusted net debt-to-adjusted cash flow ratio of less than 8:1 for 2019, and 3:1 for each year thereafter, measured on December 31 of each year; and
- a minimum working capital ratio of 0.25:1 for 2019, and 1:1 for each year thereafter, measured on December 31 of each year.

As at September 30, 2019, Razor was in compliance with all of its non-financial debt covenants.

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 and used in operating activities less changes in operating working capital, plus income taxes paid. Working capital ratio is the ratio of (i) current assets, excluding the fair value of commodity contracts, to (ii) the current liabilities, excluding the current portion of long-term debt and excluding the fair value of commodity contracts.

9. LEASE OBLIGATION

On June 18, 2018, Razor entered into a lease agreement for the lease of natural gas power generators for $4.1 million. The lease agreement is discounted with an effective interest rate of 6.1% and ends on June 18, 2022 with a nominal final payment after which Razor will own the equipment. Monthly payments of $104.5 thousand include interest and principal.

On February 22, 2019, the Company entered into two lease agreements for lease of field equipment for $0.1 million each. The lease agreements are discounted with an effective interest rate of 8.95% and 4.99% respectively. Both lease agreements end on February 22, 2023 with a nominal final payment after which Razor own the equipment. Monthly payments for both leases are $5.7 thousand and include interest and principal.

On March 15, 2019, Razor entered into a lease agreement for the lease of field service equipment for $1.1 million. The lease agreement is discounted with an effective interest rate of 8.95% per annum and ends on April 15, 2023 with a nominal final payment after which Razor will own the equipment. Monthly payments of $24.0 thousand include interest and principal.

On August 9, 2019, Razor entered into a lease agreement for the lease of field service equipment for $0.2 million. The lease agreement is discounted with an effective interest rate of 5.4% per annum and ends on August 9, 2023 with a nominal final payment after which Razor will own the equipment. Monthly payments of $4.5 thousand include interest and principal.

Effective January 1, 2019, Razor applied IFRS 16 accounting policy and recognized its office lease contracts and certain land surface leases as a right-of-use (ROU) assets on a lease-by-lease basis. Lease liability is discounted with an effective interest rate of 6.1% and right-of-use asset is amortized based on the lease term or expected life of their respective operating area.

According to IFRS 16, Razor separates the lease components from non-lease components. Any additional payment for the operating costs is a non-lease component and is accounted for as a rent expense. The asset amount was recognized equal to the lease liability for the following contracts:

– In 2017, Razor has entered into a fixed contract for office space for a period of 5 years and 1 month. There is no renewal option in the lease agreement.

– In addition, Razor has entered into a fixed contract for warehouse space and field office space for a period of 3 years. For these contracts, Razor has the option to renew the lease if required. At this time Razor has assumed that these leases will not be renewed.

The changes in lease obligations are as follows:

($000's)	September 30, 2019	December 31, 2018
Balance, beginning of period	**3,860**	—
Acquisition	**228**	—
Liabilities incurred	**1,859**	4,361
Liabilities settled	**(1,032)**	(628)
Interest expense	**235**	127
Balance, end of period	**5,150**	3,860
Current portion	**1,658**	1,017
Long-term portion	**3,492**	2,843
Lease obligation	**5,150**	3,860

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $5.8 million. Razor's minimum lease payments are as follows:

($000's)	September 30, 2019	December 31, 2018
Within one year	**1,947**	1,254
Later than one year but not later than two years	**1,921**	2,509
Later than two years	**1,945**	523
Minimum lease payments	**5,813**	4,286
Amount representing finance charge	**(663)**	(426)
Present value of net minimum lease payments	**5,150**	3,860

10. 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)	September 30, 2019	December 31, 2018
Balance, beginning of period	**79,190**	76,290
Additions	**—**	394
Acquisitions	**5,259**	1,668
Decommissioning costs incurred	**28**	(3,235)
Effect of change in discount rate [1]	**40,160**	5,566
Dispositions	**(3,732)**	(60)
Revisions to estimates	**(163)**	(3,204)
Accretion expense	**1,096**	1,771
Balance, end of period	**121,838**	**79,190**
Current portion	**4,804**	2,880
Long-term portion	**117,034**	76,310
Decommissioning obligations	**121,838**	**79,190**

(1) Decommissioning obligations acquired as part of a business combination are 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 Interim Condensed Consolidated Statements of Financial Position. Impact of the adjustment from credit-adjusted risk-free rate to the risk-free rate on acquisitions was $30.1 million (2018-$2.4 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.

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

	September 30, 2019	**December 31, 2018**
Undiscounted cash flows (000's)	**122,155**	90,702
Discount rate (%)	**1.51**	2.18
Inflation rate (%)	**1.50**	1.50
Weighted average expected timing of cash flows (years)	**21**	21

11. 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
3. Maintain a sustainable dividend policy.

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 customary restrictions and covenants in the Amended Term Loan Facility.

12. 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 at September 30, 2019 is shown below.

	September 30, 2019		**December 31, 2018**	
Common Shares	**Number**	**($000's)**	**Number**	**($000's)**
Shares outstanding, beginning of period	**15,188,834**	**18,057**	15,511,934	18,333
Common shares issued as part of debt issuance	**—**	**—**	255,600	409
Common shares issued as part of corporate acquisition	**5,689,532**	**9,168**	—	—
Share issuance costs	**—**	**(30)**	—	—
Shares repurchased and cancelled	**(95,400)**	**(113)**	(578,700)	(685)
Shares outstanding, end of period	**20,782,966**	**27,082**	15,188,834	18,057

On January 15, 2018, Razor issued 255,600 common shares to AIMCo as consideration for the Amended Term Loan Facility. The common shares issued to AIMCo were valued based on the share price of the Company. No preferred shares have been issued.

NORMAL COURSE ISSUER BID

On September 13, 2018, Razor began a Normal Course Issuer Bid (the "NCIB") to repurchase up to 772,442 of its outstanding common shares. Under this NCIB, 355,400 common shares were repurchased in open market transactions on the TSXV at a weighted average cost of $2.48 per share. The NCIB expired on September 13, 2019.

On September 20, 2019, the TSXV approved the Company's application for a renewed NCIB to purchase up to 1,039,148 of its common shares over a 12-month period commencing September 23, 2019 and ending September 22, 2020. A copy of the TSXV approval may be obtained by contacting Razor's Chief Financial Officer at Suite 800, 500-5th Ave. S.W. Calgary, AB T2P 3L5.

During the third quarter of 2019, no shares were repurchased. During the nine months ended September 30, 2019, the Company repurchased 95,400 of its common shares (during three and nine months ended September 30, 2018 - 318,700 shares repurchased).

DIVIDENDS

Razor pays a monthly cash dividend of $0.0125 per share. During the nine months ended September 30, 2019 , Razor paid out a total of $1.8 million. The dividend is paid monthly and is subject to commodity prices, production levels, and other factors.

On October 2, 2019, Razor announced a cash dividend of $0.0125 per share, payable on October 31, 2019.

On November 5, 2019, Razor announced a cash dividend of $0.0125 per share, payable on November 29, 2019.

13. 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 and 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 September 30, 2019 are as follows:

($000's)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**3,443**	3,443
Accounts receivable	**11,901**	11,901
Accounts payable and accrued liabilities	**29,651**	29,651
Promissory Notes	**946**	1,007
Convertible debentures	**744**	744
Amended Term Loan Facility	**43,512**	43,062

MARKET RISK

Razor is exposed to normal market risks inherent in the oil and natural gas business, including, but not limited to, commodity price risk, credit risk, interest rate risk, foreign exchange risk, and liquidity 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. Risk management policies are reviewed regularly to reflect changes in market conditions and Razor's activities.

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. Razor mitigates some of the exposure to commodity price risk to protect the return on investment and provide a level of stability to operating cash flow. The Company hedges a portion of its future production to protect cash flows to allow it to meet its strategic objectives. The Company does not apply hedge accounting for these contracts.

As at September 30, 2019, Razor had the following derivative contracts outstanding:

Reference point	Volume (bbls)	Remaining Term	Price USD/bbl	Fair Value (CAD 000's)
Oil - Long Call				
NYMEX WTI financial futures	45,000	Oct-19	69.00	—
Oil - Long Put				
NYMEX WTI financial futures	150,000	Oct-19	45.00	4
NYMEX WTI financial futures	50,000	Oct-19	52.50	48
NYMEX WTI financial futures	105,000	Nov-19	45.00	44
NYMEX WTI financial futures	45,000	Nov-19	47.00	32
NYMEX WTI financial futures	105,000	Dec-19	45.00	100
NYMEX WTI financial futures	45,000	Jan-20	45.00	69
NYMEX WTI financial futures	25,000	Feb-20	45.00	52
				349

In order to mitigate price fluctuations for the gas consumed internally for operations, Razor had entered into physical gas contracts. As at September 30, 2019, the Company had the following contracts outstanding:

Reference point	Type	Volume (GJ/d)	Term	Price per GJ (CAD)	Fair Value (CAD 000's)
Natural gas - fixed price physical contracts					
AECO	Buy	1,250	Oct-Dec 2019	1.41	93
AECO	Buy	1,250	Jan-Dec 2020	1.45	74
					167

As at September 30, 2019, the Company fair valued the oil and gas commodity contracts with an asset of $0.5 million (September 30, 2018 - liability of $1.5 million) on the Statement of Financial Position and recorded an unrealized loss of $7.7 million in earnings for the nine months ended September 30, 2019 (September 30, 2018 - unrealized loss of $0.9 million).

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 has not experienced any credit losses in the collection of accounts receivable to date.

The Company's accounts receivables of $11.9 million at September 30, 2019 (December 31, 2018 - $6.1 million) are non-interest bearing. The Company's receivables are summarized as follows:

($000's)	**September 30, 2019**	**December 31, 2018**
Trade receivables	8,950	4,032
Joint venture receivables	2,951	2,037
	11,901	6,069

The majority of the credit exposure on trade receivables as at September 30, 2019, pertains to revenue for accrued September 2019 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. For properties that are operated by Razor, production can be withheld from partners in jointly owned assets in the event of non-payment.

The Company's accounts receivable is aged as follows:

($000's)	**September 30, 2019**	**December 31, 2018**
Current (less than 30 days)	10,375	4,348
31 to 90 days	63	701
Over 90 days	1,463	1,020
Total receivables	11,901	6,069

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 Amended Term Loan Facility, lease obligation, and Promissory Notes. See Notes 8 and 9.

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 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.

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.

Given the volatile economic environment, and operational challenges that affected production and operating costs, as at September 30, 2019, the Company was forecasting to be in violation of its financial covenants, prior to the amendment, regarding its long-term debt at December 31, 2019 which would result in all amounts outstanding potentially becoming due on demand. In response, the Company has obtained an amendment from the lender on these expected covenant breaches and as a result the financial covenants at December 31, 2019 have been changed to:

- a maximum adjusted net debt-to-adjusted cash flow ratio of not less that 8:1; and
- a minimum working capital ratio of 0.25:1.

The Company is dependent on the ongoing support of AIMCo through to its contractual maturity of January 2021. See Future Operations (note 2).

The table below summarizes the Company's contractual obligations as at September 30, 2019:

($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 [1]	Yes-Liability	**28,535**	28,535	—	—	—
Convertible debentures	Yes-Liability	**744**	744	—	—	—
Amended Term Loan Facility	Yes-Liability	**45,000**	—	45,000	—	—
Promissory notes	Yes-Liability	**946**	291	641	14	—
Minimum lease obligation	Yes-Liability	**5,813**	1,947	3,407	459	—
Interest payable [2 3]	No	**7,881**	5,667	2,214	—	—
Lease operating costs	No	**547**	50	199	199	99
Transportation services	No	**1,537**	131	297	98	1,011
Processing services	No	**132**	67	65	—	—
Total		**91,135**	**37,432**	**51,823**	**770**	**1,110**

1) Accounts payable and accrued liabilities exclude interest payable on long-term debt.
2) Interest costs incurred but unpaid are included as part of the accrued liabilities in the financial statements.
3) Excludes interest paid on minimum lease obligation and right-of-use asset liability.

14. 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.

($000's)	Total	2019	2020	2021	2022-2032
Lease operating costs	547	50	199	199	99
Transportation services	1,537	131	297	98	1,011
Processing services	132	67	65	—	—
	2,216	**248**	**561**	**297**	**1,110**

1) Commitments exclude interest and principal on long-term debt and payments to settle derivative contracts.

The Company has an annual commitment with the Alberta Energy Regulator (AER) to either suspend, reactivate, or abandon non-compliant inactive wells, under the Inactive Well Compliance Program ("IWCP"). As at September 30, 2019, the Company had 20 wells remaining in the IWCP that it needs to address before March 31, 2020. The Company continues to invest in end-of-life well and facility decommissioning.

In the normal course of its operations, the Company may be subject to litigation and claims and records provisions for claims as required. On March 20, 2017, the Company was served with a statement of claim whereby the plaintiffs allege that the Company was provided with confidential information about certain petroleum and natural gas assets that a third party had agreed to sell to the plaintiff. The Company has filed a statement of defense denying all allegations made against them. The potential outcome of the lawsuit and claim are uncertain, however the Company's opinion is that the claim is without merit. For additional information, refer to "Legal Proceedings and Regulatory Actions" in the Company's most recent annual information form, which is available on SEDAR at www.sedar.com.

15. REVENUES

The significant components recognized in revenues are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Light oil	**15,343**	24,311	**51,844**	67,291
Gas	**576**	585	**1,664**	1,916
NGL	**1,629**	4,068	**6,508**	9,898
Sales of commodities purchased from third parties	**122**	4,256	**8,576**	11,287
Blending and processing	**2,395**	2,625	**6,968**	8,560
Road use	**158**	172	**590**	605
Interest	**18**	20	**51**	108
Other income[1]	**1,056**	(3)	**1,216**	1,351
	21,297	36,034	**77,417**	101,016

1) Primarily comprised of government grants for power generation project and sales of surplus materials.

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.

16. FINANCING COSTS

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

The components of financing costs are summarized below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Interest expense	**1,236**	1,204	3,665	3,383
Amortization of deferred financing costs (Note 8)	**281**	287	834	835
Accretion (Note 10)	**350**	485	1,096	1,336
	1,867	1,976	5,595	5,554

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

17. 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. For three and nine months ended September 30, 2019 and 2018, there are no dilutive instruments affecting the basic common share calculations.

The net income (loss) and average number of shares used to calculate the per share amounts are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Weighted average shares outstanding (basic and diluted)	**16,268,446**	15,640,107	**15,534,601**	15,710,548
Net income (loss) for the period (000's)	**$ (6,183)**	$ (2,305)	**$ (17,720)**	$ 466
Net income (loss) per share (basic and diluted)	**$ (0.38)**	$ (0.15)	**$ (1.14)**	$ 0.03

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Accounts receivable	**(450)**	2,029	**(4,318)**	(3,830)
Prepaid expenses and deposits	**1,225**	501	**(515)**	(45)
Inventory	**1**	—	**767**	—
Accounts payable and accrued liabilities	**(2,993)**	2,178	**8,890**	4,306
	(2,217)	4,708	**4,824**	431

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Operating	**(2,685)**	3,913	**4,634**	(633)
Financing	**1,134**	1,134	**1,116**	1,134
Investing	**(666)**	(339)	**(926)**	(70)
	(2,217)	4,708	**4,824**	431

Cash and cash equivalents in the consolidated statements of cash flows is comprised of:

	September 30,	
($000's)	**2019**	**2018**
Cash	**3,186**	5,223
Short-term investments	**257**	305
	3,443	5,528

CORPORATE INFORMATION

MANAGEMENT

Doug Bailey
President and Chief Executive Officer

Frank Muller
Senior Vice President and Chief Operating Officer

Kevin Braun
Chief Financial Officer

Lisa Mueller
Vice President, New Ventures

Devin Sundstrom
Vice President, Production

Stephen Sych
Vice President, Operations

BOARD OF DIRECTORS

Sony Gill (1) (3)
Chair

Doug Bailey

Sonny Mottahed (1) (2) (3)

Frank Muller

Vick Saxon (2) (3)

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BANK

National Bank of Canada

AUDITORS

KPMG LLP

LEGAL COUNSEL

Stikeman Elliott LLP
McCarthy Tétrault LLP

INDEPENDENT RESERVE EVALUATORS

Sproule Associates Limited

STOCK SYMBOL
RZE
TSX Venture Exchange

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