RAZOR ENERGY CORP.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Razor Energy Corp.

Opinion

We have audited the consolidated financial statements of Razor Energy Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company has a working capital deficit of $19.5 million and contractual repayments of $37.2 million due in less than one year as at December 31, 2019, in addition to projecting covenant violations of the $45 million Amended Term Loan Facility at December 31, 2020, immediately prior to its contractual maturity of January 31, 2021.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Timothy Arthur Richards.

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
April 28, 2020

RAZOR ENERGY CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
(Stated in thousands of Canadian dollars)	**Note**	**2019**	**2018**
ASSETS			
Current assets			
Cash and cash equivalents		**1,905**	2,239
Restricted cash	5	**—**	1,810
Accounts receivable	14	**9,642**	6,069
Prepaid expenses and deposits		**1,594**	1,316
Inventory	6	**345**	1,205
Commodity contracts	14	**2**	8,265
		13,488	20,904
Deferred tax asset	18	**—**	320
Property, plant and equipment	8	**175,670**	136,713
TOTAL ASSETS		**189,158**	**157,937**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**28,749**	16,311
Decommissioning obligations	11	**2,237**	2,880
Current portion of lease obligation	10	**1,679**	1,017
Current portion of long-term debt	9	**297**	279
		32,962	20,487
Non-Current			
Long-term debt	9	**44,370**	43,553
Long-term lease obligation	10	**3,065**	2,843
Decommissioning obligations	11	**116,911**	76,310
Other liabilities		**—**	128
Total liabilities		**197,308**	143,321
SHAREHOLDERS' EQUITY			
Share capital	12	**27,540**	18,057
Contributed surplus/warrants		**694**	694
Deficit		**(36,384)**	(4,135)
		(8,150)	14,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**189,158**	**157,937**

Future Operations	2
Commitments and Contingencies	15

See accompanying notes to the Consolidated Financial Statements.

SONY GILL, DIRECTOR

SONNY MOTTAHED, DIRECTOR

RAZOR ENERGY CORP.

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

(Stated in thousands of Canadian dollars, except per share amounts)	Note	Years Ended December 31, 2019	2018
REVENUES			
Commodity sales from production		**80,803**	94,382
Sales of commodities purchased from third parties		**8,551**	15,639
Blending and processing revenue		**8,842**	10,472
Other revenue		**1,976**	2,406
Total revenues	16	**100,172**	122,899
Royalties		**(14,183)**	(19,551)
		85,989	103,348
Realized (loss) on commodity contracts settlement		**(2,619)**	(2,647)
Unrealized gain (loss) on commodity risk management	14	**(8,263)**	8,898
		75,107	109,599
EXPENSES			
Operating		**51,747**	51,178
Transportation and treating		**3,609**	3,787
Commodities purchased from third parties		**8,564**	14,812
Blending and processing		**3,402**	5,207
General and administrative		**6,327**	5,663
Bad debt		**1,352**	—
Acquisition and transaction	7	**213**	16
Financing	17	**7,657**	7,465
Depletion, depreciation and amortization	8	**18,909**	16,825
Impairment	8	**4,000**	—
Foreign exchange (gain) loss		**95**	(172)
		105,875	104,781
Gain on sale of assets		**780**	1,013
Income (loss) before income tax		**(29,988)**	5,831
Deferred income tax expense (recovery)	18	**(415)**	1,592
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**(29,573)**	4,239
NET INCOME (LOSS) PER SHARE			
Basic and diluted	19	**(1.75)**	0.27

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Stated in thousands of Canadian dollars)	Note	Share Capital	Contributed surplus/ warrants	Deficit	Total Shareholders' Equity/(Deficit)
December 31, 2017	12	18,333	694	(4,334)	14,693
Shares issued	12	409	—	—	409
Shares repurchased and cancelled	12	(685)	—	(914)	(1,599)
Dividends	12	—	—	(3,126)	(3,126)
Net income		—	—	4,239	4,239
December 31, 2018		**18,057**	**694**	**(4,135)**	**14,616**
Shares issued	12	**9,640**	**—**	**—**	**9,640**
Share issuance costs	12	**(30)**	**—**	**—**	**(30)**
Shares repurchased and cancelled	12	**(127)**	**—**	**(112)**	**(239)**
Dividends	12	**—**	**—**	**(2,564)**	**(2,564)**
Net loss		**—**	**—**	**(29,573)**	**(29,573)**
December 31, 2019		**27,540**	**694**	**(36,384)**	**(8,150)**

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years ended December 31,	
(Stated in thousands of Canadian dollars)	**Note**	**2019**	**2018**
Operating Activities			
Net income (loss) for the year		**(29,573)**	4,239
Adjustments for:			
Unrealized (gain) loss on commodity risk management	14	**8,263**	(8,898)
Unrealized gain (loss) on foreign currency translation		**95**	(172)
Gain on sale of assets		**(780)**	(1,013)
Financing costs	17	**7,657**	7,465
Lease inducement		**—**	(12)
Depletion, depreciation and amortization	8	**18,684**	17,143
Impairment	8	**4,000**	—
Decommissioning costs incurred	11	**(240)**	(3,235)
Deferred income tax expense (recovery)	18	**(415)**	1,592
Change in non-cash working capital	20	**8,519**	5,160
Net cash flows from operating activities		**16,210**	22,360
Financing Activities			
Proceeds from long term debt	9	**—**	16,211
Repayment of long term debt	9	**(1,024)**	(57)
Deferred financing costs	9	**—**	(190)
Repayment of lease obligation	10	**(1,203)**	(501)
Repayment of director loans	7	**(528)**	—
Interest expense	17	**(4,907)**	(4,579)
Share issuance costs	12	**(30)**	—
Shares repurchased and cancelled	12	**(239)**	(1,599)
Dividends	12	**(2,564)**	(3,126)
Change in non-cash working capital	20	**—**	—
Net cash flows from (used in) financing activities		**(10,495)**	6,159
Investing Activities			
Property acquisitions	7	**(256)**	(3,921)
Proceeds from resource property dispositions	8	**—**	953
Capital expenditures	8	**(12,355)**	(29,397)
Proceeds from government grants for assets	8	**6,105**	—
Restricted cash	5	**1,810**	(826)
Change in non-cash working capital	20	**(1,258)**	(748)
Net cash flows used in investing activities		**(5,954)**	(33,939)
Foreign currency translation		**(95)**	172
Change in cash and cash equivalents		**(334)**	(5,248)
Cash and cash equivalents, beginning of year		**2,239**	7,487
Cash and cash equivalents, end of year		**1,905**	2,239
Cash interest paid		**4,907**	4,579

See accompanying notes to the Consolidated Financial Statements.

(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 December 31, 2019, the Company has a working capital deficit of $19.5 million, of which only $1.9 million is comprised of cash and cash equivalents. Further, at December 31, 2019, the Company has contractual repayments of $37.2 million due in less than one year. In addition, the Company is projecting covenant violations with respect to the adjusted net debt-to-adjusted EBITDA cash flow ratio and the minimum working capital ratio on the Amended Term Loan Facility (see note 9) with Alberta Investment Management Corporation ("AIMCo") at the next annual compliance date of December 31, 2020, which in any regard matures and requires repayment of $45.0 million on January 31, 2021.

The Company anticipates funding the working capital deficit and contractual repayments with a combination of cash from operations and potential new debt financing, which will also be necessary to address the upcoming maturity of the AIMCo Amended Term Loan Facility. However, the operational challenges that impacted production and operating costs along with a volatile economic environment due to severe negative global commodity price pressures and COVID-19 implications continues to negatively impact current and forecasted operating cash flows. The Company is currently projecting to use cash flow in operations due to low commodity prices and the shut-in of production, 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 to bridge any working capital or contractual repayment shortfall or to replace the AIMCo Amended Term Credit Facility. The Company will also seek to obtain relief from the projected covenant violations, however in light of current economic conditions there is no certainty that relief will be obtained.

Due to the conditions noted above there remains a material uncertainty surrounding the Company's ability to generate adequate cash flow from operations or to obtain new financing to fund the working capital deficit, contractual payments and maturity of the AIMCo Amended Term Credit Facility. 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 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. These 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 these 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 consolidated financial statements are prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") effective as of December 31, 2019.

These consolidated financial statements include the accounts of Razor Energy Corp. and its wholly owned subsidiaries, Blade Energy Services Corp., FutEra Power Corp. and Razor Resources Corp. All inter-entity transactions have been eliminated.

Expenses in the statement of income are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation expenses are presented on separate lines by their nature, while operating, transportation and treating, blending and processing, and general and administrative expenses are presented on a functional basis.

The consolidated financial statements were authorized for issue by the Board of Directors, on April 29, 2020.

BASIS OF MEASUREMENT

These 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 consolidated financial statements are presented in Canadian dollars, which is the Company's and its wholly owned subsidiaries' functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods in these consolidated financial statements except as noted below and see note 10.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value as at the acquisition date. Acquisition costs are expensed in the period incurred.

JOINTLY OWNED ASSETS

Some of the Company’s oil and natural gas activities involve jointly owned assets. The financial statements include the Company’s share of these jointly owned assets and its proportionate share of the relevant revenue and related costs.

REVENUE RECOGNITION

Razor recognizes revenue from the following major products and services:

- Sale of crude oil, natural gas and natural gas liquids (“NGL”) produced and purchased; and
- Sale of blending and processing services.

Razor recognizes revenue upon the delivery of crude oil, natural gas, and NGL to the buyer and collection is reasonably assured. This is generally at the point in time when the buyer obtains legal title to the product, which is when it is physically transferred to the pipeline or other transportation method agreed upon. Revenues for blending and processing services are recognized over time as the service is provided, and are generally billed monthly. Royalty income is recognized monthly as it accrues in accordance with the terms of the royalty agreements. Crude oil, natural gas, and NGL produced and sold by the Company below or above its working interest share in the related resource properties results in production underlifts or overlifts. Underlifts are recorded as inventory and overlifts are recorded as a payable at fair value with a corresponding increase to operating expense.

EXPLORATION AND EVALUATION (E&E) ASSETS

Pre-license costs are recognized in the statement of income as incurred.

Exploration and evaluation costs, including the costs of acquiring leases and licenses, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to the related cash-generating unit ("CGUs").

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. At least once annually, a review of each exploration license or field is carried out to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) are recorded at cost less accumulated depletion, depreciation and amortization and any accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, costs attributable to bringing the asset into operation, and the initial estimate of decommissioning obligations. When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items.

Costs of developing and acquiring oil and gas properties are capitalized. These costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling and completion of wells, plant and production equipment costs, and related overhead charges.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method.

Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing major parts of property, plant and equipment are recognized as PP&E or other assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized property and equipment generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a well, field or geotechnical area basis, together with the discounted value of estimated future costs of decommissioning obligations. When components of an asset are replaced, disposed of, or no longer in use, the carrying amount is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion, depreciation and amortization
The depletion, depreciation and amortization of PP&E and other assets are recognized in profit or loss as incurred.

The net carrying value of PP&E is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves before royalties using estimated future prices and costs. Natural gas reserves and production are converted to barrels of oil equivalent based upon the relative energy content (6:1). Costs subject to depletion include estimated future development costs necessary to bring those reserves into production. These estimates are reviewed by independent reserve engineers at least once annually and determined in accordance with National Instrument 51-101 *Standards of Disclosure of Oil and Gas Activities*. Proved and probable reserves are estimated using independent reserve evaluator reports and represent the estimated quantities of oil, natural gas, and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. The specified degree of certainty must be a minimum 90% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and a minimum 50% statistical probability for proved and probable reserves to be considered commercially viable.

Other assets, except field equipment, are depreciated on a straight-line basis over their estimated useful lives estimated to be three years. Field equipment is depreciated using declining balance method at a rate of 20% per year. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The right-of-use asset ("ROU asset") is depreciated using the straight-line method from the initial application date to the earlier of the end of the useful life of the ROU 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.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

PP&E assets are tested for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less costs of disposal and its value in use.

ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

In assessing the fair value less costs of disposal, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. Fair value less costs of disposal is determined as the amount that would be obtained from the sale of an asset in an arm's length transaction between knowledgeable and willing parties.

A previously recognized impairment loss is reversed only if there has been a change in the estimates or assumptions used to determine the CGU's recoverable amount since the impairment loss was recognized. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depletion) had no impairment loss been recognized for the asset in prior periods. Such a reversal is recognized in net income, following which the depletion charge is adjusted in future periods to allocate the CGU's revised carrying amount on a systematic basis over its remaining useful life.

PROVISIONS

The Company recognizes provisions when:

(i) there is a current legal or constructive obligation as a result of a past event;
(ii) a probable outflow of economic benefits will be required to settle the obligation; and
(iii) a reliable estimate of the obligation can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in financing expense.

INVENTORY

Product inventory consists of the Company's unsold crude oil barrels, which is valued at the lower of cost, using the first-in, first-out method, and net realizable value. Cost includes operating expenses and depletion associated with the unsold crude oil barrels.

DECOMMISSIONING OBLIGATIONS

Decommissioning obligations are legal obligations connected with the abandonment and reclamation of the Company's oil and natural gas assets.

These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for decommissioning obligations are adjusted to take risks and uncertainties into account, are inflated and are discounted using a risk-free discount rate. Initially, the net present value of the estimated decommissioning obligations is recorded as a liability, with a corresponding increase in the carrying amount of the related asset.

Revaluations of the decommissioning obligations at each reporting period take into account changes in estimated future cash flows and the discount rate. Any change in the carrying amount of the provision due to change in the present value is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as financing costs.

Actual costs incurred upon the settlement of the decommissioning obligations are charged against the decommissioning obligations. Any difference between the estimated decommissioning obligations and the actual retirement costs incurred is recorded as a gain or loss. Management reviews the decommissioning obligation estimate and changes, if any, are applied prospectively. Revisions made to the decommissioning obligation estimate are recorded as an increase or decrease to the decommissioning obligation with a corresponding change made to the carrying amount of the related asset. The asset is depreciated over the remaining useful life of the underlying asset. The carrying amount of both the liability and the capitalized asset, net of accumulated depreciation, are derecognized if the asset is subsequently disposed.

FINANCIAL INSTRUMENTS

Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and long-term debt, which are classified at amortized cost. Non-derivative financial instruments are recognized initially at fair value, then at amortized cost using the effective interest method.

Transaction costs incurred in connection with the issuance of long-term debt instruments with a maturity of greater than one year are deducted against the carrying value of the debt and amortized to net income (loss) using the effective interest rate method over the expected life of the debt.

Derivative financial instruments

The Company also enters into financial derivative contracts from time to time in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company does not designate financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, the Company's policy is to classify all financial derivative contracts at fair value through profit or loss and to record them on the Statement of Financial Position at fair value. Attributable transaction costs are recognized in earnings when incurred. The estimated fair value of all derivative instruments is based on quoted market prices and/or third party market indications and forecasts.

The Company accounts for its forward physical delivery sales contracts, entered into and held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and will not be recorded at fair value on the Statement of Financial Position. Settlements on physical sales contracts are recognized in oil and natural gas revenue.

Impairment of financial instruments

The Company used an expected credit loss ("ECL") impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for financial assets (Stage 1) and the recognition of lifetime ECL on financial assets that have experienced a significant increase in credit risk since origination (Stage 2). IFRS 9 permits entities to apply a simplified approach to trade receivables, contract assets and lease receivables, where a lifetime ECL will be measured at initial recognition of the financial asset.

The Company recognizes loss allowances for ECL on its financial assets measured at amortized cost. The Company does not have any financial assets that contain a financing component. The Company has not designated any financial instruments as fair value through other comprehensive income ("FVOCI"), nor does the Company use hedge accounting.

INCOME TAXES

Income taxes is comprised of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in equity, in which case it is recognized in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized using the asset and liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to temporary differences between the amounts reported in the financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated into the functional currency using the exchange rate on the transaction date. Monetary assets and liabilities denominated in a foreign currency are adjusted to reflect the exchange rate at the balance sheet date. Foreign exchange gains or losses on translation of these monetary items are recognized in earnings.

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents include cash on hand, deposits held with financial institutions and other short-term highly liquid investments, with a maturity of 90 days or less. Restricted cash primarily consists of cash held in a restricted account and is considered not available for general use by the Company. When restricted cash is not expected to be available within 12 months, it is classified as a non-current asset.

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably. Neither contingent liabilities nor assets are recognized in the financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable. Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction to share capital, net of any tax effect.

DIVIDENDS

Dividends on common shares are recognized in the Company's financial statements in the period in which the dividends are declared by the Board of Directors. Shareholders' equity is reduced by the amount of the declared dividend.

SHARE-BASED COMPENSATION PLANS

The fair value of options granted to employees is recognized as compensation expense as at the date of grant, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

SHARE PURCHASE WARRANTS

The Company has issued share purchase warrants as part of a financing arrangement. The share purchase warrants are issued with an exercise price based on the Company's market share price at the date of issue. The share purchase warrants are classified as equity instruments. Consideration received on the sale of a share and share purchase warrant classified as equity is allocated, within equity, to the respective equity accounts on a reasonable basis. The amounts for the share purchase warrants are recognized in warrants. The fair value of these share purchase warrants is measured at issue date using the Black-Scholes pricing model taking into account the terms and conditions upon which the share purchase warrants were issued. Share purchase warrants classified as equity instruments are not subsequently re-measured for changes in fair value.

PER SHARE AMOUNTS

Basic income or loss per share is calculated by dividing the net income or loss by the weighted average number of common shares outstanding during the period. For the dilutive net income per share calculation, the weighted average number of shares outstanding is adjusted for the potential number of shares which may have a dilutive effect on net income.

Diluted income per share is calculated giving effect to the potential dilution that would occur if outstanding warrants, share options, restricted rights, performance share units, or deferred compensation awards were exercised or converted into common shares. The weighted average number of diluted shares is calculated in accordance with the treasury stock method for warrants, share options, restricted rights and performance share units. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

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 10.

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**

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

USE OF ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management's estimates and judgments are continually evaluated and are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results may differ from these estimates. Judgments and estimates are reviewed on a continual basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

SIGNIFICANT JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the significant judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

PROPERTY, PLANT AND EQUIPMENT (PP&E)

The Company makes judgments to assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depletion, depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depleted, depreciated and amortized.

CASH GENERATING UNIT (CGU)

CGUs are the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management's judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of fair value less costs to sell and value in use.

ASSESSMENT OF ASSET IMPAIRMENT

Judgments are required when the Company assesses CGUs for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable; for example, changes in assumptions relating to future prices, future costs, reserves and contingent resources.

SIGNIFICANT ESTIMATES

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements:

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment.

IMPAIRMENT OF ASSETS

Razor evaluates its PP&E for indicators of any potential impairment for any of its CGUs at each reporting period. If impairment indicators exist, the CGU is tested for impairment and a loss is recognized to the extent that the carrying amount of the CGU exceeds its estimated recoverable amount.

The estimated recoverable amount is determined using the fair value less costs of disposal model by discounting the future before-tax cash flows generated from proved plus probable reserve values. Key input estimates used in the determination of cash flows from oil and gas reserves include: quantities of reserves and future production; forward commodity pricing as prepared by the independent reserve engineer consultant, Sproule Associates Limited ("Sproule"); development costs; operating costs; royalty obligations; abandonment costs; and discount rates. The proved plus probable reserve values are based on Razor's Year End reserve report as prepared by Sproule.

The results of impairment tests are sensitive to changes in any of the key judgments, such as a revision in reserves or resources, a change in forecast commodity prices, expected royalties, required future development capital expenditures or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or reversal of impairment charges.

DEPLETION, DEPRECIATION AND AMORTIZATION (DD&A)

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least once annually.

Other assets, except field equipment, are depreciated on a straight-line basis over their estimated useful lives estimated to be three years. Field equipment is depreciated using declining balance method at a rate of 20% per year. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

RESERVES

Razor's estimates regarding oil and natural gas assets are based on estimates of oil and natural gas reserves.

The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs, and sustaining capital expenditures. All reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the Canadian Oil and Gas Evaluation Handbook consistent with the standards of National Instrument 51-101 *Standard of Disclosures for Oil and Gas Activities.* The calculation of future cash flows based on these reserves is dependent on a number of estimates including production volumes, facility performance, commodity prices, royalties, operating costs, sustaining capital and tax rates. The price used in the Company's assessment of future cash flows is based on the Company's independent evaluator's estimate of future prices and evaluated for reasonability by the Company against other available information. The Company believes these prices are reasonable estimates for a long-term outlook.

DECOMMISSIONING OBLIGATIONS

Decommissioning obligations are measured based on the estimated cost of abandonment and reclamation discounted to its net present value using an inflation-adjusted risk-free rate. Due to the long-term nature of current and future project developments, abandonment and reclamation costs will be incurred many years in the future. The provision for the cost of decommissioning wells, production 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. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

INCOME TAXES

Current tax is based on estimated taxable income and tax rates, which are determined pursuant to the tax laws that are enacted or substantively enacted as at the date of the statement of financial position.

Deferred tax is determined using the liability method. Under the liability method, deferred tax is calculated based on the differences between assets and liabilities reported for financial accounting purposes and those reported for income tax purposes. Deferred tax assets and liabilities are measured using substantively enacted tax rates. The impact of a change in tax rate is recognized in net income in the period in which the tax rate is substantively enacted. The Company recognizes in its financial statements the best estimate of the impact of a tax position by determining if the available evidence indicates whether it is more likely than not, based solely on technical merits, that the position will be sustained on audit. The Company estimates the amount to be recorded by weighting all possible outcomes by their associated probabilities.

Deferred tax assets and liabilities are offset only when a legally enforceable right of offset exists, and the deferred tax assets and liabilities arose in the same tax jurisdiction and relate to the same taxable entity. The determination of the income tax provision is an inherently complex process, requiring management to interpret continually changing regulations and make estimates as to their impact on the provision.

FINANCIAL INSTRUMENTS

The Company enters into derivative financial instruments in order to manage risks associated with fluctuations in commodity prices. As detailed in Note 14 of the consolidated financial statements, derivative instruments are recorded at fair value on the Statement of Financial Position. Gains or losses on financial instruments are recognized in net income. Fair values are determined based on third party market information and are subject to a degree of uncertainty. Estimates of fair value are subject to change with fluctuations in commodity prices. Settlement of derivative financial instruments may vary from fair value estimates, depending on the underlying market prices at the date of settlement.

SHARE PURCHASE WARRANTS

Share purchase warrants granted by the Company are valued at the fair value of the goods or services received unless the fair value cannot be reliably measured. Share purchase warrants are valued using the Black-Scholes pricing model. Estimates and assumptions for inputs to the model, including the expected volatility of the Company's shares and the expected life of the warrants granted, are subject to significant uncertainties and judgment.

LEASES

In the application of IFRS 16, the Company is required to make judgments, estimates and assumptions regarding the incremental borrowing rates and terms of leases. The key assumptions utilized by the Company include not renewing office leases and opting to buyout equipment at the end of the lease term. The carrying balance of the right-of use assets, lease liabilities and related interest and depreciation expense, may differ due to changes in lease terms and in market conditions.

5. RESTRICTED CASH

Restricted cash consisted of cash held in a restricted account as collateral under the terms of the commodity contracts and was considered not available for general use by the Company. As at December 31, 2019, the Company had no restricted cash (December 31, 2018 - $1.8 million).

6. 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 December 31, 2019, the Company held 9,251 barrels of oil in inventory valued at cost of $37.29 per barrel (December 31, 2018 - 35,267 barrels valued at cost of $34.18 per barrel). As at December 31, 2019, the Company recorded $0.3 million of costs to inventory (December 31, 2018 - $1.2 million). During 2019, $0.9 million of product inventory was recorded as an expense (2018 - $Nil).

7. ACQUISITIONS

Razor accounts for acquisitions 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 as at December 31, 2019 and 2018 are presented in the table below:

		Years ended December 31					
($000's)		2019			2018		
Acquisitions	**Acquisition Date**	**PP&E[3]**	**ARO[2]**	**Cash**	**PP&E[3]**	**ARO[2]**	**Cash**
Swan Hills[1]	31-Jan-17	—	—	—	(184)	—	(184)
Kaybob[1]	24-May-17	—	—	—	(764)	—	(764)
Kaybob South Triassic Unit 1 & 2 working interest[1]	15-Dec-17	—	—	—	(105)	—	(105)
Kaybob South Triassic Unit 1 & 2 working interest	15-Jan-18	—	—	—	5,840	(1,392)	4,448
Kaybob South Triassic Unit 1 working interest	15-Jun-18	—	—	—	802	(276)	526
District South (Little Rock) acquisition	11-Sep-19	**16,578**	**(2,515)**	—	—	—	—
Total net assets acquired		**16,578**	**(2,515)**	—	5,589	(1,668)	3,921

1) In 2018 final settlements were received with respect to acquisitions completed in 2017.
2) Established using a credit adjusted rate of 15%.
3) The fair value of property, plant and equipment has been determined with reference to a reserve report.

DISTRICT SOUTH 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. The transaction included 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)	9,640

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

Included in the statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2019 are the following amounts relating to the District South Acquisition from September 11, 2019:

($000's)	
Petroleum and natural gas revenue	3,452
Net income and comprehensive income	397

If the District South acquisition had been effective on January 1, 2019, the proforma results of the revenue and revenue, net of royalties and operating costs for the year ended December 31, 2019 would have been as follows:

	Year ended December 31, 2019		
($000's)	**As stated**	**District South Acquisition**	**Pro Forma**
Revenue	100,172	9,855	110,027
Revenue, net of royalties and operating costs[1]	20,496	2,004	22,500

1) Operating, transportation and treating, and blending and processing costs.

Asset Swap

On February 6, 2019, Razor completed a non-monetary 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.

SWAN HILLS ACQUISITION

On January 31, 2017, the Company completed the acquisition of certain producing oil and natural gas interests in the Swan Hills area of Alberta from a third party for cash consideration of $15.6 million, including customary closing and post-closing reconciliation adjustments.

KAYBOB AQUISITION

On May 24, 2017, the Company completed the acquisition of certain producing oil and natural gas interest in the Kaybob area of Alberta from a third party for cash consideration of $12.3 million, including customary closing and post-closing reconciliation adjustments. The acquired assets are situated within Razor's core region and complement Razor's existing operations.

Additional Working Interest Acquisition

On December 15, 2017, the Company completed the acquisition of certain non-operated working interest positions to consolidate its existing Kaybob Triassic Units 1 and 2 from a third party for cash consideration of $4.6 million, including customary closing and post-closing reconciliation adjustments. 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.

In 2018, Razor completed further acquisitions of non-operated working interest in Kaybob Triassic Units 1 and 2 for total cash consideration of $5.0 million, including customary closing and post-closing reconciliation adjustments. These acquisitions increased Razor's operated working interest position in Kaybob Triassic Unit 1 and 2 and were 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.

8. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

($000's)	**Total**
Balance at December 31, 2017	**120,936**
Property acquisitions	5,589
Capital expenditures	29,397
Leased assets	4,361
Change in decommissioning obligations	2,757
Balance at December 31, 2018	**163,040**
Property acquisitions	16,834
Capital expenditures	12,355
Right-of-use asset	1,734
Disposals and derecognition	(992)
Change in decommissioning obligations	37,036
Government grants	(6,105)
Balance at December 31, 2019	**223,902**
Accumulated depletion, depreciation, and amortization	
Balance at December 31, 2017	9,185
Depletion, depreciation and amortization for the year	17,142
Balance at December 31, 2018	26,327
Depletion, depreciation and amortization for the year[1]	18,684
Depletion on disposal of assets	(779)
Balance at December 31, 2019	**44,232**
Impairment	
Balance at December 31, 2018	—
Impairment expense	4,000
Balance at December 31, 2019	**4,000**
Net book value	
At December 31, 2017	111,751
At December 31, 2018	136,713
December 31, 2019	**175,670**

1) Includes depletion costs of inventory of $225 thousand.

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 10.

At December 31, 2019, Razor evaluated its developed and producing assets on a CGU (Swan Hills, Kaybob, and District South) basis for indicators of any potential impairment. The declines in the forecasted commodity prices utilized in 2019 reserve report, compared to the prior year, were identified as an indicator of impairment. As a result, the Company completed an impairment test on all of its CGU's in accordance with IAS 36. The Company used fair value less cost to sell, discounted at pre-tax rates between 12% and 30% (December 31, 2018 - 10% and 30%) dependent on the risk profile of the reserve category and CGU.

The following forward commodity prices were used in the December 31, 2019 impairment test:

Year	WTI Oil ($US/Bbl)	Edmonton Light Sweet Oil ($Cdn/Bbl)	Natural Gas AECO ($Cdn/MMBTU)	Exchange Rate ($US/$CDN)
Forecast				
2020	61.00	73.84	2.04	0.76
2021	65.00	78.51	2.27	0.77
2022	67.00	78.73	2.81	0.80
2023	68.34	80.30	2.89	0.80
2024	69.71	81.91	2.98	0.80
2025	71.10	83.54	3.06	0.80
2026	72.52	85.21	3.15	0.80
2027	73.97	86.92	3.24	0.80
2028	75.45	88.66	3.33	0.80
2029	76.96	90.43	3.42	0.80
		Thereafter 2% inflation rate		

At December 31, 2019, the recoverable value of Razor's Swan Hills and District South CGUs exceeded its carrying value and no impairment was recorded. At December 31, 2019, it was determined that the carrying value of the Kaybob CGU exceeded the recoverable amount and an impairment of $4.0 million was recognized.

At December 31, 2018, Razor identified indicators of impairment as a result of the decrease in crude oil prices. The Company completed impairment tests of all of its CGUs and determined the recoverable value of each CGU exceeded its carrying value and an impairment charge was not recorded.

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 December 31, 2019 total $5.1 million (December 31, 2018 - $0.8 million), offset by $4.0 million in government grants. As at December 31, 2019, future development costs required to develop proved plus probable reserves in the amount of $67.5 million are included in the depletion calculation for PP&E (December 31, 2018 - $60.6 million).

9. 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 Amended Term Loan Facility matures on January 31, 2021 and bears interest at the rate of 10% per annum, with interest 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. Razor has obtained exemptions to the first charge from AIMCo for certain field equipment for which Razor obtained loans or lease financing.

The proceeds of the Amended Term Loan Facility were used by Razor to fund asset acquisitions, its development program and for general corporate purposes. Including share based consideration, 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. The Promissory Note-1 is secured by the power generator purchased and is due on September 12, 2022. The 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. The Promissory Note-2 is due on December 13, 2022. The 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)	**2019**	**2018**
Balance, beginning of year	**43,832**	27,161
Proceeds of Amended Term Loan Facility	**—**	15,000
Proceeds from Promissory Notes	**—**	1,211
Repayment of Promissory Notes	**(280)**	(57)
Repayment of Convertible Debentures	**(744)**	—
Deferred financing costs	**—**	(598)
Amortization of deferred financing costs	**1,115**	1,115
Convertible debentures acquired[1]	**744**	—
Balance, end of year	**44,667**	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 was obligated to offer the purchase or convert into common shares of Razor all the convertible debentures outstanding. The convertible debenture holders all elected to have Razor purchase at the redemption offer of 108% of the principal amount.

As at December 31, 2019, Razor had the following outstanding long-term debt:

			December 31,	
($000's)	Stated Interest Rate	Maturity	**2019**	**2018**
Amended Term Loan Facility	10%	Jan-2021	**45,000**	45,000
Promissory Note-1	6.1%	Sep-2022	**727**	964
Promissory Note-2	6.5%	Dec-2022	**147**	190
Deferred financing costs			**(1,207)**	(2,322)
Long-term debt			**44,667**	43,832
Current portion			**297**	279
Long-term portion			**44,370**	43,553
Long-term debt			**44,667**	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 December 31, 2019, deferred financing costs are comprised of legal fees encountered in 2018 of $0.3 million (December 31, 2018 - $0.3 million) and the fair value of the shares issued to AIMCo of $3.9 million (December 31, 2018 - $3.9 million) (see note 12).

On November 20, 2019, 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 December 31, 2019, Razor was in compliance with all of its 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.

10. LEASE OBLIGATION

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.

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 6.5% 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.

During 2019, total payments for short-term, low-valued and variable leases not listed under ROU assets were $0.5 million.

The changes in lease obligations are as follows:

($000's)	2019	2018
Balance, beginning of year	**3,860**	—
Acquisition	**228**	—
Liabilities incurred	**1,859**	4,361
Liabilities settled	**(1,516)**	(628)
Interest expense	**313**	127
Balance, end of year	**4,744**	3,860
Current portion	**1,679**	1,017
Long-term portion	**3,065**	2,843
Lease obligation	**4,744**	3,860

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $5.3 million. Razor's minimum lease payments are as follows:

	As at December 31,	
($000's)	2019	2018
Within one year	**1,943**	1,254
Later than one year but not later than two years	**1,900**	2,509
Later than two years	**1,486**	523
Minimum lease payments	**5,329**	4,286
Amount representing finance charge	**(585)**	(426)
Present value of net minimum lease payments	**4,744**	3,860

11. 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)	**2019**	**2018**
Balance, beginning of year	**79,190**	76,290
Additions	**—**	394
Acquisitions	**5,259**	1,668
Decommissioning costs incurred	**(240)**	(3,235)
Effect of change in discount rate [1]	**32,711**	5,566
Dispositions	**(3,732)**	(60)
Revisions to estimates	**4,325**	(3,204)
Accretion expense	**1,635**	1,771
Balance at December 31	**119,148**	79,190
Current portion	**2,237**	2,880
Long-term portion	**116,911**	76,310
	119,148	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 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. 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:

	December 31,	
	2019	**2018**
Undiscounted cash flows ($000's)	**126,909**	90,702
Discount rate (%)	**1.76**	2.18
Inflation rate (%)	**1.50**	1.50
Weighted average expected timing of cash flows (years)	**25**	21

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 December 31, 2019 is shown below.

	December 31, 2019		December 31, 2018	
Common Shares	**Number**	**($000's)**	**Number**	**($000's)**
Shares outstanding, beginning of year	**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	**5,982,032**	**9,640**	—	—
Share issuance costs	**—**	**(30)**	—	—
Shares repurchased and cancelled	**(106,400)**	**(127)**	(578,700)	(685)
Shares outstanding, end of year	**21,064,466**	**27,540**	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.

On September 11, 2019, Razor completed the strategic acquisition, 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. Razor acquired the balance of the 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 valued at $1.61 per share.

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. 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. Under this NCIB, 11,000 common shares were repurchased in open market transactions on the TSXV at a weighted average cost of $0.93 at December 31, 2019. 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 2019, the Company repurchased and canceled 106,400 common shares (2018 - 578,700 common shares) for $0.2 million (2018 - $1.6 million) at an average price of $2.24 per share (2018 - $2.76 per share). The purchases resulted in a decrease to share capital of $127 thousand (2018 - $0.7 million) and an increase to deficit of $112 thousand (2018 - $0.9 million).

DIVIDENDS

Dividends declared for the year ended December 31, 2019 were $0.15 per share (2018-$0.20). In total the Company paid $2.6 million in dividends in 2019 (2018- $3.1 million).

Subsequent to year end, on January 9, 2020, Razor announced a monthly cash dividend of $0.0125 per share, for a total of $263 thousand in dividends. On February 5, 2020, the Company suspended the payment of dividends effective February 2020 in response to significant price volatility for crude products in the Canadian energy sector.

13. 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 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.

14. 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 judgment.

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 December 31, 2019 are as follows:

($000's)	Recognized in Financial Statements	Carrying Value	Fair Value
Cash and cash equivalents	Asset	1,905	1,905
Accounts receivable	Asset	9,642	9,642
Accounts payable and accrued liabilities	Liability	28,749	28,749
Lease obligation	Liability	4,744	4,744
Commodity contracts	Liability	2	2
Promissory note	Liability	874	928
Amended Term Loan Facility	Liability	43,793	42,815

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. 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.

As at December 31, 2019, the Company had a working capital deficit of $19.5 million, of which only $1.9 million is comprised of cash and cash equivalents, and contractual repayments of $37.2 million due in less than one year. In addition, the Company's Amended Term Loan Facility of $45.0 million with AIMCo is due January 31, 2021. See note 2.

The Company anticipates funding the working capital deficit and contractual repayments with a combination of cash from operations and potential new debt financing, which will also be necessary to address the upcoming maturity of the Amended Term Loan Facility. However, the operational challenges that impacted production and operating costs along with a volatile economic environment due to severe negative global commodity price pressures and COVID-19 implications continues to negatively impact current and forecasted operating cash flows. The Company is currently projecting to use cash flow in operations while commodity prices are low and certain production is shut-in, 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 to bridge any working capital or contractual repayment shortfall or to replace the Amended Term Credit Facility. Razor also may reduce the working capital deficit through either corporate acquisitions or amalgamations, however, no assurance can be provided that the Company will be able to close such a transaction at favourable terms.

Razor obtained an amendment to the financial covenants for the Amended Term Loan Facility for the December 31, 2019 compliance date and was in compliance with the amended financial covenants at December 31, 2019. The Company is projecting financial covenant violations with respect to both the adjusted net debt-to-adjusted cash flow ratio and the minimum working capital ratio on the Amended Term Loan Facility at the next annual compliance date of December 31, 2020. Accordingly, the Company is dependent on the ongoing support of AIMCo through to its contractual maturity of January 2021.

The table below summarizes the Company's contractual obligations as at December 31, 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	**28,749**	28,749	—	—	—
Amended Term Loan Facility	Yes-Liability	**45,000**	—	45,000	—	—
Promissory notes	Yes-Liability	**874**	297	577	—	—
Minimum lease obligation	Yes-Liability	**5,329**	1,943	3,031	355	—
Interest payable [2 3]	No	**6,733**	5,660	1,073	—	—
Lease operating costs	No	**497**	199	298	—	—
Transportation services	No	**1,406**	297	193	186	730
Processing services	No	**65**	65	—	—	—
Total		**88,653**	**37,210**	**50,172**	**541**	**730**

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.

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.

The following table demonstrates the impact of changes in commodity pricing on loss before taxes, based on the derivative contracts in place at December 31, 2019:

(USD $000's)	Gain/(Loss)
$10 increase in USD WTI/bbl	(2)
$10 decrease in USD WTI/bbl	182

As at December 31, 2019, Razor had the following derivative contracts outstanding:

Reference point	Volume (bblspd)	Remaining Term	Price USD/bbl	Fair Value (CAD 000's)
Oil - Long Put				
NYMEX WTI financial futures	45,000	Jan-2020	45.00	—
NYMEX WTI financial futures	25,000	Feb-2020	45.00	2

As at December 31, 2019, the Company fair valued the oil and gas commodity contracts recording an asset of $2 thousand (2018 - $8.3 million asset) on the Statement of Financial Position and recorded an unrealized loss of $8.3 million (2018 - $8.9 million unrealized gain) in earnings for the year ended December 31, 2019.

Subsequent to December 31, 2019, the Company has sold and purchased certain commodity contracts and has the following derivative contracts outstanding as at April 28, 2020:

Reference point	Volume (bblspd)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl
Oil - Upside enhanced traditional collars [1]					
NYMEX WTI financial futures	50,000	May-2020	20.00	30.00	40.00
NYMEX WTI financial futures	50,000	June-2020	20.00	30.00	40.00

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.

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 trade and other receivables of $9.6 million at December 31, 2019 (2018 - $6.1 million) are non-interest bearing and have not been impaired. The Company's receivables are summarized as follows:

	December 31,	
($000's)	**2019**	**2018**
Trade receivables	**8,032**	4,032
Joint interest billings	**1,852**	2,077
Allowance for doubtful accounts	**(242)**	(40)
Accounts receivable	**9,642**	6,069

The majority of the credit exposure on trade receivables as at December 31, 2019, pertains to revenue for accrued December 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.

For the year ended December 31, 2019, the Company recognized a bad debt of $1.1 million (2018 - nil) related to joint venture activities where the operator has passed on the bad debt of one partner to the remaining partners on a proportionate share of each remaining partner's working interest. The Company's accounts receivable is aged as follows:

	December 31,	
($000's)	**2019**	**2018**
Current (less than 30 days)	**8,966**	4,348
31 to 90 days	**289**	701
Over 90 days	**387**	1,020
Total receivables	**9,642**	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 Note. Consequently, there is no exposure to fluctuations in market interest rates.

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 Promissory Notes mature on September 12, 2022 and December 13, 2022, and interest is paid monthly at 6.1% and 6.5% per annum along with the principal.

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.

At December 31, 2019, the Company had commodity contracts valued at $2 thousand and no restricted cash. The Company estimates that a 10% increase or decrease of the Canadian dollar against the U.S. dollar would not result in a material impact on net income (loss).

15. 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 14.

Razor inherited decommissioning liabilities included in its Swan Hills, Kaybob and District South acquisitions. In Q4 2019, the Company spent $0.3 million on abandonment, reclamation, and remediation expenditures (Q4 2018 - $1.1 million).

The Company voluntarily opted in to the Alberta Energy Regulator's (AER) Area Based Closure (ABC) program starting in 2020. As such Razor has committed to an annual spend target dedicated to asset retirement which includes decommissioning, abandonment and reclamation of inactive wells and facilities. Through this commitment, low-risk wells included in the Inactive Well Compliance Program (IWCP) are now exempt from requiring suspension allowing for greater focus on end of life activities.

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 more likely without merit than not. 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.

16. REVENUES

The significant components recognized in revenues are as follows:

	Years ended December 31,	
($000's)	**2019**	**2018**
Light Oil	**69,642**	78,241
Gas	**2,438**	2,481
NGL	**8,723**	13,660
Sales of commodities purchased from third parties	**8,551**	15,639
Blending and processing	**8,842**	10,472
Road use	**763**	873
Interest	**70**	139
Other income [1]	**1,143**	1,394
	100,172	122,899

1) Primarily comprised of sales of surplus materials and road use income.

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.

17. 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.

	Years ended December 31,	
($000's)	**2019**	**2018**
Interest expense	**4,907**	4,579
Amortization of deferred financing costs (Note 9)	**1,115**	1,115
Accretion (Note 11)	**1,635**	1,771
	7,657	7,465

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

18. INCOME TAX

The statutory tax rate was 26.5 percent in 2019 and 27.0 percent in 2018. The Alberta corporate income tax rate decreased to 11% from 12% effective July 1, 2019. The Alberta corporate tax rate will further decrease to 10% effective January 1, 2020, 9% effective January 1, 2021 and 8% effective January 1, 2022.

The provision for income taxes is as follows:

	Years ended December 31,	
($000's)	**2019**	**2018**
Income (loss) before income taxes	**(29,988)**	5,831
Combined statutory tax rate	**26.5%**	27%
Expected income tax at statutory tax rate	**(7,947)**	1,574
Non-deductible expenses	**34**	(36)
Change in enacted tax rate	**1,092**	—
Change in unrecognized deferred tax asset	**6,388**	—
Other	**18**	54
Income tax expense (recovery)	**(415)**	1,592

The following table provides details of the deferred tax assets and liabilities:

	December 31,	
($000's)	**2019**	**2018**
Property, plant and equipment	**(27,190)**	(21,567)
Decommissioning obligations	**27,190**	21,381
Commodity contracts	**—**	(2,232)
Financing charges	**—**	404
Non-capital losses	**—**	2,334
	—	320

The Company did not recognize a deferred tax asset in respect of the following temporary differences:

	December 31,	
($000's)	**2019**	**2018**
Decommissioning obligations	**931**	—
Leases	**683**	—
Financing charges	**1,084**	—
Non-capital losses	**25,078**	—
	27,776	—

The following table provides details of the movement in the deferred tax asset or liability during the year ended December 31, 2019 :

($000's)	**December 31, 2018**	Profit/Loss	Corporate Acquisition	**December 31, 2019**
Property, plant and equipment	(21,567)	(3,511)	(2,112)	**(27,190)**
Decommissioning obligations	21,381	5,230	578	**27,190**
Commodity contracts	(2,232)	2,232	—	**—**
Leases	—	—	—	**—**
Financing charges	404	(404)	—	**—**
Non-capital losses	2,334	(3,132)	799	**—**
	320	415	(735)	**—**

The estimated tax pools are as follows:

	December 31,	
($000's)	**2019**	**2018**
Canadian oil and gas property expenses	**23,682**	23,478
Canadian development expenses	**26,042**	27,317
Canadian exploration expenses	**228**	—
Undepreciated capital cost	**7,500**	6,042
Non-capital losses[1]	**25,077**	8,639
Other	**2,293**	3,819
Estimated tax pools	**84,822**	69,295

1) The non-capital losses will expire between 2036 and 2039.

19. INCOME (LOSS) PER SHARE

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 the years December 31, 2019 and 2018, there is no dilution in the per share amounts.

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

	Years ended December 31,	
	2019	**2018**
Weighted average shares outstanding (basic and diluted)	**16,926,491**	15,622,374
Net income (loss) for the period ($000's)	**(29,573)**	4,239
Net income (loss) per share (basic and diluted)	**$ (1.75)**	$ 0.27

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years ended December 31,	
($000's)	**2019**	**2018**
Accounts receivable	**(2,063)**	3,457
Prepaid expenses and deposits	**(23)**	836
Inventory	**860**	(1,205)
Accounts payable and accrued liabilities	**8,487**	1,324
	7,261	4,412

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

	Years ended December 31,	
($000's)	**2019**	**2018**
Operating	**8,519**	5,160
Financing	**—**	—
Investing	**(1,258)**	(748)
	7,261	4,412

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

	As at December 31,	
($000's)	**2019**	**2018**
Cash	**1,636**	1,948
Short-term investments	**269**	291
	1,905	2,239

21. RELATED PARTY TRANSACTIONS

KEY MANAGEMENT COMPENSATION

In 2019, key management personnel include executive management and the Board of Directors. The compensation of key management personnel is as follows:

	Years ended December 31,	
($000's)	**2019**	**2018**
Salary and employee benefits	**1,911**	2,507

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)

CORPORATE OFFICE

Razor Energy Corp.
800, 500-5th Ave SW
Calgary, Alberta, Canada T2P 3L5
Website: www.razor-energy.com

TRANSFER AGENT

Alliance Trust Company
1010, 407-2 Ave SW
Calgary, Alberta T2P 2Y3
403-237-6111

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.V
TSX Venture Exchange

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