RAZOR ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020 and December 31, 2019
- the consolidated statements of income (loss) and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders’ equity (deficiency) 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, 2020 and December 31, 2019, 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 $72.3 million and contractual repayments of $79.5 million due in less than one year as at December 31, 2020. The Company is also not in compliance with the financial and non-financial covenants in the Amended Term Loan Facility at December 31, 2020 and therefore has an event of default at December 31, 2020. In addition to the covenant violations the Company also has cross default provisions in certain equipment loans and leases, which are in default as a result of the Amended Term Loan Facility default, and as a result has classified these loans and leases as potentially due on demand current liabilities at December 31, 2020.

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 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 14, 2021

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)	Note	December 31, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**1,098**	1,905
Accounts receivable	14	**6,464**	9,642
Prepaid expenses and deposits		**1,547**	1,594
Inventory	6	**345**	345
Commodity contracts	14	**-**	2
		9,454	13,488
Property, plant and equipment	8	**154,255**	175,670
TOTAL ASSETS		**163,709**	**189,158**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	14	**24,970**	28,749
Decommissioning obligations	11	**3,097**	2,237
Current portion of lease obligation	10	**2,905**	1,679
Current portion of long-term debt	9	**50,765**	297
		81,737	32,962
Non-Current			
Long-term debt	9	**113**	44,370
Long-term lease obligation	10	**389**	3,065
Decommissioning obligations	11	**136,080**	116,911
TOTAL LIABILITIES		**218,319**	197,308
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	13	**27,540**	27,540
Contributed surplus	13	**694**	694
Deficit		**(82,844)**	(36,384)
		(54,610)	(8,150)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**163,709**	189,158
Future Operations	2		
Commitments and Contingencies	15		
Subsequent Events	23		

See accompanying notes to the Consolidated Financial Statements.

(signed) "Sonny Mottahed"

SONNY MOTTAHED, DIRECTOR

(signed) "Sean Phelan"

SEAN PHELAN, DIRECTOR

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Stated in thousands of Canadian dollars, except per share amounts)	Note	Years Ended December 31, **2020**	2019
REVENUES			
Commodity sales from production		**45,854**	80,803
Sales of commodities purchased from third parties		**-**	8,551
Blending and processing revenue		**5,416**	8,842
Other revenue		**1,677**	1,869
Total revenues	16	**52,947**	100,065
Royalties		**(4,413)**	(14,183)
Net revenues		**48,534**	85,882
Other income	21	**4,972**	107
Realized loss on commodity contracts settlement		**(1,441)**	(2,619)
Unrealized loss on commodity risk management	14	**(2)**	(8,263)
		52,063	75,107
EXPENSES			
Operating		**38,452**	51,747
Transportation and treating		**2,990**	3,609
Commodities purchased from third parties		**-**	8,564
Blending and processing		**1,410**	3,402
General and administrative		**4,507**	6,327
Bad debt		**(26)**	1,352
Acquisition costs		**335**	213
Financing	17	**9,260**	7,657
Depletion, depreciation and amortization	8	**16,904**	18,909
Impairment on property, plant and equipment	8	**24,740**	4,000
Foreign exchange loss		**22**	95
Gain on non-monetary transactions	7	**(334)**	(780)
		98,260	105,095
Loss before income tax		**(46,197)**	(29,988)
Deferred income tax (recovery)		**-**	(415)
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**(46,197)**	(29,573)
NET LOSS PER SHARE			
Basic and diluted	19	**(2.19)**	(1.75)

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICENCY)

Stated in thousands of Canadian dollars)	Note	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficiency)
December 31, 2018		18,057	694	(4,135)	14,616
Shares issued	13	9,640	-	-	9,640
Share issuance costs	13	(30)	-	-	(30)
Shares repurchased and cancelled	13	(127)	-	(112)	(239)
Dividends	13	-	-	(2,564)	(2,564)
Net loss		-	-	(29,573)	(29,573)
December 31, 2019		**27,540**	**694**	**(36,384)**	**(8,150)**
Dividends	13	-	-	(263)	(263)
Net loss		-	-	(46,197)	(46,197)
December 31, 2020		**27,540**	**694**	**(82,844)**	**(54,610)**

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in thousands of Canadian dollars)	Note	Years Ended December 31, 2020	2019
Operating Activities			
Net loss for the year		**(46,197)**	(29,573)
Adjustments for non-cash items:			
Unrealized loss on commodity risk management	14	**2**	8,263
Loss on foreign currency translation		**22**	95
Gain on acquisition	7	**(334)**	(780)
Other income	11	**(198)**	-
Financing costs	17	**9,260**	7,657
Depletion, depreciation and amortization	8	**16,843**	18,684
Impairment	8	**24,740**	4,000
Decommissioning obligations settled	11	**(340)**	(240)
Deferred income tax expense (recovery)		**-**	(415)
Changes in non-cash working capital	20	**395**	8,519
Net cash flows from operating activities		**4,193**	16,210
Financing Activities			
Repayment of long-term debt	9	**(325)**	(1,024)
Payment of lease obligation	10	**(1,646)**	(1,203)
Repayment of director loans		**-**	(528)
Interest expense	17	**(1,470)**	(4,907)
Share issuance costs		**-**	(30)
Shares purchased and cancelled		**-**	(239)
Dividends	13	**(263)**	(2,564)
Net cash flows used in financing activities		**(3,704)**	(10,495)
Investing Activities			
Property acquisitions	8	**-**	(256)
Capital expenditures	8	**(1,445)**	(12,355)
Proceeds from government grants for assets	8	**1,121**	6,105
Restricted cash		**-**	1,810
Changes in non-cash working capital	20	**(948)**	(1,258)
Net cash flows used in investing activities		**(1,272)**	(5,954)
Foreign currency translation		**(24)**	(95)
Change in cash and cash equivalents		**(807)**	(334)
Cash and cash equivalents, beginning of year		**1,905**	2,239
Cash and cash equivalents, end of year		**1,098**	1,905
Cash interest paid		**1,466**	4,907

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, 2020, the Company has a working capital deficit of $72.3 million, of which only $1.1 million is comprised of cash and cash equivalents. Further, at December 31, 2020, the Company has contractual repayments of $79.5 million due in less than one year. The Company is also not in compliance with respect to the adjusted net-debt-to-adjusted cash flow ratio, the minimum working capital ratio and with one of its non-financial covenants in the AIMCo Term Loan Facility at December 31, 2020 and therefore has an event of default at December 31, 2020. As a result, Alberta Investment Management Corporation ("AIMCo") has the right to demand repayment of the Amended Term Loan Facility at any time (note 9). The Company also has cross default provisions in certain equipment loans and leases, which are in default as a result of the AIMCo default, and as a result has classified these loans and leases as potentially due on demand current liabilities at December 31 2020 (notes 9 and 10).

Subsequent to December 31, 2020, the Company renewed the Amended Term Facility with AIMCo (the "AIMCo Term Loan"). There were no additional proceeds received from the AIMCo Term Loan only and extension of the maturity date to January 31, 2024. In addition, the Company entered into a new term loan with Arena Investors, LP ("the Arena Term Loan") to provide additional liquidity of US$11.0 million (CAD$14.0 million) which can only be utilized for specific purposes and requires monthly repayments commencing April 1, 2021. See note 23.

Although, the extension of the AIMCo Term Loan resulted in a reduction to the working capital deficit by virtue of the AIMCo Term Loan being reclassified to long-term, there remains a considerable working capital deficiency largely comprised of accounts payable. The Company anticipates funding the remaining working capital deficit and contractual repayments with a combination of cash from operations, other new debt or equity financings. The operational and commodity price challenges that impacted revenue, production and operating costs in 2020, are anticipated to be somewhat mitigated in 2021 as the Company utilizes funds from the Arena Loan to reactivate wells in order to increase production, which is not without risk. While forecasted prices and operating cashflows are expected to improve in 2021, 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. Further, no assurance can be provided, that the service providers and other lenders and lessors will not demand repayment of the accounts payable and other loans and leases prior to maturity, or that waivers can be obtained with respect to the other loans and leases.

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

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for the 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, 2020.

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 loss 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 14, 2021.

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 subsidiary's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods in these consolidated financial statements.

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, 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 (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 will result 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. During the year ended December 31, 2020, Razor received government grants through the Canada Emergency Wage Subsidy ("CEWS") of $1.5 million (2019 – nil). These grants were recognized as a reduction to general and administrative expense of $0.9 million (2019 – nil) and a reduction of operating expenses of $0.6 million (2019 - nil).

To date, Razor has received $5.9 million in government grants to support its South Swan Hills co-produced geothermal power generation project.

The Company also participates in the Alberta Site Rehabilitation Program ("SRP") which began in 2020 and has received approval for Government funding to assist with abandonment and reclamation activities. The Company does not record any of the grant income until the completion of the individual projects. During the year ended December 31, 2020, Razor recorded a reduction in the decommissioning obligation liability of $198 thousand with the offset being recorded as other income in the statement of loss and comprehensive loss.

LEASES

When Razor is party to a lease arrangement as the lessee, it recognizes a right-of-use asset ("ROU asset") and a corresponding lease obligation on the balance sheet on the date that a leased asset becomes available for use. Interest associated with the lease obligation is recognized over the lease period with a corresponding increase to the underlying lease obligation. ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on ROU assets is recognized in depletion and depreciation. ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments which may include: fixed lease payments, variable lease payments based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if Razor is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is composed of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

In cases where the leased asset is used in the Company's jointly controlled operations, Razor as the operator, is the obligor to the lessor and presents the full amount of the lease obligation and ROU asset at the commencement date of the lease. Certain payments relating to the Company's lease obligation may be recovered over time in accordance with billings for each partner's proportionate interest in the joint operation and are recognized in other income.

Short-term leases and leases of low-value assets are not recognized on the statement of financial position and lease payments are instead recognized in the financial statements as incurred. For certain classes of leases, Razor does not separate lease and non-lease components, accounting for these leases as a single lease component.

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 or reversal whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable or part impairments may be reversed; 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 GCU 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; 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.

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. COVID-19 ESTIMATION UNCERTAINTY

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The pandemic and subsequent measures intended to limit its spread, contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly reducing worldwide demand for certain commodities, including crude oil, natural gas and natural gas liquids ("NGL"). In general, the oil and gas industry reacted with reductions to capital and other spending, as well as production shut-ins, to try to manage through this price environment.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on financial markets on a macro-scale and any new information that may emerge concerning the effectiveness of available vaccines and the severity and spread of the virus. The pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

The Company's financial performance, operations and business are particularly sensitive to a reduction in the demand for and prices of commodities, including crude oil, natural gas and NGL which are closely linked to Razor's financial performance. The potential direct and indirect impact of the economic downturn related to COVID-19 have been considered in management's estimates and assumptions at period end and have been reflected in the Company's results with any significant changes described in the relevant financial statement note.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for the Company's business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Company's financial statements in fiscal 2021 and beyond.

A full list of the key sources of estimation uncertainty can be found in note 4 of these financial statements. The pandemic and current market conditions have increased the complexity of estimates and assumptions used to prepare the financial statements, particularly related to the following key sources of estimation uncertainty:

Recoverable Amounts

Determining the recoverable amount of a cash-generating unit ("CGU”) or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially with respect to estimating economic crude oil and natural gas reserves and forward commodity prices.

Amended Term Loan Facility

The Company’s Amended Term Loan Facility of $50.1 million is due on January 31, 2021. As at June 30, 2020, a Second Amending Agreement was signed to allow the Company to defer payment of interest due at June 30, 2020 by adding the deferred amount to the principal of the Term Loan Facility. At December 29, 2020, the Company signed an additional deferral letter to defer payment of interest due at December 31, 2020 by adding the deferred amount to the principal of the Term Loan Facility. At December 31, 2020, the Company is also not in compliance with respect to the adjusted net-debt-to-adjusted cash flow ratio, the minimum working capital ratio and with one of its non-financial covenants in the Amended Term Loan Facility and therefore has an event of default at December 31, 2020. As a result, AIMCo has the right to demand repayment of the Amended Term Loan Facility at any time (note 9). The Company also has cross default provisions in certain equipment loans and leases, which are in default as a result of the AIMCo default, and as a result has classified these loans and leases as potentially due on demand current liabilities at December 31 (notes 9 and 10).

Subsequent to year end, on February 16, 2021, Razor secured an extension for an amended principal amount of $50.1 million. The terms of the AIMCo Term Loan are materially unchanged from the previous Amended Term Loan Facility established in January 2017. Concurrent with signing the AIMCo Term Loan, a subsidiary of Razor entered into the Arena Term for the principal amount of US$11,042,617 (CAD$13,978,849) (the “Arena Term Loan”) (refer to Subsequent Event note 23 for full details).

Accounts Receivable

The Company has increased its monitoring of receivables due from petroleum and natural gas marketers, joint asset partners and third-party users of the Company’s facilities and roads. The Company historically has not experienced any significant collection issues with petroleum and natural gas marketers as a significant portion of these receivables are with creditworthy purchasers. To protect against credit losses from joint asset partners, the Company has the ability to withhold production or to offset outstanding partner invoices in the event of non-payment and also the ability to obtain the partners’ share of capital expenditures in advance of a project. The Company has the ability to restrict third parties from access to its facilities and roads in the event of non-payment. The Company continues to expect that its receivables are substantially collectible at December 31, 2020.

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. Costs include operating expenses and depletion associated with the unsold crude oil barrels on a CGU basis.

As at December 31, 2020, the Company held 8,203 barrels of oil (December 31, 2019 - 9,251 barrels) in inventory. The inventory at December 31, 2020 was valued at an average cost of $42.01 per barrel (December 31, 2019 - $37.29 per barrel) for a total value of $345 thousand (December 31, 2019 - $345 thousand). Included in this amount is $103 thousand of depletion expense for the year ended December 31, 2020 (December 31, 2019 - $92 thousand)

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, 2020 and 2019 are presented in the disclosure below:

SWAN HILLS WORKING INTEREST INCREASE

On December 17, 2020, Razor received notice that a non-operated partner disclaimed their interest in certain properties in the Swan Hills area where Razor has a non-operated working interest. The operator of the properties has re-allocated the disclaimed interest to the remaining parties' proportionate to their working interests for no additional consideration. The transaction has been recorded as a non-monetary transaction based on the fair values indicated below which resulted in a gain on acquisition of $0.3 million.

Fair value of net assets acquired	*(S000's)*
Property, plant and equipment [1]	3,000
Decommissioning obligations	(2,666)
Gain on acquisition	334

1) 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.

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.

8. PROPERTY, PLANT AND EQUIPMENT

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

($000's)	**Total**
Cost	
December 31, 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)
December 31, 2019	**223,902**
Capital expenditures	1,445
Right-of-use asset	196
Assets acquired through vendor loan – non-cash	184
Non-monetary acquisition	3,000
Government grants	(1,121)
Change in decommissioning obligations	16,463
December 31, 2020	**244,069**
Accumulated depletion, depreciation and amortization	
December 31, 2018	**26,326**
Depletion, depreciation and amortization	18,684
Depletion on disposal of assets	(779)
December 31, 2019	**44,231**
Depletion, depreciation and amortization	16,843
December 31, 2020	**61,074**
Impairment	
December 31, 2018	-
Impairment expense	4,000
December 31, 2019	4,000
Impairment expense	24,740
December 31, 2020	**28,740**
Net book value	
December 31, 2019	**175,670**
December 31, 2020	**154,255**

At December 31, 2020, Razor evaluated its PP&E for indicators of impairment or reversal of previously recognized impairment and determined that no such indicators were present compared to its last impairment test at March 31, 2020.

At March 31, 2020, Razor evaluated its developed and producing assets on a CGU (Swan Hills, Kaybob, and Southern Alberta) basis for indicators of any potential impairment. The declines in the forecasted commodity prices 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 15% and 30% dependent on the risk profile of the reserve category and CGU. The following forward commodity prices were used in the March 31, 2020 impairment test:

Year	WTI Oil ($US/Bbl)	Edmonton Light Sweet Oil ($Cdn/Bbl)	WCS ($Cdn/Bbl)	Natural Gas AECO ($Cdn/MMBTU)	Exchange Rate ($US/$CDN)
Forecast					
2020	30.29	31.22	18.17	1.58	0.71
2021	37.00	43.15	30.14	2.05	0.73
2022	48.00	58.67	45.33	2.33	0.75
2023	48.96	59.84	46.24	2.41	0.75
2024	49.94	61.04	47.16	2.48	0.75
2025	50.94	62.26	48.11	2.56	0.75
2026	51.96	63.50	49.07	2.64	0.75
2027	53.00	64.77	50.05	2.71	0.75
2028	54.06	66.07	51.05	2.80	0.75
2029	55.14	67.39	52.07	2.88	0.75
2030	56.24	68.74	53.12	2.96	0.75
Thereafter 2% inflation rate					

At March 31, 2020, the recoverable value of Razor's Swan Hills CGU exceeded its carrying value and no impairment was recorded. At March 31, 2020, it was determined that the carrying value of the Kaybob and Southern Alberta CGUs exceeded their recoverable amounts and impairment charges of $16.03 million and $8.71 million, respectively, were recognized for the CGUs.

The sensitivity analysis below shows the impact that a change in the discount rate or forward commodity prices would have on impairment testing at March 31, 2020:

	Discount Rate		Commodity Prices	
	1% increase	1% decrease	5% increase	5% decrease
Increase (decrease) to impairment recorded	800,000	(1,000,000)	(2,830,000)	2,740,000

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 the 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% dependent on the risk profile of the reserve category and CGU, and as a result a $4.0 million impairment was recorded for the Kaybob CGU.

There were no borrowing costs capitalized in the quarter, as the Company did not have any qualifying assets. As at December 31, 2020, future development costs required to develop proved and probable reserves in the amount of $43.1 million are included in the depletion calculation for PP&E (December 31, 2019 - $67.5 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.

On June 30, 2020, the Company entered into a Second Amending Agreement with AIMCo which deferred the scheduled June 30, 2020 interest payment of $2.7 million owing under the Amended Term Loan Facility. The deferred interest had an interest rate of 12%.

On December 29, 2020, the Company signed a deferral letter with AIMCo thereby deferring the scheduled December 31, 2020 interest payment of $2.4 million owing under the Amended Term Loan Facility for an additional fee of 2% of the accrued and unpaid interest. Total interest payment deferred is $2.45 million.

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 (see subsequent event note 23).

Including share-based consideration, the effective interest rate of the Amended Term Loan Facility is 12% per annum (December 31, 2019 - 12%).

On March 27, 2020, the Company entered into a $0.18 million promissory note and security agreement ("Promissory Note-3") with an unrelated third party for the purpose of purchasing field service equipment. The Promissory Note-3 is due on May 8, 2024. The Promissory Note-3 bears interest of 7.94% per annum. Monthly payments of $4,300 includes interest and principal.

The changes in long-term debt are as follows:

($000's)	December 31, 2020	December 31, 2019
Balance, beginning of year	**44,667**	43,832
Repayment of Promissory Notes	**(325)**	(280)
Repayment of Convertible Debentures	**-**	(744)
Amortization of deferred financing costs	**1,207**	1,115
Convertible debentures acquired[1]	**-**	744
Interest deferral[2]	**2,693**	-
Interest deferral[3]	**2,452**	-
Promissory Note-3	**184**	-
Balance, end of year	**50,878**	44,667

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.

2) The interest payment due June 30, 2020 for the period of January 1, 2020 to June 30, 2020 was added to the existing $45.0 million principal and was calculated at a rate of 12% per annum for the period from January 1, 2020 to June 30, 2020. The interest rate from July 1, 2020 through January 31, 2021 is 10% per annum.

3) The interest payment due December 31, 2020 for the period of July 1, 2020 to December 31, 2020 was added to the existing $47.7 million principal and was calculated at a rate of 10% per annum for the period from July 1, 2020 to December 31, 2020 plus a deferral fee of 2% of the accrued and unpaid interest for the period. The interest rate from July 1, 2020 through January 31, 2021 is 10% per annum.

As at December 31, 2020, Razor had the following outstanding long-term debt:

($000's)	Maturity	December 31, 2020	December 31, 2019
Amended Term Loan Facility – principal	Jan-2021	**45,000**	45,000
Amended Term Loan Facility – interest deferral	Jan-2021	**2,693**	-
Amended Term Loan Facility – interest deferral	Jan-2021	**2,452**	-
Promissory Note-1	Sep-2022	**478**	727
Promissory Note-2	Dec-2022	**101**	147
Promissory Note-3	May-2024	**154**	-
		50,878	45,874
Deferred financing costs		**-**	(1,207)
Long-term debt		**50,878**	44,667
Current portion		**50,765**	297
Long-term portion		**113**	44,370
Long-term debt		**50,878**	44,667

The Amended Term Loan Facility is subject to the following financial covenants:

- a maximum adjusted net debt-to-adjusted cash flow ratio of 3:1 for 2020 and each year thereafter, measured on December 31 of each year; and
- a minimum working capital ratio of 1:1 for 2020 and each year thereafter, measured on December 31 of each year.

The Company is not in compliance with respect to the adjusted net-debt-to-adjusted cash flow ratio, the minimum working capital ratio and with one of its non-financial covenants in the AIMCo Term Loan at December 31, 2020 and therefore has an event of default as at December 31, 2020. As a result, Alberta Investment Management Corporation (“AIMCo”) has the right to demand repayment of the AIMCo Term Loan at any time. The Company also has cross default provisions in certain equipment loans and leases, which are in default as a result of the AIMCo default, and as a result has classified these loans and leases as potentially due on demand current liabilities at December 31, 2020 (note 10).

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.

Subsequent to December 31, 2020, the Company extended the Amended Term Facility with AIMCo (the “AIMCo Term Loan”) for an amended principal amount of $50.1 million. Principal is due January 31, 2024 with an interest rate of 10%, payable semi-annually. See subsequent events note 23.

As consideration for the AIMCo Term Loan, FutEra Power Corp. (“FutEra”), a wholly owned subsidiary of Razor at the time, granted AIMCo common shares of FutEra representing 22.4% of the total outstanding common shares. In the event that the Swan Hills Geothermal Project has not been funded by July 31, 2021, the shares issued as part of this transaction shall be returned to Razor and a bonus payment of $3.5 million will be added to the principal amount of the AIMCo Term Loan.

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

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

In addition, Razor Royalties Limited Partnership (“RRLP”), a subsidiary of Razor, entered into a new term loan with Arena Investors, LP (“the Arena Term Loan”) to provide additional liquidity of US$11,042,617 (CAD$13,978,849). See subsequent events note 23.

The Arena Term Loan will be repaid over 29 months with principal and interest payments commencing April 1, 2021. The funded principal amount, after the original issuer discount, is US$10,035,000 (CAD $12,702,532). The Arena Term Loan carries a fixed annual interest rate of 7.875%. Security consists of a first lien on all assets within Razor Royalties Limited Partnership and Razor Holdings GP Corp. as further described in subsequent events note 23. The Arena Term Loan is also secured by a second lien on the assets of Razor, excluding Razor’s subsidiaries Blade Energy Services Corp. (“Blade”), FutEra and its subsidiaries, and Razor Resources Corp.

The Arena Term Loan is subject to the following covenants:

- Use at least US$6,700,000 (CAD$ 8,481,013) to complete the activities outlined in an agreed development plan for the fiscal year ended December 31, 2021;
- Minimum hedge requirements for not less than 80% of RRLP’s 20 month forward projected overriding royalty;
- Commencing in April 2021, maintain minimum production 3,000 boe/day; and
- The General and Administrative expenses of RRLP shall not exceed $100,000 in any fiscal year.

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.

On January 9, 2020, Razor entered into two lease agreements for the lease of vehicles for a total of $0.14 million. The lease agreements are discounted with an effective interest rate of 4.99% per annum each, respectively. Both lease agreements end on January 31, 2024. Monthly payments for both leases are $2,600 including interest and principal.

On August 21, 2020, the Company entered into a lease agreement for the lease of a vehicle for a total of $0.04 million. The lease agreement is discounted with an effective interest rate of 4.99% per annum and ends on August 20, 2024. Monthly payments of $450 includes interest and principal.

As a result of the event of default under the Amended Term Loan Facility (see Note 9), cross default provisions in certain equipment leases have resulted in these leases being potentially due on demand and classified as current liabilities at December 31, 2020.

The changes in lease obligations are as follows: *($000's)*	**December 31, 2020**	**December 31, 2019**
Balance, beginning of year	**4,744**	3,860
Acquisition	**-**	228
Liabilities incurred	**196**	1,859
Liabilities settled	**(1,997)**	(1,516)
Interest expense	**351**	313
Balance, end of year	**3,294**	4,744
Current portion	**2,905**	1,679
Long-term portion	**389**	3,065
Lease obligation	**3,294**	4,744

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $3.5 million.

Razor's minimum lease payments are as follows:

($000's)	December 31, 2020	December 31, 2019
Within one year	**2,938**	1,943
Later than one year but not later than three years	**251**	1,900
Later than three years	**280**	1,486
Minimum lease payments	**3,469**	5,329
Amount representing finance charge	**(175)**	(585)
Present value of net minimum lease payments	**3,294**	4,744

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)	December 31, 2020	December 31, 2019
Balance, beginning of year	**119,148**	79,190
Non-monetary transaction (note 7)	**2,666**	5,259
Government subsidy for decommissioning expenditures	**(198)**	-
Decommissioning expenditures	**(340)**	(240)
Effect of change in discount rate on acquisition[1]	**-**	30,127
Effect of change in discount rate and inflation	**17,861**	2,584
Dispositions	**-**	(3,732)
Revisions to estimates	**(1,398)**	4,325
Accretion expense	**1,438**	1,635
Balance, end of year	**139,177**	**119,148**
Current portion	**3,097**	2,237
Long-term portion	**136,080**	116,911
Decommissioning obligations	**139,177**	**119,148**

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 nil (2019-$30.1 million).

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

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

	December 31, 2020	December 31, 2019
Undiscounted cash flows (000's)	**129,801**	126,909
Discount rate (%)	**1.21**	1.76
Inflation rate (%)	**1.49**	1.50
Weighted average expected timing of cash flows (years)	**25**	25

12. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

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

Razor's capital structure consists of shareholders' equity and long-term debt and leases. The Company makes adjustments to its capital structure based on changes in economic conditions and its planned requirements. Razor adjusts its capital structure by issuing new common or preferred equity, or debt, changing its dividend policy, or making adjustments to its capital expenditure program, subject to customary restrictions and covenants in the Amended Term Loan Facility (see subsequent events note 23).

13. 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, 2020 is shown below.

	December 31, 2020		December 31, 2019	
Common Shares	**Number**	**($000's)**	**Number**	**($000's)**
Shares outstanding, beginning of year	**21,064,466**	**27,540**	15,188,834	18,057
Common shares issued as part of corporate acquisition	**-**	**-**	5,982,032	9,640
Share issuance costs	**-**	**-**	-	(30)
Shares repurchased and cancelled	**-**	**-**	(106,400)	(127)
Shares outstanding, end of year	**21,064,466**	**27,540**	21,064,466	27,540

On September 11, 2019, Razor completed the strategic acquisition of Little Rock, 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 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. The Company has not made an application to renew for the upcoming year. Under this NCIB, 11,000 common shares were repurchased in open market transactions on the TSXV at a weighted average cost of $0.93 in 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 the year ended December 31, 2020, the Company did not repurchase any of its common shares. During the year ended December 31, 2019 106,400 shares were repurchased for $0.2 million at an average price of $2.24 per share. The purchases in 2019 resulted in a decrease to share capital of $127 thousand and an increase to deficit of $112 thousand.

DIVIDENDS

On January 9, 2020, Razor announced a monthly cash dividend of $0.0125 per share, for a total of $263 thousand in dividends. For the year ended December 31, 2019, dividends declared were $0.15 per share for a total of $2.6 million in dividends paid in 2019.

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.

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 judgement.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The fair value hierarchy is as follows:

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

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, cash equivalents, 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, 2020 are as follows:

($000's)	Carrying Value	Fair Value
Cash and cash equivalents	**1,098**	1,098
Accounts receivable	**6,464**	6,464
Accounts payable and accrued liabilities	**24,970**	24,970
Lease obligation	**3,469**	3,469
Promissory Notes	**733**	726
Amended Term Loan Facility	**50,145**	50,139

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, 2020, the Company has a working capital deficit of $72.3 million, of which only $1.1 million is comprised of cash and cash equivalents. Further, at December 31, 2020, the Company has contractual repayments of $79.5 million due in less than one year. The Company is also not in compliance with respect to the adjusted net-debt-to-adjusted cash flow ratio, the minimum working capital ratio and with one of its non-financial covenants in the AIMCo Term Loan at December 31, 2020 and therefore has an event of default at December 31, 2020. As a result, Alberta Investment Management Corporation ("AIMCo") has the right to demand repayment of the Amended Term Loan Facility at any time (note 9). The Company also has cross default provisions in certain equipment loans and leases, which are in default as a result of the AIMCo default, and as a result has classified these loans and leases as potentially due on demand current liabilities at December 31, 2020 (notes 9 and 10).

The Company anticipates funding the remaining working capital deficit and contractual repayments with a combination of cash from operations, other new debt or equity financings. The operational and commodity price challenges that impacted revenue, production and operating costs in 2020, are anticipated to be somewhat mitigated in 2021 as the Company utilizes funds from the Arena Loan to reactivate wells in order to increase production, which is not without risk. While forecasted prices and operating cashflows are expected to improve in 2021, 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. Further, no assurance can be provided, that the service providers and other lenders and lessors will not demand repayment of the accounts payable and other loans and leases prior to maturity, or that waivers can be obtained with respect to the other loans and leases. (See future operations note 2)

Subsequent to December 31, 2020, the Company renewed the Amended Term Facility with AIMCo (the "AIMCo Term Loan"), with a maturity date of January 31, 2024. In addition, the Company entered into a new term loan with Arena Investors, LP ("the Arena Term Loan") to provide additional liquidity of US$11,042,617 (CAD$13,978,849). See note 23.

The table below summarizes the Company's contractual obligations as at December 31, 2020:

($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	**24,970**	24,970	-	-	-
Amended Term Loan Facility	Yes-Liability	**50,145**	50,145	-	-	-
Promissory notes/Loan	Yes-Liability	**733**	620	92	21	-
Minimum lease obligation	Yes-Liability	**3,469**	2,938	251	280	-
Interest payable [2 3]	No	**623**	469	41	15	98
Lease operating costs	No	**331**	221	110	-	-
Transportation services	No	**1,275**	168	264	205	638
Total		**81,546**	**79,531**	**758**	**521**	**736**

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, except the interest payment due June 30, 2020 (for the period of January 1, 2020 to June 30, 2020) and the interest payment due December 31, 2020 (for the period of July 1, 2020 to December 31, 2020) was added to the amount to the existing principal of the Amended Term Loan Facility

3) Excludes interest paid on minimum lease obligation and lease 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. However, due to the Company's significant working capital deficiency the Company has been unable to hedge its future production to protect cash flows.

As at December 31, 2020, Razor had no derivative contracts outstanding and thus no asset or liability recorded on the Statement of Financial Position (December 31, 2019 – asset of $2 thousand) and recorded an unrealized loss of $2 thousand (2019 - $8.3 million unrealized loss) in earnings for the year ended December 31, 2020.

Subsequent to December 31, 2020, the Company has sold and purchased certain commodity contracts as follows:

Reference point	Volume (bbls/mth)	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	8,000	May’21-Feb’22	50.00	66.00	73.00
NYMEX WTI financial futures	8,000	Mar’22-Dec’22	50.00	65.00	75.00

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 significant credit losses in the collection of accounts receivable to date.

The Company's accounts receivables of $6.4 million at December 31, 2020 (December 31, 2019 - $9.6 million) are non-interest bearing.

The Company's receivables are summarized as follows:

($000's)	**December 31, 2020**	**December 31, 2019**
Trade receivables	**4,714**	8,032
Joint venture receivables	**1,696**	584
Other receivables	**227**	1,268
Allowance for doubtful accounts	**(173)**	(242)
	6,464	9,642

The majority of the credit exposure on trade receivables as at December 31, 2020, pertains to revenue for accrued December 2020 production volumes. Receivables from the oil and gas marketing companies are typically collected on the 25th day of the month following production. Razor mitigates the credit risk associated with these receivables by establishing relationships with credit worthy purchasers. Razor has not experienced any collection issues with its oil and gas marketers.

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

The Company's accounts receivable is aged as follows:

($000's)	**December 31, 2020**	**December 31, 2019**
Current (less than 30 days)	**5,052**	8,966
31 to 90 days	**885**	289
Over 90 days	**527**	387
Total receivables	**6,464**	9,642

The Company does not believe that the amounts outstanding for more than 90 days are impaired. Subsequent to December 31, 2020, the Company has collected $6 thousand relating to accounts receivable categorized as older than 90 days at December 31, 2020.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and long-term debt. Razor manages its interest rate risk by entering into fixed interest rates on the Amended Term Loan Facility, lease obligation, and Promissory Notes. See notes 9 and 10.

The Amended Term Loan Facility matures on January 31, 2021 (see subsequent events note 23) 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, December 13, 2022, and May 8, 2024, and interest is paid monthly at 6.1%, 6.5% and 7.94% per annum along with the principal.

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

Foreign Exchange Risk

Razor's business is conducted primarily in Canadian dollars. However, the Company's commodity contracts 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.

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.

Razor inherited decommissioning liabilities included in its Swan Hills, Kaybob and District South acquisitions. In 2020, the Company settled $538 thousand of decommissioning obligations which includes $198 thousand related to government grants earned for well site rehabilitation through the SRP program.

The Company voluntarily opted into 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.

On May 14, 2020, the AER reduced the liability reduction target for 2020 to zero in response to COVID-19 and the decline in oil prices. Razor's liability reduction target is $3.0 million in 2021.

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. On July 17, 2020, a confidential settlement was reached between the parties of this litigation and an amount was charged to general and administrative expenses.

During the third quarter of 2020, the Company was served a statement of claim demanding immediate payment for past services totaling $4.6 million. These amounts are included in accounts payable and accrued liabilities at December 31, 2020. There can be no assurance that further financial damages will not occur, however, with the improved commodity price outlook, the Company anticipates amounts owing will be reduced throughout 2021.

16. REVENUES

The significant components recognized in revenues are as follows:

	Years Ended December 31,	
($000's)	**2020**	**2019**
Light oil	**37,665**	69,642
Gas	**3,126**	2,438
NGL	**5,063**	8,723
Sales of commodities purchased from third parties	**-**	8,551
Blending and processing	**5,416**	8,842
Road Use	**761**	763
Other revenue[1]	**916**	1,106
	52,947	100,065

1) Primarily comprised of trucking and road maintenance.

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

Razor's revenue transactions do not contain any significant financing components and payments are typically due within 30 days of revenue recognition. The Company does not adjust transaction prices for the effects of a significant financing component when the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Periodically, Razor purchases commodity products from third parties in order to fulfill its sales commitments. There were no purchases or sales of commodities purchased from third parties in 2020 because the Company's sales commitments were closely matched to the Company's commodity production.

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)	**2020**	**2019**
Interest expense	**6,615**	4,907
Amortization of deferred financing costs (Note 9)	**1,207**	1,115
Accretion (Note 11)	**1,438**	1,635
	9,260	7,657

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

18. INCOME TAX

The statutory tax rate was 24% in 2020 and 26.5% in 2019. The Alberta corporate income tax rate decreased to 10% effective January 1, 2020 and further decreased to 8% effective July 1, 2020.

The provision for income taxes is as follows:

	Years Ended December 31,	
($000's)	**2020**	**2019**
Income (loss) before income taxes	**(46,197)**	(29,988)
Combined statutory tax rate	**24.0%**	26.5%
Expected income tax at statutory tax rate	**(11,087)**	(7,947)
Non-deductible expenses	**9**	34
Change in enacted tax rate	**462**	1,092
Change in unrecognized deferred tax asset	**10,545**	6,388
Other	**71**	18
Income tax expense (recovery)	-	(415)

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

	Years Ended December 31,	
($000's)	**2020**	**2019**
Property, plant and equipment	**(24,821)**	(27,190)
Decommissioning obligations	**15,264**	(27,190)
Commodity contracts	-	-
Financing charges	**277**	-
Non-capital losses	**9,280**	-
	-	-

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

	Years Ended December 31,	
($000's)	**2020**	**2019**
Decommissioning obligations	**72,811**	931
Leases	**808**	683
Financing charges	**-**	1,084
Non-capital losses	**-**	25,078
	73,619	27,776

The following tables provide a continuity of the deferred tax asset or liability:

($000's)	**December 31, 2019**	Profit/Loss	Corporate Acquisition	**December 31, 2020**
Property, plant and equipment	(27,190)	2,369	-	**(24,821)**
Decommissioning obligations	27,190	(11,926)	-	**15,264**
Financing charges	-	277	-	**277**
Non-capital losses	-	9,280	-	**9,280**
	-	-	-	-

($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	579	**27,190**
Commodity contracts	(2,232)	2,232	-	**-**
Financing charges	404	(404)	-	**-**
Non-capital losses	2,334	(3,132)	798	**-**
	320	**415**	**(735)**	**-**

The estimated tax pools are as follows:

	Years Ended December 31,	
($000's)	**2020**	**2019**
Canadian oil and gas property expenses	**21,492**	23,682
Canadian development expenses	**18,892**	26,042
Canadian exploration expenses	**228**	228
Undepreciated capital cost	**5,728**	7,500
Non-capital losses [1]	**40,347**	25,077
Other	**1,207**	2,293
Estimated tax pools	**87,894**	84,822

1) The non-capital losses will expire between 2033 and 2040

19. PER SHARE AMOUNTS

Per share amounts are calculated by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted per share amounts are calculated by adjusting the weighted average number of common shares outstanding for potentially dilutive instruments. For the years December 31, 2020 and 2019, there are no dilutive instruments affecting the basic common share calculations.

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

	Years Ended December 31,	
($000's)	**2020**	**2019**
Weighted average shares outstanding (basic and diluted)	**21,064,466**	16,926,491
Net loss for the period (000's)	**$ (46,197)**	$ (29,573)
Net loss per share (basic and diluted)	**$ (2.19)**	$ (1.75)

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years Ended December 31,	
($000's)	**2020**	**2019**
Accounts receivable	**3,178**	(2,063)
Prepaid expenses and deposits	**47**	(23)
Inventory	**-**	860
Accounts payable and accrued liabilities	**(3,779)**	8,487
	(554)	7,261

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

	Years Ended December 31,	
($000's)	**2020**	**2019**
Operating	**395**	8,519
Investing	**(947)**	(1,258)
	(554)	7,261

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

($000's)	**December 31, 2020**	**December 31, 2019**
Cash	**1,098**	1,636
Short-term investments	**-**	269
Total receivables	**1,098**	1,905

21. OTHER INCOME

The components for other income are summarized below.

	Years Ended December 31,	
($000's)	**2020**	**2019**
Insurance proceeds	**4,725**	-
Interest and other	**49**	105
SRP grant income (note 11)	**198**	-
	4,972	105

The $4.7 million of non-recurring insurance proceeds related to environmental clean-up costs as a result of an injection line failure in 2019 as well as proceeds from business interruption insurance related to a non-operated pipeline being offline for repairs in 2019.

22. RELATED PARTY TRANSACTIONS

KEY MANAGEMENT COMPENSATION

In 2020, 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)	**2020**	**2019**
Salary and employee benefits	**1,484**	1,911

23. SUBSEQUENT EVENTS

On February 16, 2021, Razor Energy Corp. secured an extension to its existing non-revolving term loan facility from Alberta Investment Management Corporation ("AIMCo"), on behalf of certain of AIMCo's clients, for an amended principal amount of $50.1 million (AIMCo Term Loan). The terms of the AIMCo Term Loan are materially unchanged from the previous Amended Term Loan Facility established in January 2017. Principal is due January 31, 2024 with an interest rate of 10%, payable semi-annually.

As consideration for the AIMCo Term Loan, FutEra Power Corp. ("FutEra"), a wholly owned subsidiary of Razor at the time, granted AIMCo common shares of FutEra representing 22.4% of the total outstanding common shares. In the event that the Swan Hills Geothermal Project has not been funded by July 31, 2021, the shares issued as part of this transaction shall be returned to Razor and a bonus payment of $3.5 million will be added to the principal amount of the AIMCo Term Loan.

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

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

TERM LOAN

Concurrent with the AIMCo extension, a subsidiary of Razor, Razor Royalties Limited Partnership ("RRLP"), entered into a new term loan agreement with an affiliate of Arena Investors, LP in the principal amount of US$11,042,617 (CAD$ 13,978,849) (the "Arena Term Loan").

The Arena Term Loan will be repaid over 29 months with principal and interest payments commencing April 1, 2021 of approximately CAD $572 thousand per month. The funded principal amount, after the original issuer discount of US$ 1,007,617 (CAD $1,278,948), is US$10,035,000 (CAD $12,702,532). The Arena Term Loan carries a fixed annual interest rate of 7.875%. Security consists of a first lien on all assets within Razor Royalties Limited Partnership and Razor Holdings GP Corp. as further described below. The Arena Term Loan is also secured by a second lien on the assets of Razor, excluding Razor's subsidiaries Blade Energy Services Corp. ("Blade"), FutEra and its subsidiaries, and Razor Resources Corp.

The Arena Term Loan is subject to the following covenants:

- Use at least US$6,700,000 (CAD$ 8,481,013) to complete the activities outlined in an agreed development plan for the fiscal year ended December 31, 2021;
- Minimum hedge requirements for not less than 80% of RRLP's 20 month forward projected overriding royalty;
- Commencing in April 2021, maintain minimum production 3,000 boe/day; and
- The General and Administrative expenses of RRLP shall not exceed $100,000 in any fiscal year.

RELATED ROYALTY SALE

In conjunction with closing of the Arena Term Loan, the Company has sold a 9% royalty on all corporate production (the "Gross Overriding Royalty" or "GORR") to a newly established limited partnership named Razor Royalties Limited Partnership ("RRLP"). There will be two partners within the partnership. The general partner will be Razor Holdings GP Corp., a newly formed, wholly owned subsidiary of the Company and the limited partner will be the Company. The GORR has been pledged as security under the Arena Term Loan in accordance with the terms noted above.

Once the Arena Term Loan is repaid by RRLP, the security associated with the Arena Term Loan will terminate. It is intended that the GORR and associated burdens will continue to exist in perpetuity within RRLP to the benefit of its partners.

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

Doug Bailey

Sonny Mottahed (1) (2) (3)

Frank Muller

Sean Phelan (1) (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
McCarthy Tétrault LLP
Stikeman Elliott 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