RAZOR ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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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 December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) and comprehensive income (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, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 $35.1 million and contractual repayments of $67.3 million due in less than one year as at December 31, 2021, in addition the Company is projecting to have a working capital deficit at September 30, 2022, which would result in non-compliance with the working capital covenant requirement under the AIMCo Term Loan of 1:1 at September 30, 2022. This potential covenant default may result in the AIMCo Term Loan being due on demand. The potential covenant default would also result in a potential cross-covenant default for the Amended Arena Term Loan and certain other loans and leases at the same time.

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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 11, 2022

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)	Note	December 31, 2021	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**2,841**	**1,098**
Restricted cash	5	**1,384**	**-**
Accounts receivable	14	**16,367**	**6,464**
Prepaid expenses and deposits		**769**	**1,547**
Inventory	7	**747**	**345**
		22,108	**9,454**
Property, plant and equipment	8	**217,058**	**154,255**
TOTAL ASSETS		**239,166**	**163,709**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	14	**43,798**	**24,970**
Commodity contracts	14	**573**	**-**
Decommissioning obligations	11	**2,382**	**3,097**
Current portion of lease obligation	10	**1,321**	**2,905**
Current portion of long-term debt	9	**9,145**	**50,765**
		57,219	**81,737**
Non-Current			
Long-term debt	9	**64,047**	**113**
Long-term lease obligation	10	**435**	**389**
Decommissioning obligations	11	**152,236**	**136,080**
TOTAL LIABILITIES		**273,937**	**218,319**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	13	**29,358**	**27,540**
Contributed surplus	13	**977**	**694**
Deficit		**(65,106)**	**(82,844)**
		(34,771)	**(54,610)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		**239,166**	**163,709**
Future Operations	2		
Commitments and Contingencies	15		
Subsequent Events	14, 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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Stated in thousands of Canadian dollars, except per share amounts)	Note	**Years Ended December 31,** **2021**	2020
REVENUES			
Commodity sales from production		**77,496**	45,854
Blending and processing revenue		**3,222**	5,416
Other revenue		**806**	1,677
Total revenues	16	**81,524**	52,947
Royalties		**(13,134)**	(4,413)
Net revenues		**68,390**	48,534
Other income	21	**2,579**	4,972
Realized loss on commodity contracts settlement	14	**(463)**	(1,441)
Unrealized loss on commodity risk management	14	**(1,346)**	(2)
		69,160	52,063
EXPENSES			
Operating		**56,192**	38,452
Transportation and treating		**2,720**	2,990
Blending and processing		**1,344**	1,410
General and administrative		**4,656**	4,507
Bad debt		**181**	(26)
Share-based compensation	13	**283**	-
Acquisition costs		**-**	335
Financing	17	**11,212**	9,260
Depletion, depreciation and amortization	8	**14,678**	16,904
Impairment (reversal) of oil and gas assets	8	**(24,306)**	24,740
Realized foreign exchange loss		**101**	-
Unrealized foreign exchange loss		**113**	22
Gain on business acquisition	6	**(12,129)**	(334)
		55,045	98,260
Income (loss) before income tax		**14,115**	(46,197)
Deferred income tax recovery	18	**3,623**	-
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**17,738**	(46,197)
NET INCOME (LOSS) PER SHARE			
Basic and diluted	19	**0.83**	(2.19)

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(Stated in thousands of Canadian dollars)	**Note**	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total Shareholders' Equity (Deficiency)**
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)**
December 31, 2020		27,540	694	(82,844)	(54,610)
Shares issued	13	1,890	-	-	1,890
Share issue costs	13	(72)	-	-	(72)
Share–based compensation	13	-	283	-	283
Net income		-	-	17,738	17,738
December 31, 2021		**29,358**	**977**	**(65,106)**	**(34,771)**

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, 2021	2020
Operating Activities			
Net income (loss) for the year		**17,738**	(46,197)
Adjustments for non-cash items:			
Unrealized loss on commodity risk management	14	**1,346**	2
Unrealized loss on foreign currency translation		**113**	22
Gain on business acquisition	6	**(12,129)**	(334)
Gain on sale of assets	8	**(282)**	-
Other income	21	**(1,861)**	(198)
Financing costs	17	**11,212**	9,260
Depletion, depreciation and amortization	8	**14,769**	16,843
Impairment (reversal)	8	**(24,306)**	24,740
Share-based compensation	13	**283**	-
Decommissioning costs incurred	11	**(1,734)**	(340)
Purchase commodity contracts	14	**(773)**	-
Deferred income tax recovery	18	**(3,623)**	-
Changes in non-cash working capital	20	**7,307**	395
Net cash flows from operating activities		**8,060**	4,193
Financing Activities			
Proceeds from long-term debt	9	**25,041**	**-**
Repayment of long-term debt	9	**(5,378)**	(325)
Deferred financing cost	9	**(4,197)**	**-**
Payment of lease obligation	10	**(1,936)**	(1,646)
Interest expense	17	**(2,005)**	(1,470)
Dividends	13	**-**	(263)
Proceeds from issue of common shares	13	**1,890**	-
Share issuance costs	13	**(72)**	-
Net cash flows from (used in) financing activities		**13,343**	(3,704)
Investing Activities			
Capital expenditures	8	**(21,626)**	(1,445)
Business acquisition	6	**(6,312)**	-
Proceeds from government grants for assets	8	**7,175**	1,121
Proceeds on sale of assets	8	**530**	-
Restricted cash	5	**(1,384)**	-
Changes in non-cash working capital	20	**1,994**	(948)
Net cash flows used in investing activities		**(19,623)**	(1,272)
Foreign currency translation		**(37)**	(24)
Change in cash and cash equivalents		**1,743**	(807)
Cash and cash equivalents, beginning of year		**1,098**	1,905
Cash and cash equivalents, end of year		**2,841**	1,098
Cash interest paid		**2,006**	1,466

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(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, 2021, the Company has a working capital deficit of $35.1 million, of which $2.8 million is comprised of cash and cash equivalents. Further, at December 31, 2021, the Company has contractual repayments of $67.3 million due in less than one year. At December 31, 2020, certain equipment loans and leases were in default due to cross covenant violations under the Amended Term Loan Facility with AIMCo and at December 31, 2020 these loans and leases were classified as potentially due on demand current liabilities. At March 31, 2021, the Company had not remedied the defaults for these equipment loans and leases and continued to classify these items as potentially due on demand current liabilities. The Company had cross covenant default provisions in the AIMCo Term Loan and the Arena Term Loan, which were in default as a result of the default on the equipment loans and leases at March 31, 2021 and as a result had classified the AIMCo Term Loan and the Arena Term Loan as potentially due on demand current liabilities at March 31, 2021.

At June 30, 2021, the Company received executed agreements from all parties that waived all defaults conditions (notes 9 and 10). As a result, the loans and leases are currently no longer due on demand and have reverted to their original repayment terms.

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

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

- Strategic investment in high quality reactivations to provide ongoing increases in production volumes to maximize monthly revenue and cashflows in the current strong commodity price environment
- Conducting operations under a disciplined approach to capital and operating cost expenditures
- Working proactively with vendors on payment schedules
- Working with partners to bring non-operated production back on stream
- Strategic acquisitions (refer to note 6)
- Equity financing (refer to note 13)

Further, the Company will utilize funds from the original Arena Term Loan, a portion of the proceeds from the Amended Arena Term Loan and funds from the Private Placement (refer to note 13) to reactivate wells in order to increase production, which is not without risk, to provide a positive contribution towards funding the working capital deficit. While commodity prices have shown a steady rebound 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. In addition, the AIMCo Term Loan has certain covenants that will come into effect in 2022, specifically the working capital ratio as noted above, that based on current financial results will be difficult to maintain.

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

The 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, 2021.

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

Expenses in the statement of earnings (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 11, 2022.

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. Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in net income or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assts that meet the definition of a business under IFRS. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value at the acquisition date, except for deferred income taxes. The excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in earning or loss. Acquisition costs incurred by the Company are expensed in earnings or loss 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

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 and reactivations 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.

Major maintenance and repairs

Ongoing costs to maintain properties are generally expensed as incurred. The costs of material replacement parts, turnarounds and major inspections are capitalized provided it is probable that the future economic benefits in excess of cost will be realized and such benefits are expected to extend beyond the current operating period. Capitalized turnaround costs are depreciated evenly over the period until the next scheduled turnaround.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

PROVISIONS

The Company recognizes provisions when:

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

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

INVENTORY

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

DECOMMISSIONING OBLIGATIONS

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

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

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

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

FINANCIAL INSTRUMENTS

Non-derivative financial instruments

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

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

Derivative financial instruments

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

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

Impairment of financial instruments

The Company used an expected credit loss ("ECL") impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model 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, 2021, Razor received government grants through the Canada Emergency Wage Subsidy (“CEWS”) of $0.6 million (2020 – $1.5 million). These grants were recognized as a reduction to general and administrative expense of $0.3 million (2020 – $0.9 million) and a reduction of operating expenses of $0.3 million (2020 - $0.6 million).

To date, Razor has received $13.0 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, 2021, Razor recorded a reduction in the decommissioning obligation liability of $1.9 million (2020 - $0.2 million) 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.

Current Environment and Estimation Uncertainty

The outbreak of the COVID-19 pandemic had a significant negative impact on global economic conditions in 2020. This included a sharp decrease in crude oil demand which, combined with other macro-economic conditions, resulting in significant volatility in oil and natural gas commodity prices, as well as economic uncertainty. In 2021, the global economy has continued to recover from the impacts of the COVID-19 pandemic and an improved oil and natural gas supply and demand balance in the global markets, resulting in significant increases in benchmark commodity prices.

The Company continues to closely monitor the recommendations of applicable government and health authorities and has established procedures to ensure business continuity and the reliability of its operations in the event of future restrictions or lockdowns.

The COVID-19 pandemic remains an evolving situation that has had, and may continue to have, a significant impact on Razor's business, results of operations, financial condition and the environment in which it operates. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption will impact the Company long-term.

Climate Change and Environmental Reporting Regulations

Climate and emission related reporting standards continue to evolve and may have additional disclosure requirements in the future. The International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the goal to develop sustainability disclosure standards that are globally consistent, comparable and reliable. The Canadian Securities Administrators have also issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters* which details the additional reporting requirements for Canadian Public Companies. If the Company is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected. The Company continues to monitor progress on these reporting requirements and have not yet quantified the cost to comply with these standards.

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 and reactivations to be capitalized apart 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. The Company has identified three CGU's being: Swan Hills, Kaybob and Southern Alberta.

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 / IMPAIRMENT REVERSALS

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

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding 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 a third party – independent reserve engineer.

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. Capitalized turnaround costs are depreciated evenly over the period until the next scheduled turnaround.

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

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

5. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account as collateral under the terms of the commodity contracts totaling $972 thousand ($USD 766 thousand) and is considered not available for general use by the Company. In addition, as per the terms of the Amended Arena Term Loan $412 thousand ($USD 325 thousand) is held as restricted cash as at December 31, 2021. The Company held a total of $1,384 thousand as restricted cash at December 31, 2021 (December 31, 2020 - Nil).

6. ACQUISITIONS

SWAN HILLS WORKING INTEREST CONSOLIDATION

On August 12, 2021, Razor completed the acquisition of certain non-operating working interest positions in its Swan Hills, Alberta core region. The Assets consist of Swan Hills Unit No. 1, Judy Creek Gas Plant and South Swan Hills Unit Gas Gathering System at 32.5%, 8.6% and 27.6% working interest, respectively. The acquisition allows Razor to further consolidate its existing working interest in the area to a 49.7% non-operated working interest in the Unit, as well as increasing its working interest in critical area infrastructure including the Plant and Gathering System to 38.1% and 43.9%, respectively. The total purchase price is $6.3 million, subject to customary adjustments.

This business 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 being August 12, 2021. The fair values of the identifiable assets acquired and liabilities assumed by Razor were allocated as follows:

Fair value of net assets acquired	*($000's)*
Property, plant and equipment [1]	22,537
Decommissioning obligations [2]	(473)
Deferred income tax liability	(3,623)
Total net assets acquired	18,441

1) The fair value of property, plant and equipment has been determined with reference to a reserve report.
2) Estimated using a credit-adjusted risk-free rate of 15%.

Consideration	*($000's)*
Cash	6,312
Gain on acquisition	**12,129**

The above amounts are estimates, which were made by management at the time of preparation of these financial statements based on information available. Amendments may be made to these amounts as values subject to estimate are finalized, including the determination of decommissioning obligations acquired. The transaction has resulted in a gain on acquisition of $12.1 million.

Included in the statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2021 are the following amounts relating to the Swan Hills acquisition from August 13, 2021:

	($000's)
Petroleum and natural gas revenue	11,003
Net income and comprehensive income	2,798

If the Swan Hills Unit 1 acquisition had been effective on January 1, 2021, the proforma results of the revenue and revenue, net of royalties and operating costs, for the year ended December 31, 2021 would have been as follows:

	Year ended December 31, 2021		
($000's)	**As stated**	**Amounts prior to acquisition**	**Pro Forma**
Revenue	81,524	13,643	95,167
Revenue, net of royalties and operating costs[1]	8,134	(229)	7,905

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

7. 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, 2021, the Company held 15,200 barrels of oil (December 31, 2020 – 8,203 barrels) in inventory. The inventory at December 31, 2021 was valued at an average cost of $49.15 per barrel (December 31, 2020 - $42.01 per barrel) for a total value of $747 thousand (December 31, 2020 - $345 thousand). Included in this amount is $192 thousand of depletion expense for the period ended December 31, 2021 (December 31, 2020 - $103 thousand). For the current period there were no inventory impairments (December 31, 2020, reversal of $34 thousand in inventory impairments).

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, 2019	**223,902**
Capital expenditures	1,445
Right-of-use asset	196
Asset 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**
Capital expenditures	21,626
Right-of-use asset	398
Asset disposals	(326)
Acquisition (note 6)	22,537
Government grants	(7,175)
Change in decommissioning obligations	16,126
December 31, 2021	**297,255**
Accumulated depletion, depreciation and amortization	
December 31, 2019	**44,231**
Depletion, depreciation and amortization	16,843
December 31, 2020	**61,074**
Depletion, depreciation and amortization	14,769
Depletion on impairment reversal	4,434
Depreciation on asset disposal	(80)
December 31, 2021	**80,197**
Impairment	
December 31, 2019	4,000
Impairment expense	24,740
December 31, 2020	28,740
Impairment reversal	(24,306)
Depletion on impairment reversal	(4,434)
December 31, 2021	**-**
Net book value	
December 31, 2020	**154,255**
December 31, 2021	**217,058**

At the end of each reporting period, the Company assesses whether there were indicators of impairment or reversals of prior period impairments. The assessment factors in the following criteria: changes in reserves; changes in forecasted commodity prices from the previous reserve report; interest rates; the health of the oil and gas industry; the status of the general economy; well performance; and near term development plans.

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

The table below summarizes the benchmark prices used in preparing the Company's December 31, 2021 reserve evaluation.

	WTI ($US/bbl)	**MSW Light Edmonton ($CDN/bbl)**	**WCS ($CDN/bbl)**	**Foreign Exchange ($US/$CDN)**
2022	73.00	86.25	75.63	0.8000
2023	70.00	82.40	71.56	0.8000
2024	68.00	79.80	68.74	0.8000
2025	69.36	81.39	70.12	0.8000
2026	70.75	83.02	71.52	0.8000
2027	72.16	84.68	72.95	0.8000
2028	73.61	86.38	74.41	0.8000
2029	75.08	88.10	75.90	0.8000
2030	76.58	89.87	77.42	0.8000

The annual escalation rate used after 2030 is 2%

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

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

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.

There were no borrowing costs capitalized in the quarter, as the Company did not have any qualifying assets. As at December 31, 2021, future development costs required to develop proved and probable reserves in the amount of $53.7 million are included in the depletion calculation for PP&E (December 31, 2020 - $43.1 million).

9. LONG-TERM DEBT

Loan with Alberta Investment Management Corporation ("AIMCo")

On February 16, 2021, the Company extended the Amended Term Facility with AIMCo (the "AIMCo Term Loan") for an amended principal amount of $50.1 million, being the amounts outstanding with AIMCo on such date. Principal under the extended AIMCo Term Loan is due in full on January 31, 2024, with an interest rate of 10%, payable semi-annually. There were no additional proceeds received from the AIMCo Term Loan. Including the contingent consideration of $3.5 million (see below), the effective interest rate of the Amended Term Loan Facility is 12% per annum (December 31, 2020 - 12%).

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

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

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

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

At March 31, 2021, the default condition on certain equipment loans and leases (notes 9 and 10) had created a cross covenant default for the AIMCo Term Loan and had resulted in this loan being potentially due on demand and classified as a current liability at March 31, 2021.

At June 30, 2021, Razor has received executed agreements from all parties that waived all default conditions for this loan and the other loans and leases impacted, and therefore the classification of the loan is a long-term liability based on the contractual terms.

As at December 31, 2021, Razor was in compliance with all of its non-financial debt covenants. As at December 31, 2021, the Company has a working capital deficit of $35.1 million. While the Company expects to reduce the working capital deficit over the next nine months, it is projecting to have a working capital ratio of less than 1:1 as at September 30, 2022. There can be no assurance that the Company will be able to obtain a waiver for the potential covenant default or an amendment, if necessary, to revise the working capital ratio covenant from AIMCo prior to September 30, 2022. This potential covenant default may result in the AIMCo debt potentially being due on demand. The potential covenant default would also then result in a potential cross-covenant default for the Amended Arena Term Loan and certain other loans and leases at that time. The Company does not have the financial ability to repay the AIMCo debt, Amended Arena Term Loan and certain other loans and leases should they come due as a result of the default.

Loan with Arena Investors, LP

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

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

On August 12, 2021, RRLP entered into an amendment agreement on its Arena Term Loan ("Amended Arena Term Loan") with Arena Investors, LP for an additional $8,833,922 (CAD $11,035,336). The proceeds of which funded the acquisition of the Swan Hills working interest (refer to note 6). The term of the amended loan is extended to April 1, 2024. Monthly principal and interest payments increased effective September 1 to approximately US$0.5 million per month with payments increasing to approximately US$0.7 million in 2022. The funded principal amount of the Amended Arena Term Loan, after the original issuer discount is US $8,000,000 (CAD 9,993,600).

The Amended 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 period ended June 30, 2022;
- Minimum hedge requirements for not less than 80% of RRLP's 20 month forward projected overriding royalty;
- Commencing in August 2021, maintain minimum production 4,000 boe/day; and
- The general and administrative expenses of RRLP shall not exceed US$100,000 in any fiscal year.

At March 31, 2021, the default condition on certain equipment loans and leases (note 10) had created a cross covenant default for the original Arena Term Loan and had resulted in this loan being potentially due on demand and classified as a current liability at March 31, 2021.

At June 30, 2021, Razor has received executed agreements from all parties that waived all default conditions and therefore is classifying this loan into its current and long-term liability portions based on the contractual terms. The Amended Arena Term Loan is still subject to cross covenant default clauses that if triggered may accelerate and require immediate repayment of amounts outstanding.

As at December 31, 2021, Razor was in compliance with all of its non-financial debt covenants.

The changes in long-term debt are as follows:

($000's)	December 31, 2021	December 31, 2020
Balance, beginning of year	**50,878**	44,667
Arena Term Loan[1]	**14,006**	-
Amended Arena Term Loan [3]	**11,035**	-
Unrealized FX gain on US denominated debt	**78**	-
AIMCo Term Loan – FutEra consideration	**3,500**	-
Deferred financing costs	**(7,697)**	-
Repayment of amended Arena Term Loan	**(5,022)**	-
Repayment of Promissory Notes	**(356)**	(325)
Amortization of deferred financing costs	**2,162**	1,207
Amended Term Loan Facility - Interest deferral	**-**	2,693
Amended Term Loan Facility - Interest deferral	**-**	2,452
Amended Term Loan Facility – Interest deferral [2]	**1,841**	-
Amended Term Loan Facility – Interest deferral [4]	**2,767**	-
Promissory Note-3	**-**	184
Balance, end of year	**73,192**	50,878

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

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

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

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

As at December 31, 2021 and December 31, 2020, Razor had the following outstanding long-term debt:

($000's)	Final Maturity	December 31, 2021	December 31, 2020
Amended Term Loan Facility – interest deferral	Jan-2021	**-**	2,693
Amended Term Loan Facility – interest deferral	Jan-2021	**-**	2,452
AIMCo Term Loan – principal	Jan-2024	**50,145**	45,000
AIMCo Term Loan – FutEra consideration	Jan-2024	**3,500**	-
AIMCo Term Loan – interest deferral	Jan-2024	**1,841**	-
AIMCo Term Loan – interest deferral	Jun-2022	**2,767**	-
Amended Arena Term Loan	Apr-2024	**20,108**	-
Promissory Note-1	Sep-2022	**211**	478
Promissory Note-2	Dec-2022	**52**	101
Promissory Note-3	May-2024	**113**	154
		78,737	50,878
Deferred financing costs		**(5,545)**	-
Total debt		**73,192**	50,878
Current portion		**9,145**	50,765
Long-term portion		**64,047**	113
Total debt		**73,192**	50,878

Deferred financing costs totaling $7.8 million were netted against debt. Deferred financing costs related to the AIMCo Term Loan are comprised of FutEra consideration of $3.5 million and legal fees of $111 thousand. Deferred financing costs related to the Arena Term Loan are comprised of the original issuer discount of CAD$1.3 million and various fees and expenses totaling CAD$1.3 million. The Amended Arena Term Loan added deferred financing costs comprised of an additional original issuer discount of CAD $1.0 million and various fees and expenses totaling CAD $0.5 million.

10. LEASE OBLIGATION

On December 21, 2021, the Company signed a lease for submersible pumping equipment and related services. The lease is a short-term lease arrangement where the Company pays for the total over a period of six months after which they own the equipment. Razor has setup as a lease obligation that is being amortized over the lease term with an effective interest rate of 14%. Monthly payments of $16,230 include interest and principal.

On November 11, 2021, the Company signed an extension to its existing lease agreement for warehouse space. The lease extension is until March 2023. Razor has setup as a right-of-use assets to be amortized of the lease term and all terms and conditions remain the same, utilizing an effective interest rate of 6.1%. Monthly payments of $1,863 include interest and principal.

On April 20, 2021, the Company signed an extension to its existing lease agreement for the lease of office space in Swan Hills. The lease extension is for a period of three years and Razor has setup as a right-of-use asset to be amortized over the three-year lease term utilizing an effective interest rate of 6.1%. Monthly payments of $1,850 include interest and principal.

On March 1, 2021, the Company entered into a lease agreement for the lease of office space in Swan Hills for its subsidiary to replace its existing office lease. The lease is for a period of two years and Razor has setup as a right-of-use asset to be amortized over the two-year lease term utilizing an effective interest rate of 6.1%. Monthly payments of $5,000 include 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.

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.

At December 31, 2020, certain equipment loans and leases were in default due to cross covenant default issues related to covenant violations under the Amended Term Loan Facility with AIMCo and at December 31, 2020 these loans and lease were classified as potentially due on demand current liabilities. This condition remained in effect as at March 31, 2021.

At June 30, 2021, the Company received executed agreements from all impacted lessors that waived all the default provisions, therefore classifying the leases into its current and long-term liability portions based on the contractual terms. Certain of the leases are still subject to cross covenant default clauses that if triggered may accelerate and require immediate repayment of amounts outstanding.

The changes in lease obligations are as follows: *($000's)*	**December 31, 2021**	**December 31, 2020**
Balance, beginning of year	**3,294**	4,744
Liabilities incurred	**398**	196
Liabilities settled	**(2,102)**	(1,997)
Interest expense	**166**	351
Balance, end of year	**1,756**	3,294
Current portion	**1,321**	2,905
Long-term portion	**435**	389
Lease obligation	**1,756**	3,294

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $1.9 million.

Razor's minimum lease payments are as follows:

($000's)	**December 31, 2021**	**December 31, 2020**
Within one year	**1,383**	2,938
Later than one year but not later than three years	**348**	251
Later than three years	**216**	280
Minimum lease payments	**1,947**	3,469
Amount representing finance charge	**(191)**	(175)
Present value of net minimum lease payments	**1,756**	3,294

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, 2021**	**December 31, 2020**
Balance, beginning of year	**139,177**	119,148
Non-monetary transaction	**-**	2,666
Acquisition (note 6)	**473**	-
Government subsidy for decommissioning expenditures	**(1,861)**	(198)
Decommissioning expenditures	**(1,734)**	(340)
Effect of change in discount rate and inflation [1]	**16,174**	17,861
Revisions to estimates	**(48)**	(1,398)
Accretion expense	**2,437**	1,438
Balance, end of year	**154,618**	139,177
Current portion	**2,382**	3,097
Long-term portion	**152,236**	136,080
Decommissioning obligations	**154,618**	139,177

1) Decommissioning obligations acquired as part of a business acquisition 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 acquisition was $9.1 million.

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

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

	December 31, 2021	**December 31, 2020**
Undiscounted cash flows (000's)	**148,813**	129,801
Discount rate (%)	**1.68**	1.21
Inflation rate (%)	**1.82**	1.49
Weighted average expected timing of cash flows (years)	**28**	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 restrictions and covenants in the AIMCo Term Loan and the Amended Arena Term Loan.

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 is shown below.

	December 31, 2021		December 31, 2020	
Common Shares	**Number**	**($000's)**	**Number**	**($000's)**
Shares outstanding, beginning of year	**21,064,466**	**27,540**	21,064,466	27,540
Private placement	**2,250,000**	**1,890**	-	-
Share issuance costs	**-**	**(72)**	-	-
Shares outstanding, end of year	**23,314,466**	**29,358**	21,064,466	27,540

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

On October 1, 2021, the Company initiated a stock option plan for its subsidiary, FutEra Power Corp. The option plan issued a total of 261,000 options, out of a maximum of 284,000, with an exercise price of $1.74 per share, whereby 200,000 vested immediately and 61,000 vest equally over three years. All options expire in five years.

A summary of the outstanding stock options is set forth below:

	December 31, 2021		December 31, 2020	
	Number	**Price ($)**	**Number**	**Price ($)**
Outstanding, beginning of year	**-**	**-**	-	-
Granted	**261,000**	**1.74**	-	-
Outstanding, end of year	**261,000**	**1.74**	-	-

The fair value of the 2021 options was determined using the Black-Scholes pricing model with the following inputs:

Year ended December 31,	2021
Risk-free interest rate	1.07%
Expected life (years)	4.75
Expected volatility	107%

Share-based compensation for the year ended December 31, 2021 of $283 thousand was expensed.

DIVIDENDS

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

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

The carrying value and fair value of the Company's financial instruments at December 31, 2021 are as follows:

($000's)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**2,841**	2,841
Restricted cash	**1,384**	1,384
Accounts receivable	**16,367**	16,367
Accounts payable and accrued liabilities	**43,798**	43,700
Commodity contract liability	**573**	573
Minimum lease obligation	**1,947**	1,947
Promissory notes	**376**	369
Term Loan Facilities (AIMCo and Arena)	**78,361**	78,261

MARKET RISK

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

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

Liquidity Risk

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

The table below summarizes the Company's contractual obligations as at December 31, 2021:

($000's)	**Recognized in Financial Statements**	**Total**	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Accounts payable and accrued liabilities	Yes-Liability	**43,798**	43,798	-	-	-
AIMCo Term Loan	Yes-Liability	**58,253**	2,767	55,486	-	-
Amended Arena Term Loan	Yes-Liability	**20,108**	11,171	8,937	-	-
Promissory notes	Yes-Liability	**376**	307	69	-	-
Commodity contracts	Yes-Liability	**573**	561	12	-	-
Minimum lease obligation	Yes-Liability	**1,947**	1,383	348	216	-
Interest payable [1 2]	No	**13,761**	7,016	6,641	13	91
Lease operating costs	No	**123**	119	4	-	-
Transportation services	No	**1,135**	153	249	186	547
Total		**140,074**	**67,275**	**71,746**	**415**	**638**

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

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

Commodity Price Risk

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

As at December 31, 2021, Razor had the following derivative contracts outstanding:

Oil - Upside enhanced traditional collars [1]						
Reference point	Volume (bbls/mth)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl	Fair Value (CAD 000's)
NYMEX WTI financial futures	11,000	Jan 1'22-Feb 28'22	50.00	66.00	73.00	(156)
NYMEX WTI financial futures	11,000	Mar 1'22-Jul 31'23	50.00	65.00	75.00	(527)
Oil – Call options						
NYMEX WTI financial futures	25,000	Feb 1'22			75.00	110
						(573)

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

As at December 31, 2021, the Company fair valued the oil commodity contracts as a liability of $573 thousand (December 31, 2020 – N/A) on the Statement of Financial Position. The Company recorded an unrealized loss of $1,346 thousand for the year ended December 31, 2021 (year ended December 31, 2020 – unrealized loss of $2 thousand) and a realized loss of $463 thousand in earnings for the year ended December 31, 2021 (year ended December 31, 2020 – realized loss of $1,441 thousand). In conjunction with entering into the above contracts Razor paid CAD $773 thousand (US$638 thousand).

Subsequent to December 31, 2021, the Company has sold and purchased certain commodity contracts as follows:

Oil - Upside enhanced traditional collars [1]

Reference point	Volume (bbls/mth)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl
NYMEX WTI financial futures	11,000	Aug 31'23-Sept 30'23	50.00	65.00	75.00

Oil - options

Reference point	Volume (bbls/mth)	Remaining Term		Option type	Strike price
NYMEX WTI financial futures	15,000	Apr 30'22	Short	Call	75.00
NYMEX WTI financial futures	30,000	Apr 30'22	Long	Call	90.00
NYMEX WTI financial futures	11,000	Oct 31'23	Long	Put	50.00
NYMEX WTI financial futures	11,000	Jul 31'22-Dec 31'22	Short	Put	100.00

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's accounts receivables of $16.4 million at December 31, 2021, (December 31, 2020 - $6.5 million) are non-interest bearing.

The Company's receivables are summarized as follows:

($000's)	**December 31, 2021**	**December 31, 2020**
Trade receivables	**13,754**	4,714
Joint venture receivables	**2,610**	1,696
Other receivables	**282**	227
Allowance for doubtful accounts	**(279)**	(173)
	16,367	6,464

The majority of the credit exposure on trade receivables as at December 31, 2021, pertains to revenue for accrued December 2021 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, 2021**	**December 31, 2020**
Current (less than 30 days)	**12,432**	5,052
31 to 90 days	**2,724**	885
Over 90 days	**1,211**	527
Total receivables	**16,367**	6,464

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

Interest Rate Risk

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

The AIMCo Term Loan Facility matures on January 31, 2024 and bears interest at the rate of 10% per annum (paid semi-annually on June 30 and December 31). The Amended Arena Term Loan facility matures on April 1, 2024 and bears interest at the rate of 7.875% per annum and paid monthly. The Promissory Notes mature on September 12, 2022, December 13, 2022, and May 8, 2024, and interest is paid monthly at 6.1%, 6.5% and 7.94% per annum along with the principal.

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

Foreign Exchange Risk

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

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

	USD/CDN exchange Rate	
	1% increase	1% decrease
Income statement gain/(loss)	(167,000)	167,000

15. COMMITMENTS AND CONTINGENCIES

The Company has a firm commitment for oil and gas transportation services that includes contracts to transport oil and natural gas through third party owned pipeline systems. The Company also has a firm commitment for gas processing services that includes contracts to process natural gas through third party owned processing facilities (see note 14).

Razor assumed decommissioning liabilities included in its Swan Hills, Kaybob and District South acquisitions. The Company spent $3,595 thousand on abandonment, reclamation and remediation expenditures for the twelve months (2020 – $539 thousand) which includes $1,861 thousand related to government grants earned for well site rehabilitation through the SRP program (2020 – $199 thousand).

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

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

During the third quarter of 2020, the Company was served a statement of claim from a joint venture partner demanding immediate payment for past services totaling $4.6 million. Amounts owing to this joint venture partner are included in accounts payable and accrued liabilities at December 31, 2021 which total approximately $1.9 million. During the fourth quarter of 2021, Razor filed a Statement of Defence and a Counterclaim which alleges the joint venture partner over charged the joint account, underpaid revenue, conducted work without authorization and generally mis handled the joint account to the detriment of Razor. There can be no assurance that further financial damages will not occur, however, with the improved commodity price outlook, the Company anticipates it will reduce amounts owing throughout 2022.

16. REVENUES

The significant components recognized in revenues are as follows:

	Years Ended December 31,	
($000's)	**2021**	**2020**
Crude oil	**64,538**	37,665
Gas	**5,231**	3,126
NGL	**7,727**	5,063
Blending and processing	**3,222**	5,416
Road use	**576**	761
Other revenue[1]	**230**	916
	81,524	52,947

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.

17. FINANCING COSTS

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

The components of financing costs are summarized below.

	Years Ended December 31,	
($000's)	**2021**	**2020**
Interest expense	**6,613**	6,615
Amortization of deferred financing costs (note 9)	**2,162**	1,207
Accretion (note 11)	**2,437**	1,438
	11,212	9,260

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

18. INCOME TAX

The statutory tax rate was 23% in 2021 and 24% in 2020. 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)	**2021**	**2020**
Income (loss) before income taxes	**14,115**	(46,197)
Combined statutory tax rate	**23.0%**	24.0%
Expected income tax at statutory tax rate	**3,246**	(11,087)
Non-deductible expenses	**863**	9
Change in enacted tax rate	**-**	462
Change in unrecognized deferred tax asset	**(3,332)**	10,545
Acquisition	**(3,623)**	-
Other	**(777)**	71
Income tax expense (recovery)	**(3,623)**	-

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

	As at December 31,	
($000's)	**2021**	**2020**
Property, plant and equipment	**(36,553)**	(24,821)
Decommissioning obligations	**35,562**	15,264
Commodity contracts	**310**	-
Leases	**197**	
Financing charges	**167**	277
Non-capital losses	**317**	9,280
	-	-

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

	As at December 31,	
($000's)	**2021**	**2020**
Decommissioning obligations	**-**	72,811
Leases	**-**	808
Financing charges	**-**	-
Non-capital losses	**59,135**	-
	59,135	73,619

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

($000's)	**December 31, 2020**	Profit/Loss	Corporate Acquisition	**December 31, 2021**
Property, plant and equipment	(24,821)	(8,000)	(3,732)	**(36,553)**
Decommissioning obligations	15,264	20,189	109	**35,562**
Commodity contracts	-	310		**310**
Leases	-	197		**197**
Financing charges	277	(110)	**-**	**167**
Non-capital losses	9,280	(8,963)	**-**	**317**
	-	3,623	(3,623)	**-**

($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**
	-	**-**	**-**	**-**

The estimated tax pools are as follows:

	Years Ended December 31,	
($000's)	**2021**	**2020**
Canadian oil and gas property expenses	**28,734**	21,492
Canadian development expenses	**18,591**	18,892
Canadian exploration expenses	**228**	228
Undepreciated capital cost	**10,579**	5,728
Non-capital losses [1]	**60,514**	40,347
Other	**6,261**	1,207
Estimated tax pools	**124,907**	87,894

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, 2021 and 2020, there are no dilutive instruments affecting the basic per share calculations.

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

	Years Ended December 31,	
	2021	**2020**
Weighted average shares outstanding (basic and diluted)	**21,491,178**	21,064,466
Net income (loss) for the year (000's)	**17,738**	$ (46,197)
Net income (loss) per share (basic and diluted)	**0.83**	$ (2.19)

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years Ended December 31,	
($000's)	**2021**	**2020**
Accounts receivable	**(9,903)**	3,178
Prepaid expenses and deposits	**778**	(47)
Inventory	**(402)**	-
Accounts payable and accrued liabilities	**18,828**	(3,779)
	9,301	(554)

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

	Years Ended December 31,	
($000's)	**2021**	**2020**
Operating	**7,307**	395
Investing	**1,994**	(947)
	9,301	(554)

21. OTHER INCOME

The components for other income are summarized below.

	Years Ended December 31,	
($000's)	**2021**	**2020**
Insurance proceeds	**73**	4,725
Interest and other	**645**	49
SRP subsidy for decommissioning expenditures (note 11)	**1,861**	198
	2,579	4,972

During 2021, there were $73 thousand in insurance proceeds received (2020 - $4.7 million).

22. RELATED PARTY TRANSACTIONS

KEY MANAGEMENT COMPENSATION

In 2021, 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)	**2021**	**2020**
Salary and employee benefits	**1,469**	1,484

23. SUBSEQUENT EVENTS

Grant of Stock options

On February 9, 2022, the Company granted 816,000 incentive stock options (“Options”) to acquire common shares (“Common Shares”) of the Company under its stock option plan. An aggregate of 631,000 Options were granted to certain of the Company’s directors and officers and 185,000 Options were granted to certain of its employees.

All of the Options are exercisable for a period of five years at an exercise price of $1.00 per Common Share. One-third of the Options will vest on the date that is one year after the date of the grant of such Options and the remainder will vest one-third per year thereafter.

Financing

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

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

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

<u>Months 1 to 24</u>

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

<u>Months 25 to 48</u>

- Principal payments at an amortization rate of 5% on the prevailing monthly principal balance of Term Loan 3;
- Interest payments on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 7.7875%;
- Accrued interest on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 3%;
- The principal balance of Term Loan 3 at maturity is expected to be US$3.6 million.

The funded principal amount, after the original issuer discount, is US$10 million ($CAD 12,793,941), less related fees and expenses. Upon closing the Term Loan 3, the principal balance of the Amended and Restated Term Loan is US$25.7 million ($CAD 32,880,430). Other terms of the Amended and Restated Term Loan are materially unchanged from Amended Arena Term Loan.

Rights Offering

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

Each holder of Common Shares resident in a province or territory in Canada (the “Eligible Jurisdictions”) will receive one right (a “Right”) for each 1 Common Share held. Each whole Right will entitle the holder to subscribe for 0.0841016 of a Common Share. As a result, holders of Common Shares will need to exercise 11.8903796 Rights to acquire one Common Share. A holder of Rights must pay $2.55 to purchase one Common Share.

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

The Rights commenced trading on the TSX Venture Exchange ("TSXV") under the symbol RZE.RT on April 6, 2022. Common Shares purchased on or following the Record Date will not be entitled to receive Rights under the Rights Offering. Rights are exercisable until May 6, 2022, after which time unexercised Rights will be void and of no value.

If all of the Rights are exercised, the Company will raise gross proceeds of $5 million from the Rights Offering.

The expected closing date of the Rights Offering is May 9, 2022.

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
President and Chief Executive Officer of FutEra Power Corp.

Devin Sundstrom
Vice President, Production

Stephen Sych
Vice President, Operations

BOARD OF DIRECTORS

Doug Bailey

Sonny Mottahed (1) (2) (3)

Frank Muller

Sean Phelan (1) (2) (3)

CORPORATE OFFICE

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BANK

National Bank of Canada

AUDITORS

KPMG LLP

LEGAL COUNSEL

McCarthy Tétrault LLP

INDEPENDENT RESERVE EVALUATORS

Sproule Associates Limited

STOCK SYMBOL

RZE.V
TSX Venture Exchange

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