# RAZOR ENERGY CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

INNOVATIVE. DIVERSE. INSPIRED.

# RAZOR AT A GLANCE

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 Alberta. The Company trades under the symbol "RZE.V" on the TSXV.

**"Pivotal leading-edge enterprise, balancing creativity and discipline, focused on growing an enduring energy company."**

razor ENERGY

# RAZOR ENERGY CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

***NOVEMBER 25, 2021***

## GENERAL

The Management's Discussion and Analysis ("MD&A") intends to augment the financial statement reader's understanding of key operational and financial events that influenced the results of Razor Energy Corp. ("Razor" or "the Company") during the three and nine months ended September 30, 2021 in comparison to the three and nine months ended September 30, 2020.

This MD&A was prepared as of November 25, 2021 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2021 and 2020. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the reporting currency is the Canadian dollar. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2020, including the Company's annual information form and audited financial statements for the year ended December 31, 2020, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and the Company's website www.razor-energy.com.

All amounts presented are in Canadian dollars, except where otherwise indicated. Certain terms used throughout this MD&A are defined in the "Abbreviations and Definitions" section at the end of this document.

This MD&A contains forward-looking statements that should be read in conjunction with the Company's disclosure under "Forward Looking Information", outlined at the end of this MD&A.

Razor's website, www.razor-energy.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on Razor's website.

## COMPANY OVERVIEW

Razor is focused on shareholder returns through a combination of acquiring, enhancing, and producing oil and gas from properties primarily in Alberta. The Company produces primarily light oil, natural gas, and natural gas liquids ("NGL") in Alberta. Razor's full-cycle objectives have positioned the Company as a disciplined junior exploration and production company. With an experienced management team and a strong, committed board of directors, growth is anticipated to occur through operational execution, strategic acquisitions and business combinations with other oil and gas producers, as well as service companies. Razor is intent on leading in Environmental, Social and Governance (ESG) initiatives as the Company transforms to lower carbon outcomes and continues to lead a diverse and equitable culture.

Razor currently trades on TSX Venture Exchange under the symbol "RZE.V".

# OPERATING ENVIRONMENT AND THE COVID-19 PANDEMIC

During the three months ended September 30, 2021, the global economy has continued to show signs of recovery from the impacts of the COVID-19 pandemic. The outlook for crude oil demand has improved due to the easing of restrictions combined with the distribution of vaccines in developed countries resulting in significantly higher market prices. Global spot prices for crude oil have continued to rise as optimism for demand recovery improves and OPEC+ continues to adhere to production curtailments that limit supply. While we have benefited from these recent improvements in crude oil prices with significant volatility in price, uncertainty related to the COVID-19, and OPEC+ production curtailments have been considered in our estimates for the period ended September 30, 2021.

Razor is dedicated to ensuring the health, safety and security of its employees, contractors, partners and residents within all of its operating areas and communities. The Company is following all applicable rules and regulations as set out in Alberta Health and Health Canada guidelines to protect the well-being of all stakeholders.

# FUTURE OPERATIONS

As at September 30, 2021, the Company has a working capital deficit of $25.9 million, of which $4.0 million is comprised of cash and cash equivalents and used cash in operating activities of $5.5 million for the nine months ended September 30, 2021. Further, at September 30, 2021, the Company has contractual repayments of $58.0 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. 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 twelve 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 debt 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 debt, Amended Arena Term Loan and certain other loans and leases should they come due as a result of the default.

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 ("Plant") and South Swan Hills Unit Gas Gathering System ("Gathering System") at 32.5%, 8.6% and 27.6% working interest, respectively. The acquisition will allow 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 acquisition has an effective date of May 1, 2021. This acquisition enables the Company to cost-effectively add long-life low-risk light oil reserves, production and cash flow underpinned by industry-leading annual base decline rate of 9%.

In conjunction with the acquisition, the Company entered into an amendment agreement on its Arena Term Loan ("Amended Arena Term Loan") with Arena Investors for an additional US $8,833,922 (CAD $11,035,336). The proceeds of which are primarily to fund the acquisition of the Swan Hills working interest. 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 Term Loan, after the original issuer discount is US $8,000,000 (CAD $9,993,600).

On October 22, 2021, the Company successfully closed a Private Placement of common shares. The Company executed subscription agreements with AIMCo and certain members of management to purchase common shares of Razor for a subscription price of $0.84 per Razor Share. The gross proceeds of the Private Placement were $1,890,000.

The Company anticipates funding the remaining working capital deficit and contractual repayments, which includes 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 funding 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 with partners to bring non-operated production back on stream
- Working proactively with vendors on payment schedules
- Strategic acquisitions
- Equity financing

Further, the Company will utilize funds from the Arena Loan, a portion of the proceeds from the Amended Arena Term Loan and funds from the Private Placement 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 debt has certain covenants that will come into effect in 2022 that based on current financial results will be difficult to maintain.

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

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

## MANAGEMENT STRATEGY AND OUTLOOK

### Razor

As of the date of this MD&A, the Company is producing approximately 4,700 boe/d based on field estimates and the Company expects to exit 2021 with production at 5,000 boe/d or higher.

Razor continues to look forward and plan for the future while remaining focused on its long-term sustainability. The Company has an extensive opportunity set of high-quality wells requiring reactivation, many of which have payout metrics which exceed the Company's economic thresholds. Razor will continue the production enhancement activity started in February 2021 and anticipates reactivating 14 wells in Q4 2021. This program is intended to continue into 2022. Most activities involve repairs and maintenance work which will be expensed for accounting purposes and operating netbacks will be reduced during this timeframe. In aggregate, the annual base decline of these wells is anticipated to be consistent with the Company's current corporate rate of approximately 12%. In its history the Company has reactivated over 80 wells adding approximately 2,400 boe/d, or 30 boe/d of initial production on average per well, and it expects that this program will result in similar favorable metrics.

The Company continues to focus on cost control on its operated properties. In addition to the planned production enhancement program, Razor will take a cautious and case-by-case approach to spending for the remainder of 2021 and into 2022, focusing on low risk, low investment capital opportunities to increase field and corporate netbacks.

Razor has high reservoir quality, low decline, isolate carbonate Swan Hills reef light oil pools that contain large original oil in place with over 60 years of production history. Razor believes these reefs are ideally suited for carbon capture, utilization and storage and enhanced oil recovery ("EOR") purposes[1], in addition to geothermal power production and conventional open-hole horizontal development drilling upside.

Razor recognizes multiple deep value streams in its assets and is actively engaged in liberating them for the benefit of shareholders.

[1] These programs have been successfully demonstrated by the previous operator's South Swan Hills Unit CO2 EOR Injection Pilot which ran from 2008 to 2010 in addition to CO2 injection programs carried out in the Swan Hills Unit No. 1 and Judy Creek oil pools from 2004 to 2010.

## FutEra

In May 2021, FutEra Power Corp. ("FutEra"), a subsidiary of Razor entered the project execution stage of its Co-produced Geothermal Power Generation Project in Swan Hills, Alberta ("Geothermal Project"). FutEra expects the total capital cost of the Geothermal Project to be $34.0 million. Stage Gate 1 is fully funded. Stage Gate 2 requires additional financing which FutEra continues to seek. With both Stage Gate 1 and 2 of the Geothermal Project complete, the total nameplate electricity output of up to 21 MW, of which up to 30% will be sustainable clean power generation. FutEra has partnered with provincial and federal government agencies to invigorate the emerging geothermal industry. Provincially, Alberta Innovates ("AI") and Emissions Reduction Alberta ("ERA"), and federally, Natural Resources Canada ("NRCan"), have provided grants to complete funding. To date, Razor has received $10.5 million in government grants to support this power generation project. (See May 4, 2021, Razor press release and www.futerapower.com for more details.)

With the strategic acquisition of additional working interest in the Swan Hills area, FutEra has identified the potential for additional geothermal and/or natural gas power generation projects in Swan Hills Unit No.1. The volume and temperature of the produced fluids processed through two of the Unit's main facilities are highly analogous to FutEra's current South Swan Hills Unit Co-Produced Geothermal Power Generation Plant.

FutEra has identified and is in the process of reviewing and capturing additional projects including solar, wind, and other low carbon technologies. In addition, FutEra is in discussions with an industry resource partner to evaluate its renewable energy options and to develop a long term environmental, social and governance plan.

## SELECT QUARTERLY HIGHLIGHTS

The following tables summarizes key financial and operating highlights associated with the Company's financial performance.

| *($000's, except for per share amounts and production)* | Three Months Ended Sept 30, 2021 | Three Months Ended Sept 30, 2020 | Nine Months Ended Sept 30, 2021 | Nine Months Ended Sept 30, 2020 |
|---|---|---|---|---|
| **Production** | | | | |
| Light Oil (bbl/d) | **2,282** | 2,047 | **2,074** | 2,228 |
| Gas (mcf/d) [1] | **4,381** | 4,411 | **3,934** | 4,538 |
| NGL (boe/d) | **554** | 791 | **513** | 865 |
| Total (boe/d) | **3,567** | 3,573 | **3,242** | 3,849 |
| **Sales volumes** | | | | |
| Light Oil (bbl/d) | **2,304** | 2,186 | **2,075** | 2,231 |
| Gas (mcf/d)[1] | **3,831** | 4,411 | **3,533** | 4,538 |
| NGL (bbl/d) | **554** | 791 | **513** | 865 |
| Total (boe/d) | **3,497** | 3,712 | **3,177** | 3,852 |
| **Oil inventory volumes (bbls)** | **7,752** | 8,306 | **7,752** | 8,306 |
| **Revenue** | | | | |
| Oil and NGLs sales | **19,295** | 11,345 | **47,108** | 31,717 |
| Natural gas sales | **1,348** | 712 | **3,179** | 2,078 |
| Blending and processing income | **455** | 1,286 | **2,599** | 3,960 |
| Other revenue | **248** | 155 | **800** | 916 |
| Total revenue | **21,346** | 13,498 | **53,686** | 38,671 |
| Cash flows from (used in) operating activities | **(2,317)** | 2,124 | **(5,454)** | 3,837 |
| Per share -basic and diluted | **(0.11)** | 0.10 | **(0.26)** | 0.18 |
| Funds flow [2] | **306** | 5,598 | **(755)** | 3,924 |
| Per share -basic and diluted | **0.01** | 0.27 | **(0.04)** | 0.19 |
| Adjusted funds flow [2] | **1,113** | 5,562 | **852** | 4,258 |
| Per share -basic and diluted | **0.05** | 0.26 | **0.04** | 0.20 |
| Net income (loss) | **9,669** | (1,838) | **(1,510)** | (40,149) |
| Per share - basic and diluted | **0.46** | (0.09) | **(0.07)** | (1.91) |
| Weighted average number of shares outstanding (basic and diluted) | **21,064** | 21,064 | **21,064** | 21,064 |
| Capital expenditures | **576** | 481 | **6,176** | 1,493 |
| Government grants | **(3,254)** | (270) | **(4,617)** | (1,121) |
| **Netback** ($/boe) | | | | |
| Oil and gas sales [3] | **62.91** | 36.68 | **56.81** | 32.05 |
| Royalties | **(11.39)** | (1.50) | **(8.13)** | (2.80) |
| Adjusted operating expenses [2,4] | **(39.52)** | (23.12) | **(38.61)** | (25.41) |
| Production enhancement expenses [2] | **(3.87)** | (0.10) | **(5.47)** | (1.53) |
| Transportation and treating | **(2.65)** | (2.36) | **(2.36)** | (1.92) |
| Operating netback [2] | **5.48** | 9.60 | **2.24** | 0.39 |
| Net blending and processing income [2] | **0.93** | 2.40 | **1.68** | 2.97 |
| Realized loss on commodity contracts settlement [3] | **(0.42)** | 0.82 | **(0.21)** | (1.41) |
| Unrealized gain/(loss) on commodity risk management | **(1.07)** | (0.12) | **(1.44)** | - |
| Other revenues | **2.72** | 7.11 | **2.90** | 5.39 |
| General and administrative | **(3.77)** | (2.49) | **(3.82)** | (3.29) |
| Other expenses | **(0.35)** | - | **(0.29)** | - |
| Impairment | - | - | - | (23.46) |
| Interest | **(5.23)** | (5.23) | **(5.29)** | (4.07) |
| Corporate netback [2] | **(1.71)** | 12.09 | **(4.23)** | (23.48) |

1) Natural gas production includes internally consumed natural gas primarily used in power generation.
2) Refer to "Non-IFRS measures".
3) Excludes the effects of financial risk management contracts but includes the effects of fixed price physical delivery contracts.
4) Excludes production enhancement expenses incurred in the period.

## SELECT QUARTERLY HIGHLIGHTS (continued)

| *($000's, except for share amounts)* | **September 30, 2021** | **December 31, 2020** |
|---|---|---|
| Total assets | **199,233** | 163,709 |
| Cash | **3,952** | 1,098 |
| Long-term debt (principal) | **72,251** | 50,878 |
| Minimum lease obligation | **2,238** | 3,469 |
| Net debt [1] | **91,968** | 72,789 |
| Number of shares outstanding | **21,064,466** | 21,064,466 |

1) Refer to "Non-IFRS measures."

## Q3 2021 HIGHLIGHTS

### OPERATING

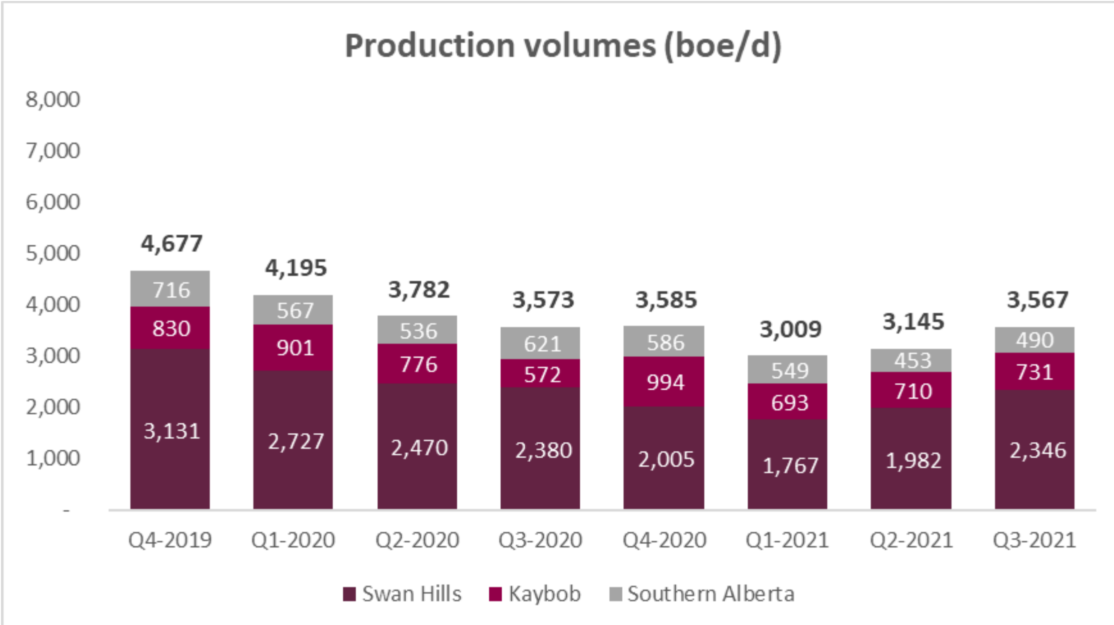
Production volumes in the third quarter of 2021 averaged 3,567 boe/d, which is on par with the production volumes in the same period of 2020 and represents a 13% production increase from Q2 2021. Highlights of the causes for the differences in production volumes between Q3 2021 and Q3 2020 are as follows:

- Swan Hills – production volumes are on par with those in the same period of 2020. Production in Q3 2021 was negatively impacted by various third party, temporary infrastructure issues. These impacts have been offset by increased production in the Swan Hills Unit No.1 as a result of the working interest acquisition in August 2021, a 4 well reactivation program, and the conclusion of operated and non-operated facility turnarounds.

  The Company is completing a reactivation program in Q4 2021, which will positively impact production in Swan Hills. This program is intended to continue into Q1 2022. The operator in Swan Hills Unit No.1 has embarked on various production enhancing activities in Q3 and Q4 2021. The Company expects these types of activities to continue in 2022.

- Kaybob – production volumes have increased 28% from the same period in 2020 due to certain reactivation and repair activities in the Simonette area offset by various, temporary shut-ins in other Kaybob non-operated wells. The Company is contemplating a reactivation program in Q1 2022.

- South District – production volumes have decreased 21% from the same period in 2020 primarily due natural declines and a non-operated field being shut in due to operator insolvency. Production from this particular non-operated field is expected to commence in January 2022. The Company has also completed a limited reactivation program in its South District within Q4 2021.




Net revenues were 35% higher compared to the third quarter of 2020. Net revenues were impacted by a 70% increase in realized oil prices which was tempered by a significant increase of 658% in royalties, while production levels in the third quarter of 2021 were on par with the same period in 2020. The Edmonton light sweet crude oil differential to West Texas Intermediate ("WTI") was 7% in the third quarter of 2021 compared to 10% in the same quarter of 2020. Realized NGL prices increased 127% in the third quarter of 2021 from the same period in 2020.

Razor reported $2.3 million cash flows used in operating activities in the third quarter of 2021 compared to $2.1 million cash flows from operating activities in the third quarter of 2020.

The Company reported a $9.7 million net income in the third quarter of 2021 compared to a $1.8 million net loss in the same period last year. The increase in net income of $11.5 million in the third quarter of 2021 was primarily due to the gain on acquisition of $12.1 million. Excluding the gain on acquisition, the quarter over quarter resulted in decreased earnings of $0.6 million due to the following factors:

- an 87% increase in adjusted operating costs and production enhancement expenses
- a significant increase in royalties due to a 100% increase in the Alberta Par Price since the third quarter 2020,
- a 61% decrease in net blending and processing revenue,
- a $0.3 million increase in unrealized hedging losses, and,
- the earnings decrease offset in part by a 70% increase in realized oil prices and a 19% decrease in DD&A.

## CAPITAL

During the third quarter of 2021, Razor invested $3.9 million in its geothermal project. The company also capitalized $0.1 million of costs related to operated and non-operated turnaround activities executed in the prior quarter. As of September 30, 2021, Razor has received $10.5 million in government grants since inception in to support its geothermal project.

Razor did not initiate any projects requiring finding and development capital in the quarter.

# CORPORATE SUSTAINABILITY, ENVIRONMENT & GOVERNANCE

***Razor is committed to a strong corporate sustainability program.***

## ENVIRONMENT

***Sustainability***

- With the increased working interest in the Plant through the acquisition in Swan Hills, the Company envisions the potential to advance Alberta's hydrogen initiative and the opportunity to implement CCUS in the greater Swan Hills area. Design and planning have begun on both small-scall hydrogen production and a CCUS facility.
- FutEra has identified, and is in the process of reviewing and capturing, additional projects including solar, wind and other low carbon technologies.

***GHG Emissions***

- Razor operates a natural gas-powered electricity generation program which allows the Company to reduce its reliance on coal-biased grid electricity and has reduced GHG emissions by 6,000 tCO2 annually and has reduced electricity costs by $7.5 million since the program was implemented in 2018.
- Once constructed, the geothermal project will reduce GHG emissions by up to 31,000 tCO2 annually.
- Razor has opted all assets/facilities into Alberta's Technology Innovation and Emissions Reduction (TIER) program and, as such, has catalogued all GHG sources and is committed to following or exceeding guidelines for GHG reductions in its oil and gas operations.

***Abandonment, Reclamation, and Remediation***

- The Company has been successful in obtaining approved applications under the Alberta Site Rehabilitation Program ("SRP") to assist with its abandonment and reclamation activities. The total value of approved applications is $3.7 million. Razor will continue to apply for SRP funding as opportunities become available.
- In the first nine months of 2021, the Company settled $2.3 million (twelve months 2020 - $0.5 million) of decommissioning obligations which includes $1.3 million (twelve months 2020 - $0.2 million) related to government grants earned for well site rehabilitation through the SRP Funds have been used primarily in Razor's Chin Coulee and Virginia Hills areas, assisting with the progression of approximately 70 wells through the closure process.
- The Company completed construction during Q2 2021 to repurpose certain facilities in Virginia Hills to become a Waste Management Component employing bioremediation to treat hydrocarbon-impacted soils. Approximately 2,500 tonnes of hydrocarbon impacted soils were deposited into the facility in Q3 for treatment which is expected to be remediated by Q2 2022. This represents a significant milestone for Razor as it provides a sustainable remediation option for its asset retirement program. Operating at a cost savings in relation to traditional landfilling methods and reduced trucking equates to lowered greenhouse gas emissions.

## GOVERNANCE

- Razor is committed to diversity and equality in the workplace.
- Razor is committed to conducting our operations safely and with proper policies, procedures, standards, training, equipment and emergency response procedures in accordance with all government regulations and industry practices.
- Razor maintains a complete series of documented Corporate policies and requires an annual review and sign off from all employees, consultants, management, executive and directors. Corporate policies include Code of Conduct, Corporate Disclosure and Whistleblower guidance.

## DAILY AVERAGE PRODUCTION

Sales volumes in the third quarter of 2021 averaged 3,497 boe/d, down 6% from the sales volumes in the same period in 2020.

Production volumes in the third quarter of 2021 averaged 3,567 boe/d, which is on par with the production volumes in the same period of 2020 and represents a 13% production increase from Q2 2021. Production volumes for the nine months ended September 30, 2021, averaged 3,242 boe/d, down 16% from the production volumes of 3,850 boe/day in the same period in 2020. Highlights of the causes for the differences in production volumes between Q3 2021 and Q3 2020 are as follows:

- Swan Hills – production volumes are on par with those in the same period of 2020. Production in Q3 2021 was negatively impacted by various third party, temporary infrastructure issues. These impacts have been offset by increased production in the Swan Hills Unit No.1 as a result of the working interest acquisition in August 2021, a 4 well reactivation program, and the conclusion of operated and non-operated facility turnarounds.

  The Company is completing a reactivation program in Q4 2021, which will positively impact production in Swan Hills. This program is intended to continue into Q1 2022. The operator in Swan Hills Unit No.1 has embarked on various production enhancing activities in Q3 and Q4 2021. The Company expects these types of activities to continue in 2022.

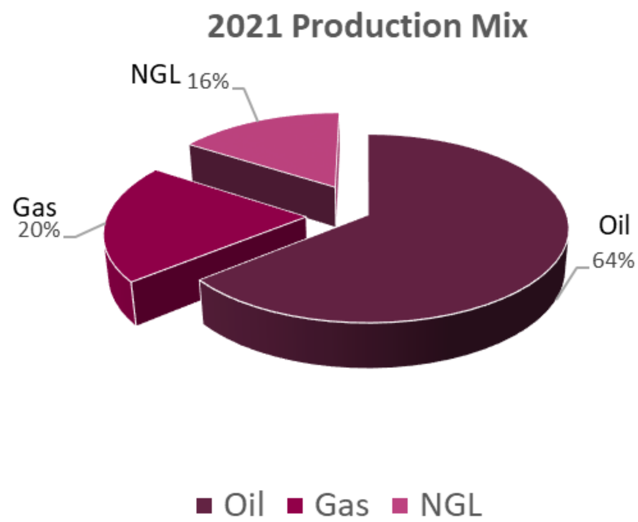
- Kaybob – production volumes have increased 28% from the same period in 2020 due to certain reactivation and repair activities in the Simonette area offset by various, temporary shut-ins in other Kaybob non-operated wells. The Company is contemplating a reactivation program in Q1 2022.

- South District – production volumes have decreased 21% from the same period in 2020 primarily due natural declines and a non-operated field being shut in due to operator insolvency. Production from this particular non-operated field is expected to commence in January 2022. The Company has also completed a limited reactivation program in its South District within Q4 2021.

Razor commenced its 2021 operated production enhancement programs in February and August 2021 with funds secured from the Amended Arena Term Loan and internal sources. Overall these activities have resulted in an average production increase during the 9 months ending Q3 2021 of 708 boe/d.

Inventory in existing surface tanks decreased in the third quarter by 2,032 bbls (Q3 2020 – decreased by 12,805 bbls). As at September 30, 2021, Razor had 7,752 bbls of crude oil inventory (December 31, 2020 – 8,203 bbls).

Effective July 2018, Razor began utilizing a portion of its own natural gas production to generate electrical power. Natural gas production of internally consumed natural gas for the three and nine months ended September 30, 2021, was 386 mcf/d and 472 mcf/d, respectively (three and nine months ended September 30, 2020 was 1,126 mcf/d and 1,317 mcf/d, respectively).




Production represents gross production before royalties, unless noted otherwise.

| Production (boe/d) | Three Months Ended Sept 30, 2021 | 2020 | Nine Months Ended Sept 30, 2021 | 2020 |
|---|---|---|---|---|
| Crude oil (bbl/d) | **2,282** | 2,047 | **2,074** | 2,228 |
| Gas (mcf/d)[1] | **4,381** | 4,411 | **3,934** | 4,538 |
| NGL (bbl/d) | **554** | 791 | **513** | 865 |
| **Total (boe/d)** | **3,567** | 3,573 | **3,242** | 3,849 |

1) Natural gas production for the three and nine months ended September 30, 2021, include 386 mcf/d and 472 mcf/d, respectively, of internally consumed natural gas in power generation.

| Production (boe/d)[1] | Three Months Ended Sept 30, 2021 | 2020 | Nine Months Ended Sept 30, 2021 | 2020 |
|---|---|---|---|---|
| Swan Hills | **2,346** | 2,380 | **2,033** | 2,525 |
| Kaybob | **731** | 572 | **712** | 742 |
| Southern Alberta | **490** | 621 | **497** | 582 |
| **Total** | **3,567** | 3,573 | **3,242** | 3,849 |

1) Natural gas production for the three and nine months ended September 30, 2021, include 386 mcf/d and 472 mcf/d, respectively, of internally consumed natural gas in power generation.

| Sales volumes (boe/d) | Three Months Ended Sept 30, 2021 | 2020 | Nine Months Ended Sept 30, 2021 | 2020 |
|---|---|---|---|---|
| Crude oil (bbl/d) | **2,304** | 2,186 | **2,075** | 2,231 |
| Gas (mcf/d)[1] | **3,831** | 4,411 | **3,533** | 4,538 |
| NGL (bbl/d) | **554** | 791 | **513** | 865 |
| **Total boe/d** | **3,497** | 3,712 | **3,177** | 3,852 |

1) Sales volumes include change in inventory volumes.

| Sales volumes (boe/d)[1] | Three Months Ended Sept 30, 2021 | 2020 | Nine Months Ended Sept 30, 2021 | 2020 |
|---|---|---|---|---|
| Swan Hills | **2,264** | 2,435 | **1,965** | 2,536 |
| Kaybob | **739** | 680 | **713** | 743 |
| Southern Alberta | **494** | 597 | **499** | 573 |
| **Total** | **3,497** | 3,712 | **3,177** | 3,852 |

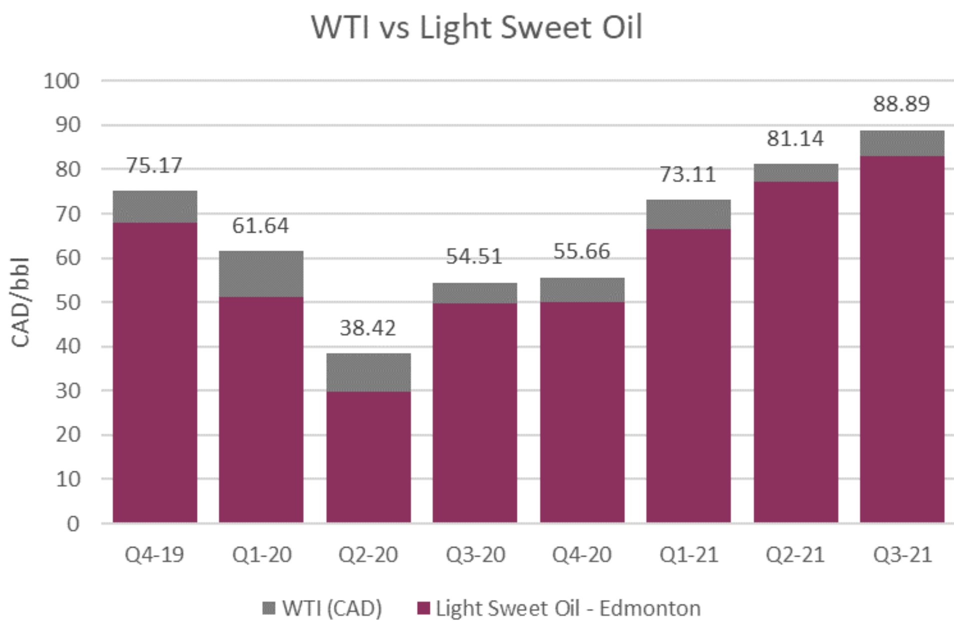
1) Sales volumes include change in inventory volumes.

| Inventory (bbls) | Nine Months Ended Sept 30, 2021 | 2020 |
|---|---|---|
| Opening light oil inventory | **8,203** | 9,251 |
| Inventory movement | **(451)** | 11,860 |
| Closing light oil inventory | **7,752** | 21,111 |
| Inventory movement (bbl/d) | **2** | 65 |

## COMMODITY PRICES AND BUSINESS ENVIRONMENT

| | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 |
|---|---|---|---|---|---|---|---|---|
| **Average selling price** | | | | | | | | |
| Oil price ($/bbl) | **82.29** | 75.43 | 65.17 | 49.53 | 49.08 | 30.95 | 48.08 | 67.59 |
| NGL price ($/bbl) | **38.08** | 30.91 | 33.49 | 22.50 | 16.74 | 12.96 | 16.07 | 23.82 |
| Natural gas price ($/mcf) | **3.44** | 3.64 | 3.20 | 2.21 | 1.75 | 1.47 | 1.87 | 1.69 |
| **Average benchmark prices and foreign exchange rates** | | | | | | | | |
| OIL ($/bbl) | | | | | | | | |
| WTI (USD) | **70.55** | 66.11 | 57.75 | 42.76 | 40.93 | 27.85 | 46.17 | 56.94 |
| WTI (CAD) | **88.89** | 81.14 | 73.11 | 55.66 | 54.51 | 38.42 | 61.64 | 75.17 |
| MSW (Light Sweet Oil - Edmonton) | **83.01** | 77.33 | 66.47 | 50.13 | 49.77 | 29.72 | 51.35 | 67.97 |
| WTI vs MSW oil differential (CAD/bbl) | **(5.88)** | (3.81) | (6.65) | (5.53) | (4.74) | (8.70) | (10.30) | (7.19) |
| WTI vs MSW oil differential (%) | **(7)%** | (5)% | (9)% | (10)% | (9)% | (23)% | (17)% | (10)% |
| NATURAL GAS (CAD/mcf) | | | | | | | | |
| AECO NGX AB-5a [1] | **3.63** | 3.10 | 3.14 | 2.65 | 2.24 | 2.00 | 2.04 | 2.49 |
| ELECTRICITY ($/MWh) | | | | | | | | |
| AESO Pool price | **100.33** | 104.51 | 95.41 | 46.13 | 43.83 | 28.78 | 66.37 | 46.97 |
| CAD/USD EXCHANGE RATE | **0.79** | 0.81 | 0.79 | 0.77 | 0.75 | 0.72 | 0.75 | 0.76 |

1) Benchmark natural gas pricing is shown per mcf using a conversion factor of 1.06 GJs per mcf.




***Crude Oil Prices***

Crude oil benchmark prices continued to strengthen in the third quarter of 2021 over the first and second quarters of 2021 and over the same period in 2020 leading to the highest quarterly average price since 2014. Continued signs of an improving global economy due to a roll-out of COVID-19 vaccinations combined with a resurgent global economy has led to increased oil demand. West Texas Intermediate ("WTI") averaged CAD $88.89/bbl in the third quarter of 2021, a 60% increase from year end 2020 and a 63% increase from the same period in 2020. The prices received by the Company for its oil production is primarily driven by the price of WTI, which is adjusted for quality and a differential. Razor produces the following grades of oil: Swan Hills Sweet/Mixed Sweet Blend ("MSW"), Peace Sour/Medium Sour Blend ("MSB") and Bow River South/Western Canadian Select ("WCS"). In the third quarter of 2021, the differential between WTI and MSW was 7% compared to 9% in Q3 2020. For the nine months ended 2021 the WTI to MSW differential averaged 7% down from the 16% differential in the same period of 2020.

Razor realized an oil price of $82.29/bbl during the third quarter of 2021, which was a 6% discount to the WTI (CAD) price, compared to the 11% discount in Q4 2020 and improved over the 10% discount in Q3 2020.

***Natural Gas and NGLs Prices***

The price realized by the Company for natural gas production is primarily determined by the AECO benchmark and based on Canadian fundamentals. AECO NGX AB-5a price, in the third quarter 2021 and nine months ended 2021, was up by 62% and 57% respectively, from the same period in 2020 due to an increase in demand for natural gas.

The Company's sale of NGLs is comprised of ethane, propane, butane, pentane, and condensate. Realized prices for NGLs during the third quarter 2021 and nine months ended 2021 increased 127% and 124%, respectively, from the comparative periods in 2020. The increase reflects significantly higher benchmark prices for ethane, propane, butane, and pentane prices, which correlates with the increase in natural gas, oil and condensate benchmark prices during the period. Condensate prices, which are priced at a differential to WTI, increased due to strengthening of WTI prices.

***Electricity Prices***

Electricity costs have a significant impact on the Company's results, as electricity accounted for 26% of operating expense in the third quarter 2021 and 29% in the third quarter 2020. For the nine months ended September 30, 2021, electricity accounted for 27% of operating expense compared to 31% in the same period of 2020. Average electricity pool prices in the third quarter 2021 increased by 129% from the same period in 2020 but electricity usage was down by 39%. For the nine months ended September 30, 2021, average electricity pool prices increased 116% from the same period in 2020 but electricity usage was down by 37%. Razor is operating a natural gas-powered electricity generation plant and has reduced its reliance on grid-based electricity resulting in lower electricity usage and cumulative savings of $7.5 million since July 2018. For the three months ended September 30, 2021, Razor has generated savings of $0.6 million (Q2 2020 - $0.5 million) in electricity costs.

## COMMODITY PRICE RISK

Razor is exposed to commodity price risk as prices for oil and natural gas products fluctuate in response to many factors including local and global supply and demand, weather patterns, pipeline transportation, political stability, and economic factors. Commodity price fluctuations are an inherent part of the oil and gas business.

Razor has mitigated some of its exposure to commodity price risk to protect the return on investment and provide a level of stability to operating cash flow. In Q1 2021, Razor entered certain financial hedges to protect cash flows and as a requirement of the Amended Arena Term Loan to have in place minimum hedge requirements of not less than 80% of Razor Royalty Limited Partnership’s 20 month forward projected overriding royalty. Razor continues to extend the hedge term to maintain the 20 month hedge requirement. These hedges are not used for trading or speculative purposes. The Company has not designated its derivative contracts as effective accounting hedges, even though the Company considers all derivative contracts to be effective economic hedges. Such derivative contracts are recorded on the consolidated statement of financial position at fair value, with changes in the fair value being recognized as an unrealized gain (loss) on the consolidated statement of income (loss) and comprehensive income (loss).

As at September 30, 2021, Razor had the following derivative contracts outstanding (December 31, 2020 – nil):

**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 | Oct 1 21-Feb 28 22 | 50.00 | 66.00 | 73.00 | (327) |
| NYMEX WTI financial futures | 11,000 | Mar 1 22-Apr 30 23 | 50.00 | 65.00 | 75.00 | (378) |
| | | | | | | (705) |

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 September 30, 2021, the Company fair valued the oil commodity contracts with a liability of $705 thousand (December 31, 2020 - $0) on the Statement of Financial Position. The Company recorded an unrealized loss of $351 thousand and $1,273 thousand for the three and nine month periods ended September 30, 2021, respectively (Sept 30, 2020 – unrealized gain of $38 thousand and $36 thousand and $2 thousand for the three and nine months, respectively) and a realized loss of $138 thousand and $190 thousand in earnings for the three and nine month periods ended September 30, 2021 (Sept 30, 2020 – realized gain of $271 thousand and a realized loss of $1,482 thousand for the three and nine months respectively). In conjunction with entering into the above contracts, Razor paid CAD $567 thousand (US$448 thousand).

Subsequent to September 30, 2021, the Company has purchased and sold 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 | May 31'23 | 50.00 | 65.00 | 75.00 |

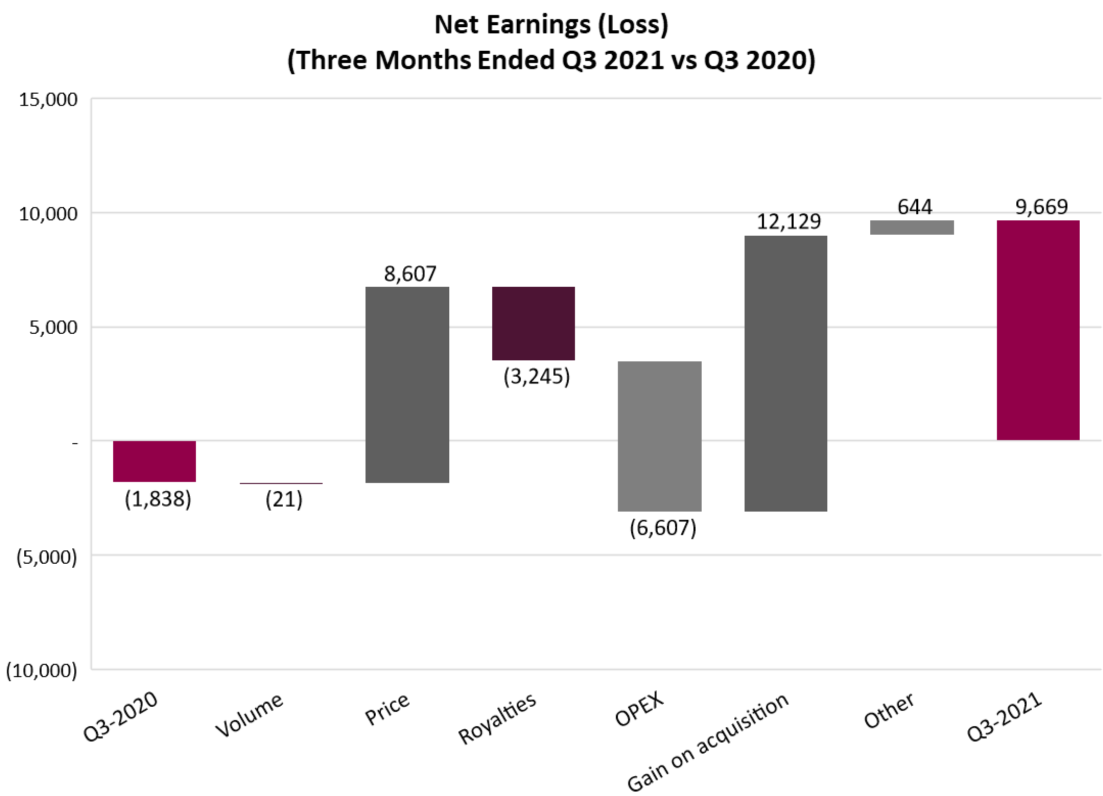
1) These contracts are upside enhanced traditional collars whereby the Company receives the floor price/bbl when the market price is below the floor price/bbl and receives the ceiling price/bbl when the market price is above the ceiling price/bbl, unless the market price rises above the long upside call,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

## NET EARNINGS/LOSS

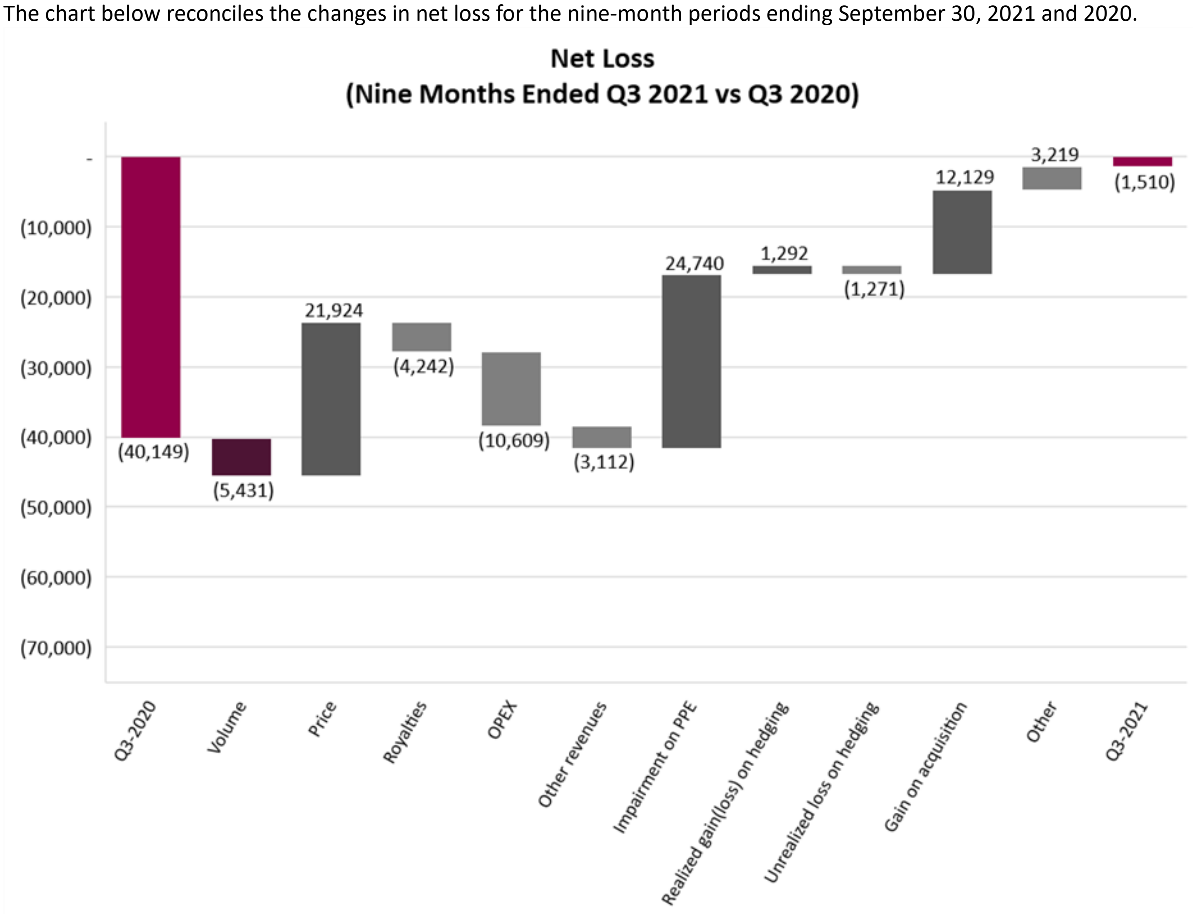
The Company reported $9.7 million net income in the third quarter of 2021 compared to a $1.8 million net loss in the same period last year. The increase in net income of $11.5 million in the third quarter of 2021 was primarily due to the gain on acquisition of $12.1 million. Excluding the gain on acquisition, the quarter over quarter resulted in decreased earnings of $0.6 million due to the following factors:

- an 87% increase in adjusted operating costs and production enhancement expenses
- a significant increase in royalties due to a 100% increase in the Alberta Par Price since the third quarter 2020,
- a 61% decrease in net blending and processing revenue,
- a $0.3 million increase in unrealized hedging losses, and,
- the earnings decrease offset in part by a 70% increase in realized oil prices and a 19% decrease in DD&A.

The chart below reconciles the changes in net earnings (loss) for the three-month periods ending September 30, 2021, and 2020.




The chart below reconciles the changes in net loss for the nine-month periods ending September 30, 2021 and 2020.



For the first nine months of 2021, the Company recorded a net loss of $1.5 million, as compared to a $40.1 million net loss in the same period of 2020. The increase of $38.6 million is primarily due to:

- the $12.1 million gain on acquisition recorded in the third quarter 2021,
- and the $24.7 million impairment recorded for Kaybob and South District CGU's in Q1 2020.

The remaining difference of $1.8 million of the net gain between the nine months ended September 30, 2021 and 2020 is due to:

- an 80% increase in realized oil prices,
- and a 23% decrease in DD&A expense primarily due to the decrease in the depletable base as a result of the impairment in Q1 2020.

With earnings being negatively offset by the following:

- a 37% increase in operating expenses which includes a $3.2 million increase in production enhancement expenses,
- 16% lower production,
- a 144% increase in royalties due to a 100% increase in the Alberta Par Price and additional high production wells which attract the maximum crown royalty rates, and
- a 43% decrease in net blending and processing revenue.

## NETBACKS

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($/boe)*[2] | **2021** | **2020** | **2021** | **2020** |
| Oil and gas sales | **62.91** | 36.68 | **56.81** | 32.05 |
| Royalty | **(11.39)** | (1.50) | **(8.13)** | (2.80) |
| Adjusted operating expenses [1, 4] | **(39.52)** | (23.12) | **(38.61)** | (25.41) |
| Production enhancement expenses [1, 4] | **(3.87)** | (0.10) | **(5.47)** | (1.53) |
| Transportation and treating | **(2.65)** | (2.36) | **(2.36)** | (1.92) |
| Operating netback (loss) [1] | **5.48** | 9.60 | **2.24** | 0.39 |
| Net blending and processing income [1] | **0.93** | 2.40 | **1.68** | 2.97 |
| Realized loss on commodity contracts settlement | **(0.42)** | 0.82 | **(0.21)** | (1.41) |
| Unrealized gain/(loss) on commodity risk management | **(1.07)** | (0.12) | **(1.44)** | - |
| Other revenue and income[3] | **2.72** | 7.11 | **2.90** | 5.39 |
| General and administrative | **(3.77)** | (2.49) | **(3.82)** | (3.29) |
| Other expenses | **(0.35)** | - | **(0.29)** | - |
| Impairment | **-** | - | **-** | (23.46) |
| Interest | **(5.23)** | (5.23) | **(5.29)** | (4.07) |
| Corporate netback (loss) [1] | **(1.71)** | 12.09 | **(4.23)** | (23.48) |

1) Refer to "Non-IFRS measures" section of the MD&A.
2) $/boe amounts are calculated using production volumes.
3) Primarily comprised of SRP grant income, road use and road maintenance.
4) Production enhancement expenses are excluded from Operating expenses and identified separately for the period.

During the third quarter of 2021, the Company realized an operating netback of $5.48/boe, a reduction from the operating netback of $9.60/boe in the third quarter of 2020. Realized prices increased by $26.23/boe, however the impact of increased prices was offset by a significant and related royalty increase of $9.89/boe. For the nine months ended September 30, 2021, the operating netback was $2.24/boe compared to an operating netback of $0.39/boe for the same period in 2020 mainly as a result of a $24.76/boe increase in realized prices which were up 77%, offset by the associated royalty rate increases of $5.33/boe

Royalty rates averaged 18% in the third quarter of 2021 as compared to 4% for the same period in 2020 due to a 100% increase in the Government of Alberta's PAR prices used in the calculation of crown royalties in Q3 2021 as compared to Q3 2020. For the nine months ended September 30, 2021, royalties averaged 14% compared to 9% in the same period in 2020 again mainly due to an increase in PAR prices and lower production on a year-to-date basis.

Adjusted operating and production enhancement costs increased by $16.40/boe and $3.77/boe respectively in the third quarter of 2021 as compared to 2020. When comparing the nine month periods ended September 30, 2021 and 2020, adjusted operating costs increased by $13.20/boe and production enhancement expenses increased by $3.94/boe.

Adjusted operating expenses increased $5.4 million or 71% on a total dollar basis and on a per boe basis in the third quarter of 2021 compared to the same period in 2020. The increase in the adjusted operating expense per boe was due primarily to fuel and electricity costs which averaged $12.85/boe in Q3 2021 as compared to $8.45/boe in 2020 and transportation and treating costs which averaged $3.33/boe in Q3 2021 as compared to $0.62/boe in 2020. Chemical costs averaged $1.88/boe in Q3 2021 as compared to $0.62/boe in 2020. For the nine months ended September 30, 2021, adjusted operating expenses increased $7.4 million or 28% on a total dollar basis and increased 52% on a per boe basis as production decreased 16% compared to the same period in 2020. The Company has a high proportion of fixed operating costs and anticipates operating costs on a dollar per boe basis to improve starting in Q4 2021 as production volumes increase.

The top cost drivers of the adjusted operating expenses consist of fuel and electricity, labour, property taxes, insurance, lease rentals, fluid hauling and chemicals. The top cost drivers accounted for 56% of the adjusted operating expenses in the third quarter of 2021 (comparable costs in Q3 2020 – 63%). For the nine months ended September 30, 2021, the same top cost drivers accounted for 57% of the adjusted operating expenses (comparable costs for the same period in 2020 – 71%).

The cost of electricity and fuel increased 63% in Q3 2021 as compared to the same quarter of last year mostly due to a 129% increase in average electricity pool prices which was offset by a 39% decrease in consumption, decreased reliance on non-operated fuel gas and lower production levels. For the nine months ended September 30, 2021, the cost of electricity and fuel increased 15% as compared to the same period of last year mostly due to a 116% increase in average electricity pool prices offset by a 37% decrease in consumption.

Razor has focused on cost control on all expenditures within its operations by implementing a procurement system, internalizing field services and producing its own electricity. Blade Energy Services Corp. ("Blade"), a wholly owned subsidiary of Razor, provides services such as crude oil hauling, earthworks and environmental services. Blade conducted $1.0 million of services on behalf of Razor during Q3 2021 (Q3 2020 - $0.6 million) and $3.4 million of services during the first nine months of 2021 (2020 - $1.6 million).

The Company continued its production enhancement activity in Q3 2021 in response to the stronger commodity price environment. Production enhancement expenses per boe averaged $3.87/boe in the third quarter 2021 as compared to $0.10/boe in 2020. The production enhancement program has resulted in an average production increase during Q3 2021 of 71 boe/d. For the nine months ended September 30, 2021, production enhancement expenses averaged $5.47/boe as compared to $1.53/boe for the same period in 2020.

Other revenue and income received during the three months ended September 30, 2021 was $0.9 million which primarily consisted of $0.35 million SRP grant income, $0.1 million of mining income, $0.2 million of insurance proceeds and gain on sale of assets and a combined $0.25 million of road use, road maintenance and other revenue. For the nine months ended September 30, 2021, other revenue and income received was $2.6 million compared to $5.7 million for the same period in 2020. The decrease for the nine months is mainly due to insurance proceeds received in 2020 offset somewhat by SRP grant income received in 2021.

During the third quarter of 2021, the Company received funds from Canada Emergency Wage Subsidy of $47 thousand. These grants were recognized as a $22 thousand reduction to general and administrative expense and a $11 thousand reduction of operating expenses.

For the nine months ended September 30, 2021, the Company received $0.6 million ($1.2 million for nine months ended September 2020) and the grants were recognized as a $0.3 million reduction to general and administrative expense and a $0.3 million reduction of operating expenses ($0.7 million and $0.5 million respectively for the nine month period ended September 30 2020).

## BLENDING AND PROCESSING INCOME

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Blending and processing income | **455** | 1,286 | **2,599** | 3,960 |
| Blending and processing expenses | **(151)** | (497) | **(1,113)** | (829) |
| Net blending and processing income [1] | **304** | 789 | **1,486** | 3,131 |
| ($/boe)[2] | **0.93** | 2.31 | **1.68** | 2.97 |

1) Refer to "Non-IFRS measures".
2) Based on production volumes.

Net blending and processing income was down 61% on a total dollar basis and also down 60% on a per boe basis in the third quarter of 2021 as compared to Q3 2020. Gross margins increased by 9% from 61% gross margin in Q3 2020 to 67% in Q3 2021. Razor continues to review commodity pricing in order to identify opportunities to increase blending and processing income. The reduction in Q3 2021 net blending and processing income is primarily due to the discontinuation of Razor's blending operations in the third quarter in an effort to reduce butane shrinkage losses in the summer. The Company has elected not to resume blending operations in the fourth quarter of 2021 due to strong butane prices, which are a significant input cost. The Company will continue to use this downtime to analyze data with the goal of fine tuning the optimum blending parameters once the blending facility restarts operations, which is anticipated to be in 2022 if economics are favorable.

For the nine months ended September 30, 2021, net blending and processing income was down 53% on a total dollar basis and down 43% on a per boe basis as compared to the same period last year. Gross margins decreased by 28% from 79% in the nine months ended September 2020 to 57% in the nine months ended 2021. The decrease is primarily due to the discontinuation of Razor's blending operations in July 2021.

## GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Gross G&A | **1,840** | 1,503 | **5,614** | 5,794 |
| Canada Emergency Wage Subsidy | **(22)** | (230) | **(300)** | (684) |
| Overhead recoveries | **(328)** | (318) | **(1,283)** | (1,124) |
| Capitalized G&A | **(253)** | (137) | **(650)** | (513) |
| Net G&A | **1,237** | 818 | **3,381** | 3,473 |
| ($/boe)[1] | **3.77** | 2.40 | **3.82** | 3.29 |

1) Based on production volumes.

The Company is committed to ongoing focus on cost optimization in all areas of Razor's business including gross G&A costs. Gross G&A costs in the third quarter of 2021 increased 22% from the same quarter of 2020. The increase is due higher insurance expense and increased computer software license costs offset partially by decreases in consulting and the suspension of the employee stock purchase plan.

For the nine months ended September 30, 2021, gross G&A was down 3% from the same period in 2020. The decrease is due to decreases in consulting and legal costs, the suspension of the employee stock purchase plan and reduction in the costs of computer software and licenses offset somewhat by increased insurance expense and brokerage fees related to the hedging program. For the nine months ended September 2021, the Company received $0.3 million from the Canada Emergency Wage Subsidy that was recognized in G&A ($0.7 million for the nine months ended September 2020)

## FINANCING COSTS

The components of financing costs are summarized below.

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Interest expense | **1,716** | 1,719 | **4,682** | 4,293 |
| Amortization of deferred financing costs | **650** | 654 | **1,442** | 1,207 |
| Accretion | **620** | 358 | **1,846** | 1,032 |
| | **2,986** | 2,731 | **7,970** | 6,532 |
| *($/boe)*[1] | | | | |
| Interest expense | **5.23** | 5.03 | **5.29** | 4.07 |
| Amortization of deferred financing costs | **1.98** | 1.92 | **1.63** | 1.14 |
| Accretion | **1.89** | 1.05 | **2.09** | 0.98 |
| | **9.10** | 8.00 | **9.01** | 6.19 |

1) $/boe amounts are calculated using production volumes.

Interest expense primarily arises from interest on the AIMCo Term Loan, Amended Arena Term Loan, Promissory Notes, and lease obligations. Overall interest expense was consistent in the third quarter of 2021 as compared to the same period of 2020 and was composed of; AIMCo interest remaining consistent, additional interest in Q3 2021 due to the addition of the Arena loan in 2021 which was offset by reduced interest charges in preexisting equipment notes and lease obligations. Amortization of deferred financing costs is down 1% in the third quarter of 2021 as compared to the same period of 2020 reflecting the offsetting impact of additional deferred financing charges added and amortized in 2021 related to the renewed AIMCo loan and the Arena debt and the expensing in Q3 2020 of the balance of the original AIMCo deferred financing charges due to the default condition triggered in Q3 2020. Accretion, which relates to the time value change of the Company's decommissioning obligations, increased 73% in 2021 as compared to the same period of 2020 due to a higher risk-free discount rate.

For the nine months ended September 30, 2021, financing costs increased 22% over the same period in the prior year due to additional interest expense related to the Amended Arena Term Loan, increased deferred financing charges for both the AIMCo and Arena term loans and increased accretion charges due to a higher risk-free discount rate.

## DEPLETION, DEPRECIATION AND AMORTIZATION

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Depletion, depreciation and amortization | **3,874** | 4,758 | **10,017** | 13,085 |
| ($/boe)[1] | **11.81** | 13.93 | **11.32** | 12.40 |

1)$/boe amounts are calculated using production volumes.

DD&A expense, for the third quarter of 2021, decreased 19% from the third quarter of 2020. The decrease in the three-month DD&A expense is due to a lower depletion rate on the Swan Hills Unit No.1 acquired working interest compared to the overall corporate depletion rate. Production volumes were virtually the same in Q3 2021 compared to the same period in the prior year and were not a factor in the depletion variance. As at September 30, 2021, future development costs required to develop proved and probable reserves in the amount of $43.1 million are included in the depletion calculation for PP&E and is unchanged from the prior quarter (December 31, 2020 - $43.1 million).

For the nine months ended September 30, 2021, DD&A expense decreased 23% primarily due to the decrease in the depletable base in Kaybob and Southern Alberta as a result of the impairment expense incurred in Q1 2020, offset somewhat by the increased depletable base in Swan Hills as a result of the acquisition of additional working interest in Q3 2021.

## IMPAIRMENT LOSS

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Impairment expense | **-** | - | **-** | 24,740 |

At September 30, 2021, Razor evaluated its developed and producing assets for indicators of impairment or impairment reversal of previously recognized impairments for the Company's CGU's. There were no indicators and therefore an impairment test was not performed. The company performed impairment tests and recorded impairment charges in the first quarter of 2020 as detailed below.

At March 31, 2020, Razor evaluated its developed and producing assets on a CGU (Swan Hills, Kaybob, and South District) 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 its CGU's in accordance with IAS 36. 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 South District CGUs exceeded their recoverable amounts and impairment charges of $16.03 million and $8.71 million, respectively, were recognized for the CGUs.

## CAPITAL EXPENDITURES

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Reactivations, recompletions and optimizations | **49** | 24 | **206** | (67) |
| Pipelines and injection management | **19** | 18 | **(7)** | 63 |
| Facilities and other | **(4)** | - | **208** | 177 |
| Finding and development related capital | **64** | 42 | **407** | 173 |
| Field equipment | **(103)** | 100 | **981** | 441 |
| Power generation | **3,905** | 282 | **5,264** | 851 |
| Information technology systems | **4** | - | **48** | 11 |
| Operational enhancement related capital | **3,806** | 382 | **6,293** | 1,303 |
| Capitalized turnarounds | **131** | - | **4,060** | - |
| Corporate related capital expenditures | **87** | 1 | **387** | 17 |
| Gross capital expenditures | **4,088** | 425 | **11,147** | 1,493 |
| Work conducted by Blade - intercompany elimination | **(258)** | - | **(354)** | - |
| Total capital | **3,830** | 425 | **10,793** | 1,493 |
| Government grants on assets | **(3,254)** | (270) | **(4,617)** | (1,121) |
| Net capital expenditures | **576** | 155 | **6,176** | 372 |

During the third quarter of 2021, Razor invested $3.9 million on its South Swan Hills Co-Produced Geothermal Natural Gas power project. The Company also capitalized an additional $0.1 million of turnaround costs that were executed on operated and non-operated turnarounds.

Razor did not initiate any projects related to finding and development capital and minimal non-operated activities were conducted during this period as the Company's focus is on investing in its 2021 production enhancement program to increase production and cash flow.

In May 2021 FutEra Power Corp. ("FutEra"), a subsidiary of Razor entered the project execution stage of its Co-produced Geothermal Project. FutEra expects the total capital cost of the Geothermal Project to be $34.0 million. Stage Gate 1 is fully funded. Stage Gate 2 requires additional financing which FutEra continues to seek. With both Stage Gate 1 and 2 of the Geothermal Project complete, the total nameplate electricity output will be up to 21 MW, of which up to 30% will be sustainable clean power generation. FutEra has partnered with provincial and federal government agencies to invigorate the emerging geothermal industry. Provincially, Alberta Innovates ("AI") and Emissions Reduction Alberta ("ERA"), and federally, Natural Resources Canada ("NRCan"), have provided grants to complete funding. As of September 30, 2021, Razor has received $10.5 million since inception in government grants to support this power generation project.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity is managed through cash, debt and equity management strategies, when available. Razor manages its liquidity requirements by using both short-term and long-term cash forecasts.

As at September 30, 2021, the Company has a working capital deficit of $25.9 million, of which $4.0 million is comprised of cash and cash equivalents and used cash in operating activities of $0.9 million for the nine months ended September 30, 2021. Further, at June 30, 2021, the Company has contractual repayments of $58.0 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 has received executed agreements from all parties that waived all default conditions. As a result, the loans and leases are currently no longer due on demand and have reverted to their original repayment terms.

As at September 30, 2021, Razor was in compliance with all of its non-financial debt covenants. As at September 30, 2021, the Company has a working capital deficit of $25.9 million. While the Company anticipates reducing the working capital deficit over the next twelve 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 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.

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 reducing 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 funding 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 with partners to bring non-operated production back on stream
- Working proactively with vendors on payment schedules
- Strategic acquisitions
- Equity financing

Further, the Company will utilize funds from the original Arena Loan, a portion of the proceeds from the Amended Arena Term Loan, and funds from the Private Placement 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 debt has certain covenants that will come into effect in 2022, specifically the working capital ratio as noted above, that based on current financial results will be difficult to maintain.

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

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

## SOURCES AND USES OF CASH

Major sources and uses of cash are outlined in the following table:

| | Three Months Ended Sept 30, | | Nine Months Ended Sept 30, | |
|---|---|---|---|---|
| *($000's)* | **2021** | **2020** | **2021** | **2020** |
| Adjusted funds flow [1] | **1,137** | 5,562 | **852** | 4,258 |
| Long-term debt issued | **11,035** | - | **25,041** | - |
| Proceeds from government grants | **3,254** | 270 | **4,617** | 1,121 |
| Asset dispositions | **102** | - | **124** | - |
| **Cash sourced (used)** | **15,528** | 5,832 | **30,634** | 5,379 |
| Capital expenditures | **(3,866)** | (364) | **(10,955)** | (1,082) |
| Business acquisition | **(6,312)** | - | **(6,312)** | - |
| Decommissioning costs incurred | **(758)** | 36 | **(1,040)** | (334) |
| Purchase of commodity contracts | **(49)** | | **(567)** | - |
| Finance costs | **(3,264)** | (1,719) | **(8,879)** | (4,293) |
| Repayment of lease obligation | **(460)** | (421) | **(1,468)** | (1,261) |
| Repayment of long term debt | **(1,028)** | (93) | **(2,935)** | (238) |
| Non-cash deferral of interest | **-** | 447 | **1,841** | 2,685 |
| Dividends declared | - | - | **-** | (263) |
| Restricted cash | **(446)** | 299 | **(1,527)** | - |
| **Cash used** | **(16,183)** | (1,815) | **(31,842)** | (4,786) |
| | **(655)** | 4,017 | **(1,208)** | 593 |
| Changes in non-cash working capital | **1,825** | (2,374) | **4,039** | 159 |
| Foreign currency translation | **72** | (10) | **23** | (22) |
| **Change in cash position** | **1,242** | 1,633 | **2,854** | 730) |
| Cash, beginning of period | **2,710** | 1,002 | **1,098** | 1,905 |
| **Cash, end of period** | **3,952** | 2,635 | **3,952** | 2,635 |

1) Refer to "Non-IFRS Measures".

## SHARE CAPITAL

As at September 30, 2021, the Company had a total of 21,064,466 common shares outstanding (December 31, 2020 - 21,064,466 common shares outstanding).

On October 22, 2021, the Company closed a private placement of common shares of Razor Energy. The company executed subscription agreements with Alberta Investment Management Corporation (AIMCo), to purchase common shares of Razor for a subscription price of $0.84 per Razor Share (the "Issue Price"). AIMCo subscribed for and agreed to purchase 2,200,000 Razor Shares for aggregate proceeds of $1,848,000. In addition, certain members of management collectively subscribed for 50,000 Razor Shares at the Issue Price for proceeds for $42,000 (the "Management Subscription"). The gross proceeds of the Private Placement were $1,890,000.

As at November 25, the Company had a total of 23,314,466 common shares issued and outstanding.

## 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.

## LEASES

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.

On March 1, 2021, the Company entered into a lease agreement for the lease of office space in Swan Hills for its subsidiary, Blade, 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.

## TERM LOANS

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

As at June 30, 2021, Razor was in compliance with all of its non-financial debt covenants. At March 31, 2021, the default condition on certain equipment loans and leases 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.

As at September 30, 2021, Razor was in compliance with all of its non-financial debt covenants. As at September 30, 2021, the Company has a working capital deficit of $25.9 million. While the Company expects to reduce the working capital deficit over the next twelve 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.

***Revised terms on existing non-revolving term loan***

On June 30, 2021, the Company entered into an agreement with AIMCo which deferred the scheduled June 30, 2021 interest payment of $1.8 million owing under the AIMCo Term Loan Agreement and added it to the total principal outstanding.

## Loan with Arena Investors, LP

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

The Arena Term Loan will be repaid over 29 months with principal and interest payments of approximately US$0.4 million per month, commencing April 1, 2021 and full 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 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 are primarily to fund the acquisition of the Swan Hills working interest. 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 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 by 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 $100,000 in any fiscal year.

At March 31, 2021, the default condition on certain equipment loans and leases 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 September 30, 2021, Razor was in compliance with all of its non-financial debt covenants.

The intended use of proceeds are production enhancements and associated spending, hedging and various upfront payments and transaction fees.

## COMMITMENTS AND CONTINGENCIES

As part of its normal business, the Company entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. The principal commitments of the Company as at September 30, 2021 were as follows:

| *($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 | **40,413** | 40,413 | - | - | - |
| Amended term loan facility | Yes-Liability | **55,486** | - | 55,486 | - | - |
| Amended Arena Term Loan | Yes-Liability | **22,579** | 8,577 | 14,002 | - | - |
| Promissory notes | Yes-Liability | **468** | 374 | 94 | - | - |
| Minimum lease obligation | Yes-Liability | **2,239** | 1,534 | 490 | 215 | - |
| Interest payable [1 2] | No | **14,710** | 6,826 | 7,780 | 13 | 91 |
| Lease operating costs | No | **166** | 166 | - | - | - |
| Transportation services | No | **1,184** | 85 | 256 | 205 | 638 |
| Total | | **137,244** | **57,974** | **78,108** | **433** | **729** |

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 right-of-use asset liability.

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

Razor inherited decommissioning liabilities included in its Swan Hills, Kaybob and South District acquisitions. In Q3 2021, the Company settled $1.1 million of decommissioning obligations which includes $349 thousand related to government grants earned for well site rehabilitation through the SRP program (nine month ended Q3 2020 – spend of $334 thousand).

Razor has been successful in obtaining approved applications under the Alberta Site Rehabilitation Program (“SRP”). To date, Razor has received approval for $3.7 million in funding to assist with abandonment and reclamation activities. The Company also expects to receive additional grants in subsequent phases of the SRP.

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, and at September 30, 2021 total approximately $1.8 million. Subsequent to September 30, 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. With higher production and improved commodity pricing, the Company anticipates positive net revenue from these properties for the remainder of 2021 and into 2022.There can be no assurance that further financial damages will not occur, however, the Company anticipates it will reduce amounts owing throughout the remainder of 2021 and into 2022.

For additional information, refer to “Legal Proceedings and Regulatory Actions” in the Company’s most recent annual information form, which is available on SEDAR at www.sedar.com.

## NON-IFRS MEASURES

Certain financial measures included in this MD&A do not have a standardized meaning prescribed by IFRS and therefore are considered non-IFRS measures; accordingly, they may not be comparable to similar measures provided by other companies.

## FUNDS FLOW AND ADJUSTED FUNDS FLOW

This document contains the term “funds flow”, which should not be considered an alternative to, or more meaningful than “cash flow from operating activities” as determined in accordance with IFRS. Funds flow is a non-IFRS measure that represents cash generated from operating activities before changes in non-cash working capital. "Adjusted funds flow" represents cash flow from operating activities before changes in non-cash working capital and decommissioning obligation expenditures are incurred. This is considered a key measure as it demonstrates Razor's ability to generate the cash flow necessary to fund future growth through capital investment. Adjusted funds flow may not be comparable to similar measures used by other companies.

***Reconciliation of Funds Flow and Adjusted funds flow***

| *($000's)* | Three Months Ended Sept 30, 2021 | 2020 | Nine Months Ended Sept 30, 2021 | 2020 |
|---|---|---|---|---|
| Cash flow from (used in) operating activities | **(2,340)** | 2,124 | **(5,454)** | 3,837 |
| Changes in non-cash working capital | **2,646** | 3,474 | **4,699** | 87 |
| **Funds flow** | **306** | 5,598 | **(755)** | 3,924 |
| Decommissioning costs incurred | **758** | (36) | **1,040** | 334 |
| Purchasing of commodity contracts | **49** | - | **567** | - |
| **Adjusted funds flow** | **1,113** | 5,562 | **852** | 4,258 |

## OPERATING NETBACK

Operating netback is a measure that represents sales net of royalties and operating expenses. Management believes that operating netback is a useful supplemental measure to analyze operating performance and provide an indication of the results generated by the Company's principal business activities prior to the consideration of other income and expenses. Operating netback may not be comparable to similar measures used by other companies.

## ADJUSTED OPERATING EXPENSES

Adjusted operating expenses are regular field or general operating costs that occur throughout the year and do not include production enhancement expenses. Management believes that removing the expenses related to production enhancements from total operating expenses is a useful supplemental measure to analyze regular operating expenses. Adjusted operating expenses may not be comparable to similar measures used by other companies.

## PRODUCTION ENHANCEMENT EXPENSES

Production enhancement expenses are expenses made by the company to increase production volumes which are not regular field or general operating costs that occur throughout a year. Management believes that separating the expenses related to production enhancements is a useful supplemental measure to analyze the cost of bringing wells back on production and the related increases in production volumes. Production enhancement expenses may not be comparable to similar measures used by other companies.

## NET BLENDING AND PROCESSING INCOME

Net blending and processing income is calculated by adding blending and processing income and deducting blending and processing expense. Net blending and processing income may not be comparable to similar measures used by other companies.

## CORPORATE NETBACK

Corporate netback is calculated by adding net blending and processing income and other revenues and deducting general & administration, acquisition and transaction costs, and interest from operating netback. Razor considers corporate netback as an important measure to evaluate its overall corporate financial performance.

Corporate netback may not be comparable to similar measures used by other companies.

## NET DEBT

Net debt is calculated as the sum of the long-term debt (includes AIMCo Term Loan, Amended Arena Term Loan and Promissory Notes) and lease obligations, less working capital (or plus working capital deficiency), with working capital excluding mark-to-market risk management contracts. Razor believes that net debt is a useful supplemental measure of the total amount of current and long-term debt of the Company. Net debt may not be comparable to similar measures used by other companies.

| ***Reconciliation of net debt***<br>*($000's)* | **Sept 30, 2021** | **December 31, 2020** |
|---|---|---|
| Long term debt | **(66,172)** | (113) |
| Long term lease obligation | **(571)** | (389) |
| | **(66,743)** | (502) |
| Less: Working capital | | |
| Current assets | **25,239** | 9,450 |
| Exclude commodity contracts | **705** | - |
| Current liabilities | **(51,169)** | (81,737) |
| | **(25,225)** | (72,287) |
| **Net debt** | **91,968** | 72,789 |

# FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

## FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The fair value hierarchy is as follows:

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

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

| Financial Instruments | Fair Value Method |
|---|---|
| **Measured at Amortized Cost** | |
| Cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities | Measured initially at fair value, then at amortized cost after initial recognition.<br><br>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.<br>Fair value is determined using discounted cash flows at the current market interest rate.<br>(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.<br><br>Determined using observable period-end forward curves.<br><br>(Level 2) |

The carrying value and fair value of the Company's financial instruments at September 30, 2021 are as follows:

| *($000's)* | **Carrying Value** | **Fair Value** |
|---|---|---|
| Cash and cash equivalents | **3,952** | 3,952 |
| Restricted cash | **1,527** | 1,527 |
| Accounts receivable | **12,349** | 12,349 |
| Accounts payable and accrued liabilities | **40,413** | 40,143 |
| Commodity contract liability | **705** | 705 |
| Lease obligation | **2,238** | 2,238 |
| Promissory Notes | **468** | 456 |
| Term Loan Facilities (AIMCo and Arena) | **78,065** | 78,255 |

## MARKET RISK

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

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

***Credit Risk***

Razor is exposed to third party credit risk through its contractual arrangements with its partners in jointly owned assets, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Razor, such failures could have a material adverse effect. The maximum credit risk that the Company is exposed to is the carrying value of cash and cash equivalents, restricted cash, and accounts receivable. The Company has not experienced any significant credit losses in the collection of accounts receivable to date.

The Company's accounts receivables of $12.3 million at September 30, 2021 (December 31, 2020 - $6.5 million) are non-interest bearing.

The Company's receivables are summarized as follows:

| *($000's)* | **September 30, 2021** | **December 31, 2020** |
|---|---|---|
| Trade receivables | **10,230** | 4,714 |
| Joint venture receivables | **2,372** | 1,696 |
| Other receivables | **111** | 227 |
| Allowance for doubtful accounts | **(364)** | (173) |
| | **12,349** | 6,464 |

The majority of the credit exposure on trade receivables as at September 30, 2021 pertains to revenue for accrued September 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)* | **September 30, 2021** | **December 31, 2020** |
|---|---|---|
| Current (less than 30 days) | **10,322** | 5,052 |
| 31 to 90 days | **471** | 885 |
| Over 90 days | **1,556** | 527 |
| Total receivables | **12,349** | 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 Amended Term Loan Facility, lease obligation, and Promissory Notes.

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. The Arena Term Loan facility matures on August 1, 2023 and bears interest at the rate of 7.875% per annum and paid monthly.

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

***Foreign Exchange Risk***

Razor's business is conducted primarily in Canadian dollars. However, the Company's commodity contracts, the Arena 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) | (183,000) | 183,000 |

## RISK MANAGEMENT

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Razor's operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of new reserves, commodity prices, interest rate and foreign exchange risks, competition and government regulations, risk of interruption or failure of information technology systems and data – all of these govern the business and influence the controls and management at the Company.

Razor manages these risks by:

- attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- operating properties in order to maximize opportunities;
- employing risk management instruments to minimize exposure to volatility of commodity prices;
- maintaining a comprehensive property loss and business interruption insurance program to reduce risk;
- implementing cyber security protocols and procedures to reduce the risk of a significant breach of the Company's information technology systems and related data;
- maintaining a strong financial position; and
- maintaining strict environmental, safety and health practices.

For additional details on the risks relating to Razor's business, see "Risk Factors" in the Company's most recent annual information form, which is available on SEDAR at www.sedar.com.

## QUARTERLY OPERATING AND FINANCIAL INFORMATION

| *($000's, except for per share amounts and production)* | **Q3 2021** | **Q2 2021** | **Q1 2021** | **Q4 2020** | **Q3 2020** | **Q2 2020** | **Q1 2020** | **Q4 2019** |
|---|---|---|---|---|---|---|---|---|
| Total revenue and other income | **21,346** | 17,185 | 15,155 | 14,276 | 13,498 | 12,116 | 15,641 | 22,755 |
| Total revenues net of royalties | **17,608** | 14,992 | 13,894 | 12,813 | 13,005 | 11,245 | 14,055 | 18,085 |
| Cash flows from (used in) operating activities | **(2,317)** | 403 | (3,518) | 356 | 2,124 | (540) | 2,253 | 3,922 |
| Per share - basic and diluted | **(0.11)** | 0.02 | (0.17) | 0.02 | 0.10 | (0.03) | 0.11 | 0.19 |
| Funds Flow [1] | **306** | 363 | (1,424) | (126) | 5,598 | 1,985 | (3,659 | 37 |
| Per share - basic and diluted | **0.01** | 0.02 | (0.07) | (0.01) | 0.27 | 0.09 | (0.17 | — |
| Adjusted funds flow [1] | **1,113** | 601 | (863) | 78 | 5,562 | 2,010 | (3,314 | 305 |
| Per share - basic and diluted | **0.05** | 0.03 | (0.04) | — | 0.26 | 0.10 | (0.16 | 0.01 |
| Net (loss) income | **9,669** | (5,544) | (5,635) | (6,048) | (1,838) | (4,083) | (34,228) | (11,853 |
| Per share - basic and diluted | **0.46** | (0.26) | (0.27) | (0.29) | (0.09) | (0.19) | (1.62) | (0.56 |
| Dividends declared per share | — | — | — | — | — | — | 0.01 | 0.04 |
| Adjusted Operating expenditures ($/boe) | **39.52** | 37.67 | 46.49 | 30.44 | 23.22 | 21.38 | 35.15 | 30.05 |
| Gross Capital expenditures | **4,088** | 6,173 | 859 | 428 | 481 | 587 | 425 | 2,518 |
| Government Grants received | **(3,254)** | (1,363) | — | — | (270) | (851) | — | (2,237) |
| **Production Volumes** | | | | | | | | |
| Crude Oil (bbl/d) | **2,282** | 1,983 | 1,952 | 2,023 | 2,047 | 1,996 | 2,642 | 2,839 |
| Natural gas (mcf/d) | **4,381** | 3,673 | 3,741 | 5,165 | 4,411 | 5,528 | 3,676 | 4,962 |
| NGL (bbl/d) | **554** | 549 | 434 | 701 | 791 | 865 | 940 | 1,011 |
| Total (boe/d) | **3,567** | 3,145 | 3,009 | 3,585 | 3,573 | 3,782 | 4,195 | 4,677 |
| **Sales Volumes [2]** | | | | | | | | |
| Crude Oil (bbl/d) | **2,304** | 2,010 | 1,907 | 2,024 | 2,186 | 1,971 | 2,537 | 2,862 |
| Natural gas (mcf/d) | **3,831** | 3,301 | 3,463 | 4,461 | 3,362 | 4,287 | 2,954 | 3,563 |
| NGL (bbl/d) | **554** | 549 | 434 | 701 | 791 | 865 | 940 | 1,011 |
| Total (boe/d) | **3,497** | 3,110 | 2,918 | 3,469 | 3,537 | 3,550 | 3,969 | 4,467 |

1) Refer to "Non-IFRS measures".
2) Sales volumes include change in inventory volumes.

| As at<br>*($000's)* | **Sept. 30, 2021** | **Jun. 30, 2021** | **Mar. 31, 2021** | **Dec.31, 2020** | **Sept. 30, 2020** | **Jun. 30, 2020** | **Mar. 31, 2020** | **Dec. 31, 2019** |
|---|---|---|---|---|---|---|---|---|
| Total assets | **199,283** | 155,385 | 150,560 | 163,709 | 163,857 | 162,412 | 151,031 | 189,158 |
| Cash | **3,952** | 2,710 | 6,018 | 1,098 | 2,635 | 1,002 | 2,322 | 1,905 |
| Long-term debt (principal) | **72,251** | 62,678 | 62,261 | 50,878 | 48,505 | 47,312 | 45,803 | 45,874 |
| Long-term Lease obligations | **2,021** | 2,482 | 3,026 | 3,294 | 3,679 | 4,222 | 4,469 | 4,744 |
| Net debt [1] | **91,968** | 82,719 | 76,622 | 72,789 | 68,442 | 71,499 | 72,875 | 66,911 |

1) Refer to "Non-IFRS measures".

Quarter over quarter fluctuations in revenue is the result of both, production sold as well as Razor's realized price. Production fluctuations are the result of well productivity and timing of deliveries to the sales point. The amount of volumes sold can be influenced by a variety of factors some of which include timing of reactivations, weather, processing facility availability, as well as pipeline capacity, shut ins and curtailments. Razor has worked to increase production through reactivations as well as asset acquisitions.

During the eight most recent quarters, the following items have had a significant impact on the Company's results:

- reduced spending on producing enhancing projects such as workovers and reactivations as a result of significant fluctuations in commodity prices, including WTI and Canadian oil price differentials,
- in early March 2020, and continuing into the fourth quarter of 2020, global crude oil prices started experiencing multi-decade lows coupled with extreme levels of volatility driven primarily by an unprecedented reduction in global demand due COVID-19,
- pricing improvement in 2021,
- impairment losses,
- gains and losses on commodity risk management contracts,
- timing of capital projects and outcomes, and
- Operated and non-operated turnarounds conducted in the second quarter 2021.

# SIGNIFICANT JUDGMENTS AND ESTIMATES

## USE OF ESTIMATES AND JUDGMENTS

The preparation of these condensed interim 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. There have been no significant changes to the Company's use of judgments and estimates as described in the Company's December 31, 2020, MD&A.

# OTHER FINANCIAL INFORMATION

## OFF-BALANCE SHEET ARRANGEMENTS

Razor does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal controls over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

## FORWARD LOOKING INFORMATION

Certain statements and information contained within this MD&A constitute forward-looking statements. These statements include, without limitation, the Company's ability to continue to operate in accordance with developing public health efforts to contain COVID-19, statements regarding the status of development or expenditures relating to our business, the natural gas-powered electricity generation program, the design of the Geothermal Project, geothermal waste heat recovery, the partnership with ERA, NRCan and AI, future business combinations, the anticipated benefits and effects of acquisitions, plans to fund our current and future activities, including debt and equity financings, plans related to the performance and growth of the Company and future operations, restarting wells, assistance from government programs including the SRP and Canada Emergency Wage Subsidy, commitments under area based closure program and other environmental, social and governance initiatives, the Company's capital program and budget, the availability, terms and use of the AIMCo Term Loan and the Amended Arena Term Loan, contractual obligations and commitments, future oil and natural gas production estimates, efficiencies and weighting, future financial position, future revenues, projected costs, the outcome of pending litigation and the potential financial impact thereof and shareholder returns. Statements relating to "reserves" are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "estimate", "potential", "could", "intend", "continue", "target", or the negative of such terms or other comparable terminology. We made a number of assumptions in the preparation of these forward-looking statements including with respect to oil and natural gas production levels, the success of the Company's operations and exploration and development activities, prevailing climatic conditions, commodity and electricity prices, exchange rates, price volatility, price differentials, the actual prices received for the Company's products. You should not place undue reliance on our forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, commodity and electricity price, interest rate and exchange rate volatility, the need for additional capital and the effect of capital market conditions and other factors, risks relating to the oil and gas and geothermal industries in general, such as operational risks and market demand, government regulation, the potential dilutive effects of any financing, the timing of exploration and development, the timely performance by third-parties of contractual obligations, the timing and costs of obtaining regulatory approvals, our estimates regarding our capital requirements and future revenues, the timing and amount of tax credits, and other risks detailed from time to time in our public disclosure documents. In addition, the Company cautions that COVID-19 may continue to have a material adverse effect on global economic activity and worldwide demand for certain commodities, including crude oil, natural gas and NGL, and may continue to result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could continue to affect commodity prices, interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company. The duration of the current commodity price volatility is uncertain. Additional risks and uncertainties relating to the Company and our business can be found in the "Risk Factors" section of the annual information for the year ended December 31, 2020 and in Razor's other public filings on SEDAR at www.sedar.com.

The forward-looking statements are made as of the date hereof, and we disclaim any intention and have no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about Razor's prospective results of operations, sales volumes, including sale of inventory volumes, production and production efficiency, balance sheet, capital spending, future financings, investment infrastructure and components thereof, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as a set forth in the above paragraph. FOFI contained in this document was approved by management as of the date of this document and was provided for the purpose of providing further information about Razor's future business operations. Razor disclaims any intention or obligation to update or revise any FOFI contained in this document, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this document should not be used for purposes other than for which it is disclosed herein.

### ADVISORY PRODUCTION INFORMATION

Unless otherwise indicated herein, all production information presented herein is presented on a gross basis, which is the Company's working interest prior to deduction of royalties and without including any royalty interests.

## ABBREVIATIONS AND DEFINITIONS

| | |
|---|---|
| **AECO** | Alberta Energy Company natural gas price, the natural gas storage facility located at Suffield, Alberta, connected to TransCanada's Alberta System |
| **AESO** | Alberta Electric System Operator, manages and operates the Alberta power grid. |
| **bbl** | barrels |
| **bbls** | barrels |
| **bbls/d** | barrels per day |
| **boe** | barrels of oil equivalent |
| **boe/d** | barrels of oil equivalent per day |
| **F&D** | finding and development |
| **FD&A** | finding, development and acquisition |
| **GJ** | gigajoule |
| **IFRS** | International Financial Reporting Standards |
| **mcf** | thousand cubic feet |
| **mcf/d** | thousand cubic feet per day |
| **Mmboe** | millions of barrels of oil equivalent |
| **NGL** | natural gas liquids |
| **NGX** | Natural Gas Exchange |
| **NI** | National Instrument |
| **WTI** | West Texas Intermediate crude oil price, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade. |

## CONVERSION OF UNITS

| To Convert From | To | Multiply By |
|---|---|---|
| mcf | cubic metres | 28.317 |
| cubic metres | cubic feet | 35.315 |
| bbls | cubic metres | 0.159 |
| cubic metres | bbls | 6.289 |
| feet | metres | 0.305 |
| miles | kilometres | 1.609 |
| acres | hectares | 0.405 |
| gigajoules | MMbtu | 0.950 |

## BARRELS OF OIL EQUIVALENT CONVERSIONS

The oil and gas industry commonly expresses production volumes and reserves on a barrel of oil equivalent basis (boe) whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants. Throughout this MD&A the Company has used the 6:1 boe measure which is the approximate energy equivalency of the two commodities at the burner tip. Barrels of oil equivalent does not represent a value equivalency at the wellhead nor at the plant gate, which is where the Company sells its production volumes, and therefore, may be a misleading measure, particularly if used in isolation. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a 6:1 conversion may be misleading as an indication of value.