



RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

<i>(Stated in thousands of Canadian dollars)</i>	Note	September 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		3,681	2,841
Restricted cash	4	4,597	1,384
Accounts receivable	12	19,122	16,367
Prepaid expenses and deposits		3,012	769
Inventory	5	762	747
		31,174	22,108
Commodity contracts	12	630	-
Property, plant and equipment	6	169,057	217,058
TOTAL ASSETS		200,861	239,166
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	49,877	43,798
Commodity contracts	12	3,298	573
Decommissioning obligations	9	2,757	2,382
Current portion of lease obligation	8	1,581	1,321
Current portion of long-term debt	7	9,422	9,145
		66,935	57,219
Non-Current			
Long-term debt	7	75,328	64,047
Long-term lease obligation	8	2,932	435
Flow-through share premium liabilities	11	399	-
Decommissioning obligations	9	97,210	152,236
TOTAL LIABILITIES		242,804	273,937
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	11	33,696	29,358
Contributed surplus	11	1,309	977
Deficit		(76,948)	(65,106)
		(41,943)	(34,771)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		200,861	239,166
Future Operations	2		
Commitments and Contingencies	13		
Subsequent Events	7,12		

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

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

(UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(Stated in thousands of Canadian dollars, except per share amounts)</i>	Note	2022	2021	2022	2021
REVENUES					
Commodity sales from production		35,137	20,643	109,637	50,287
Power generation revenue		1,893	-	1,893	-
Blending and processing revenue		873	455	2,692	2,599
Other revenue		667	248	1,670	800
Total revenues	14	38,570	21,346	115,892	53,686
Royalties		(10,128)	(3,738)	(28,001)	(7,192)
Net revenues		28,442	17,608	87,891	46,494
Other income	17	381	644	1,377	1,769
Realized loss on commodity contracts settlement	12	(1,135)	(138)	(1,003)	(190)
Unrealized gain (loss) on commodity risk	12	318	(351)	(538)	(1,273)
		28,006	17,763	87,727	46,800
EXPENSES					
Operating		21,499	14,240	57,154	39,021
Power generation		670	-	670	-
Transportation and treating		1,144	870	3,096	2,091
Blending and processing		296	151	1,001	1,113
General and administrative		1,354	1,237	4,728	3,381
Bad debt (recovery)		26	114	(762)	253
Share-based compensation		102	-	332	-
Financing	15	3,890	2,986	11,556	7,970
Depletion, depreciation and amortization	6	6,189	3,874	17,122	10,017
Realized foreign exchange loss (gain)		(205)	(18)	(302)	57
Unrealized foreign exchange loss		1,900	392	2,430	159
Loss (gain) on disposition/acquisition	6	-	(12,129)	2,615	(12,129)
		36,865	11,717	99,640	51,933
(Loss) Income before income tax		(8,859)	6,046	(11,913)	(5,133)
Deferred income tax recovery		(71)	3,623	(71)	3,623
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		(8,788)	9,669	(11,842)	(1,510)
NET INCOME (LOSS) PER SHARE					
Basic and diluted	16	(0.36)	0.46	(0.50)	(0.07)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(UNAUDITED)

<i>(Stated in thousands of Canadian dollars)</i>	Note	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficiency)
December 31, 2020		27,540	694	(82,844)	(54,610)
Net loss		-	-	(1,510)	(1,510)
September 30, 2021		27,540	694	(84,354)	(56,120)
December 31, 2021		29,358	977	(65,106)	(34,771)
Shares issued	11	5,000	-	-	5,000
Premium on flow-through shares	11	(471)	-	-	(471)
Share issue costs	11	(191)	-	-	(191)
Share-based compensation	11	-	332	-	332
Net loss		-	-	(11,842)	(11,842)
September 30, 2022		33,696	1,309	(76,948)	(41,943)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)		Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(Stated in thousands of Canadian dollars)</i>		2022	2021	2022	2021
	Note				
Operating Activities					
Net income (loss) for the period		(8,788)	9,669	(11,842)	(1,510)
Adjustments for non-cash items:					
Unrealized (gain) loss on commodity risk management	12	(318)	351	538	1,273
Unrealized (gain) loss on foreign currency translation		1,925	369	2,455	159
Gain (loss) on disposition/acquisition/asset sales	6,7	14	(12,141)	(775)	(12,144)
Other income	17	-	(349)	(612)	(1,274)
Financing costs	15	3,890	2,986	11,556	7,970
Depletion, depreciation and amortization	6	6,175	3,851	17,056	10,001
Share-based compensation	11	102	-	332	-
Decommissioning costs incurred	9	(550)	(758)	(995)	(1,040)
(Purchase) sale commodity contracts		1,047	(49)	1,533	(567)
Deferred Income Tax recovery		(71)	(3,623)	(71)	(3,623)
Changes in non-cash working capital	18	8,809	(2,646)	(3,221)	(4,699)
Net cash flows from (used in) operating activities		12,235	(2,340)	15,954	(5,454)
Financing Activities					
Proceeds from long-term debt	7	893	11,035	15,021	25,041
Repayment of long-term debt	7	(1,663)	(1,028)	(9,111)	(2,935)
Deferred financing cost	7	-	(1,548)	(1,952)	(4,197)
Payment of lease obligation	8	(774)	(460)	(2,903)	(1,468)
Interest expense	15	(2,171)	(1,716)	(3,472)	(2,841)
Proceeds from issue of common shares	11	-	-	5,000	-
Share issuance costs	11	(40)	-	(191)	-
Changes in non-cash working capital	18	1,655	1,462	1,655	1,462
Net cash flows from (used in) financing activities		(2,100)	7,745	4,047	15,062
Investing Activities					
Capital expenditures	6	(6,705)	(3,865)	(21,496)	(10,955)
Business acquisition		-	(6,312)	-	(6,312)
Proceeds from government grants for assets	6	-	3,254	3,284	4,617
Proceeds on sale of assets	4	-	102	-	124
Restricted cash	4	(842)	(446)	(3,213)	(1,527)
Changes in non-cash working capital	18	(1,848)	3,009	2,483	7,276
Net cash flows used in investing activities		(9,395)	(4,258)	(18,942)	(6,777)
Foreign currency translation		(30)	95	(219)	23
Change in cash and cash equivalents		710	1,242	840	2,854
Cash and cash equivalents, beginning of period		2,971	2,710	2,841	1,098
Cash and cash equivalents, end of period		3,681	3,952	3,681	3,952
Cash interest paid		516	252	1,817	1,378

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS AT SEPTEMBER 30, 2022 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

(Amounts expressed in Canadian dollars, except as otherwise noted)

1. CORPORATE INFORMATION

Razor Energy Corp. (“Razor” or the “Company”) is a publicly listed company incorporated in the province of Alberta, Canada and its shares are listed on the TSX Venture Exchange (“TSXV”). The address of its head office is 800, 500-5th Avenue SW, Calgary, Alberta, Canada, T2P 3L5. Razor is engaged in the exploration, development and production, and the acquisition of oil and natural gas properties in western Canada. The Company trades under the symbol “RZE.V” on the TSXV.

2. BASIS OF PRESENTATION

FUTURE OPERATIONS

As at September 30, 2022, the Company has a working capital deficit of \$35.8 million, of which \$3.7 million is comprised of cash and cash equivalents. Further, at September 30, 2022, the Company has contractual repayments of \$77.1 million due in less than one year.

The Company has a working capital deficit at September 30, 2022, which required a waiver from Alberta Investment Management Corporation (“AIMCo”) as the Company would have been unable to meet the working capital covenant of 1:1 at that date.

While the Company anticipates reducing the working capital deficit, it is still projecting to have a working capital deficit at December 31, 2022, which would result in non-compliance with the working capital covenant requirement under the AIMCo facility of 1:1 at December 31, 2022. Although the Company was able to obtain a waiver from AIMCo for the working capital covenant 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 December 31, 2022. This potential covenant default may result in the AIMCo Term Loan being due on demand. The potential covenant default would also result in a potential cross-covenant default for the Arena Amended and Restated Term Loan and certain other loans and leases at the same time. The Company does not have the financial ability to repay the AIMCo Term Loan, Arena Amended and Restated 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 December 31, 2022. The Company anticipates funding the working capital deficit and contractual repayments, which include the Arena Amended and Restated Term Loan, with a combination of cash from operations, other new debt or equity financings. The Company is employing the following specific strategies to assist in reducing the working capital deficit and making the contractual payments:

- Strategic investment in high quality reactivations to provide ongoing increases in production volumes to maximize monthly revenue and cashflows in the current strong commodity price environment;
- Conducting operations under a disciplined approach to capital and operating cost expenditures;

- Working proactively with vendors on payment terms;
- Working with partners to bring non-operated production back on stream;
- Strategic acquisitions;
- Equity financing;
- Debt financing.

While commodity prices have shown a significant improvement in 2022, a material uncertainty remains as to whether the Company can generate sufficient positive cash flow from operations to meet all of its obligations as they come due. In addition, the AIMCo Term Loan has certain covenants that have come into effect in 2022, specifically the working capital ratio as noted above, that based on current financial results required a waiver at September 30, 2022, and will be difficult to maintain on a go forward basis.

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 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 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.

STATEMENT OF COMPLIANCE

The unaudited interim condensed consolidated financial statements are prepared according to International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") effective as of September 30, 2022. They do not include all the disclosures required in annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2021.

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

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors, on November 24, 2022.

BASIS OF MEASUREMENT

These unaudited interim condensed consolidated financial statements are prepared on a historic cost basis; except for financial instruments which are measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's and its wholly owned subsidiary's functional currency. Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in net income or loss.

3. ESTIMATION UNCERTAINTY

USE OF ESTIMATES AND JUDGMENTS

Management makes judgements and assumptions about the future in deriving estimates used in preparation of these unaudited interim condensed consolidated financial statements in accordance with IFRS. Sources of estimation uncertainty include estimates used to determine economically recoverable oil, natural gas, and natural gas liquids reserves, the recoverable amount of long-lived assets or cash generating units, the fair value of financial derivatives, the provision for asset retirement obligations and the provision for income taxes and the related deferred tax assets and liabilities.

Operating Environment

The COVID-19 pandemic had a significant negative impact on global economic conditions in 2020 which included a large decrease in oil demand which combined with other macro-economic conditions resulted in significant volatility of commodity prices as well as increased economic uncertainty.

Although we have now seen an economic recovery post the commodity price collapse of 2020, with a more positive outlook on commodity prices and general market and industry conditions, since Russia's invasion of Ukraine in early 2022, there have now been emerging global concerns over oil and natural gas supply which have resulted in high benchmark commodity prices and inflationary pressures on governments, businesses and communities.

Due to the uncertainty surrounding the magnitude, duration and potential outcomes of the COVID-19 pandemic and Russia's invasion of Ukraine, the Company is unable, at this time, to predict its long-term impact on its operations, liquidity, financial condition and results, but the impact may be material.

Climate Change and Environmental Regulation

Climate-related considerations are integrated into key business planning and risk management processes throughout the Company.

Regulatory Update

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social, governance (ESG) and climate reporting, the International Sustainability Standards Board ("ISSB") has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators ("CSA") published for comment Proposed National Instrument 51-107 – *Disclosure of Climate Related Matters*, intended to introduce climate-related disclosure requirements for reporting issuers in Canada with limited exceptions. The comment period for the proposed National Instrument has closed and the Company is awaiting further guidance from the ISSB and CSA.

If the Company is not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, insurance providers, or other stakeholders, its business and ability to attract and retain skilled employees, obtain regulatory permits, licenses, registrations, approvals, and authorizations from various governmental authorities, and raise capital may be adversely affected. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified. The Company continues to monitor the evolving ESG regulations and its potential impact on the Company.

4. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account as collateral under the terms of the commodity contracts totaling \$3.1 million (\$USD 2.3 million) and is considered not available for general use by the Company. In addition, as per the terms of the Arena Amended and Restated Term Loan \$0.5 million (\$USD 0.3 million) is held as restricted cash as at September 30, 2022. In May 2022, the Company issued a letter of credit in favor of a utility provider in the amount of \$1.0 million. As security, the Company has set aside an equivalent GIC at the financial institution that issued the letter of credit. The Company held a total of \$4.6 million as restricted cash at September 30, 2022 (December 31, 2021 - \$1.4 million).

5. INVENTORY

Razor's product inventory consists of the Company's unsold crude oil barrels, which is valued at the lower of cost and net realizable value. Costs include operating expenses and depletion associated with the unsold crude oil barrels on a CGU basis. As at September 30, 2022, the Company held 11,645 barrels of oil (December 31, 2021 – 15,200 barrels) in inventory. The inventory at September 30, 2022 was valued at an average cost of \$65.43 per barrel (December 31, 2021 - \$49.15 per barrel) for a total value of \$0.8 million (December 31, 2021 - \$0.7 million). Included in this amount is \$0.1 million of depletion expense for the period ended September 30, 2022 (December 31, 2021 - \$0.2 million). For the current period there were no inventory impairments (December 31, 2021, no inventory impairments).

6. PROPERTY, PLANT AND EQUIPMENT

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

<i>(\$000's)</i>	Total
Cost	
December 31, 2021	297,404
Capital expenditures	21,496
Right-of-use asset	5,660
Asset dispositions/non-monetary dispositions ¹	(5,719)
Government grants	(3,284)
Change in decommissioning obligations	(49,683)
September 30, 2022	265,874
Accumulated depletion, depreciation and amortization	
December 31, 2021	80,197
Depletion, depreciation and amortization	17,056
Accumulated depletion on disposition	(436)
September 30, 2022	96,817
Net book value	
December 31, 2021	217,058
September 30, 2022	169,057

¹ On May 1, 2022, Razor received notice that a non-operated partner had reclaimed their interest in certain properties in the Swan Hills area where Razor has a non-operated working interest. The operator of the properties has re-allocated the reclaimed interest from the remaining parties' proportionate to their working interests for no additional consideration. The transaction has been recorded as a non-monetary transaction which resulted in a loss on disposition of \$2.6 million. Included in the loss is a provision of \$3.4 million related to a potential adjustment of net operating income to an assumed effective date of June 12, 2020. Given the estimation uncertainty surrounding the provision, management is continuing to assess the provision on an ongoing basis as well as exploring legal and other alternatives. When more information is available the provision will be revised as required.

At the end of each reporting period, the Company assesses whether there were indicators of impairment or reversals of prior period impairments. The assessment factors in the following criteria: changes in reserves; changes in forecasted commodity prices from the previous reserve report; interest rates; the health of the oil and gas industry; the status of the general economy; well performance; and near term development plans. As at September 30, 2022, Razor concluded there are no indicators of impairment.

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

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

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

As at September 30, 2022, future development costs required to develop proved and probable reserves in the amount of \$61.5 million are included in the depletion calculation for PP&E (December 31, 2021 - \$63.9 million).

7. LONG-TERM DEBT

Loan with AIMCo

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

As consideration for the AIMCo Term Loan, FutEra, a wholly owned subsidiary of Razor at the time, granted AIMCo common shares of FutEra representing 22.4% of the total outstanding common shares and these shares were held in trust, contingent on Razor receiving funding for the Swan Hills Geothermal Project by July 31, 2021. The Swan Hills Geothermal Project was not funded by July 31, 2021, and the shares held in trust as part of this transaction were returned to Razor and \$3.5 million was added to the principal amount due at maturity as part of the AIMCo Term Loan. The AIMCo Term Loan is secured by a first charge on all present and after-acquired personal property as well as a floating charge on land pursuant to a general security agreement and a promissory note. Razor has obtained exemptions to the first charge from AIMCo for certain field equipment for which Razor obtained loans or lease financing, in addition, Razor has obtained exemptions to the first charge from AIMCo to allow Arena Investors LP to have first lien security on all assets within Razor Royalties Limited Partnership and Razor Holdings GP Corp.

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

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

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

As at September 30, 2022, Razor was in compliance with all of its non-financial debt covenants. As at September 30, 2022, the Company has a working capital deficit of \$35.8 million which required a waiver from AIMCo that was executed prior to

September 30, 2022, resulting in no event of default. While the Company expects to reduce the working capital deficit over the next three months, it is projecting to have a working capital ratio of less than 1:1 as at December 31, 2022. Although the Company was able to obtain a waiver from AIMCo for the working capital covenant 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 December 31, 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 Arena Amended and Restated Term Loan and certain other loans and leases at that time. The Company does not have the financial ability to repay the AIMCo debt, Arena Amended and Restated Term Loan and certain other loans and leases should they come due as a result of the default.

Loan with Arena Investors, LP

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

The Arena Term Loan was to be repaid over 29 months with principal and interest payments of approximately US\$0.4 million per month, commencing April 1, 2021, and full and final repayment with interest of the loan on August 1, 2023. The funded principal amount, after the original issuer discount, is US\$10,035,000 (CAD \$12,702,532). The Arena Term Loan carries a fixed annual interest rate of 7.875%. Security consists of a first lien on all assets within 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, FutEra and its subsidiaries, and Razor Resources Corp.

On August 12, 2021, RRLP entered into an amendment agreement on its Arena Term Loan (“Arena Amended Term Loan”) with Arena Investors, LP for an additional US\$8,833,922 (CAD \$11,035,336). The term of the amended loan was extended to April 1, 2024. Monthly principal and interest payments are approximately US\$0.7 million in 2022. The additional funded principal amount of the Arena Amended Term Loan, after the original issuer discount was US \$8,000,000 (CAD \$9,993,600).

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

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

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

Months 1 to 24

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

Months 25 to 48

- Principal payments at an amortization rate of 5% on the prevailing monthly principal balance of Term Loan 3;
- Interest payments on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 7.7875%;
- Accrued interest on the prevailing monthly principal balance of Term Loan 3 at an annualized interest rate of 3%;
- The principal balance of Term Loan 3 at maturity is expected to be US\$3.8 million (CAD\$4.8 million).

The funded principal amount for the Term Loan 3, after the original issuer discount, is US\$10 million (CAD \$12,793,941), less related fees and expenses. At September 30, 2022, the principal balance of the Arena Amended and Restated Term Loan is US\$22.4 million (CAD \$30.7 million). Other terms of the Arena Amended and Restated Term Loan are materially unchanged from Arena Amended Term Loan.

The Arena Amended and Restated Term Loan is subject to the following covenants:

- Use at least US\$6,700,000 (CAD \$8,481,013) to complete the activities outlined in an agreed development plan for the period ended June 30, 2022;
- Minimum hedge requirements for not less than 80% of RRLP's 20 month forward projected overriding royalty;
- Commencing in April 1, 2022, maintain minimum production 4,150 boe/day; and
- The general and administrative expenses of RRLP shall not exceed US\$100,000 in any fiscal year.

As at September 30, 2022, Razor was in compliance with all of its debt covenants.

The changes in long-term debt are as follows:

<i>(\$000's)</i>	September 30, 2022	December 31, 2021
Balance, beginning of period	73,192	50,878
Arena Term Loan ¹	-	14,006
Arena Amended Term Loan ³	-	11,035
Arena Amended and Restated Term Loan ⁵	14,128	-
Arena Term 3 PIK interest	208	-
Unrealized FX loss on US denominated debt	2,212	78
AIMCo Term Loan – FutEra consideration	-	3,500
Deferred financing costs	(1,952)	(7,697)
Repayment of AIMCo deferred interest ⁴	(2,767)	-
Repayment of Arena Amended Term Loan	(6,014)	(5,022)
Repayment of Promissory Notes	(330)	(356)
Amortization of deferred financing costs	2,429	2,162
AIMCo Amended Term Loan Facility – Interest deferral ²	-	1,841
AIMCo Amended Term Loan Facility – Interest deferral ⁴	-	2,767
AIMCo Amended Term Loan Facility – interest deferral ⁶	2,751	-
Equipment Loans ⁷	893	-
Balance, end of period	84,750	73,192

1) The Arena Term Loan is U.S. dollar denominated debt of \$11,042,617 converted at February 16, 2021 fx rate – date of inception and revalued at each statement of financial position date.

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

3) The Arena Amended Term Loan is U.S. dollar denominated debt of \$8,833,922 converted at August 12, 2021 fx rate – date of inception and revalued at each statement of financial position date.

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

5) The Arena Amended and Restated Term 3 Loan is U.S. dollar denominated debt of \$11,042,403 converted at March 9, 2022 fx rate – date of inception and revalued at each statement of financial position date.

6) The interest payment due June 30, 2022 for the period of Jan 1, 2022 to June 30, 2022 was deferred and is to be repaid including additional accrued interest in three payments on October 31, 2022, November 30, 2022 and December 31, 2022. Razor has also agreed to prepay the interest due December 31, 2022 for the period of July 1, 2022 to December 31, 2022, in three equal installments in Q4 2022. (Subsequent to September 30, 2022, the payment dates were changed to January 31, 2023, February 28, 2023 and March 31, 2023.)

7) Loans were entered into during August and September 2022 to purchase equipment for Blade.

As at September 30, 2022 and December 31, 2021, Razor had the following outstanding long-term debt:

<i>(\$000's)</i>	Final Maturity	September 30, 2022	December 31, 2021
AIMCo Term Loan – principal	Jan-2024	55,486	50,145
AIMCo Term Loan – FutEra consideration	Jan-2024	-	3,500
AIMCo Term Loan – interest deferral	Jan-2024	-	1,841
AIMCo Term Loan – interest deferral	Jun-2022	-	2,767
AIMCo Term Loan – interest deferral	Dec-2022	2,751	-
Arena Amended and Restated Term Loan (1&2)	Apr-2024	15,434	20,108
Arena Amended and Restated Term 3 Loan	Apr-2026	15,497	-
Promissory Note-1	Sep-2022	-	211
Promissory Note-2	Dec-2022	13	52
Promissory Note-3	May-2024	80	113
Equipment Loan 1	Aug-2026	289	-
Equipment Loans 2	Sep-2026	557	-
		90,108	78,737
Deferred financing costs		(5,358)	(5,545)
Total debt		84,750	73,192
Current portion		9,422	9,145
Long-term portion		75,328	64,047
Total debt		84,750	73,192

Deferred financing costs totaling \$9.4 million were netted against debt. Deferred financing costs related to the AIMCo Term Loan are comprised of FutEra consideration of \$3.5 million and legal fees of \$111 thousand. Deferred financing costs related to the original Arena Term Loan and the Arena Amended Term Loan (1&2) are comprised of the original issuer discount of CAD\$2.3 million and various fees and expenses totaling CAD\$1.8 million. The Arena Amended and Restated Term Loan 3 added additional deferred financing costs which are comprised of the original issuer discount of CAD\$1.3 million and various fees and expenses totaling CAD\$0.6 million.

8. LEASE OBLIGATIONS

<i>(\$000's)</i>	September 30, 2022	December 31, 2021
The changes in lease obligations are as follows:		
Balance, beginning of period	1,756	3,294
Liabilities incurred	5,660	398
Liabilities settled	(3,066)	(2,102)
Interest expense	163	166
Balance, end of period	4,513	1,756
Current portion	1,581	1,321
Long-term portion	2,932	435
Lease obligation	4,513	1,756

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is \$4.5 million.

Razor's minimum lease payments are as follows:

<i>(\$000's)</i>	September 30, 2022	December 31, 2021
Within one year	1,902	1,383
Later than one year but not later than three years	2,634	348
Later than three years	713	216
Minimum lease payments	5,249	1,947
Amount representing finance charge	(736)	(191)
Present value of net minimum lease payments	4,513	1,756

The Company has lease liabilities for contracts related to office space, vehicles, field equipment and surface leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates during the nine months ended September 30, 2022 were between 4.99% and 14.0% (2021 – between 4.99% and 8.95%), depending on the duration of the lease term. Certain of the leases are still subject to cross covenant default clauses that if triggered may accelerate and require immediate repayment of amounts outstanding.

9. DECOMMISSIONING OBLIGATIONS

Decommissioning obligations represent the present value of the future costs to be incurred to abandon and reclaim the Company's wells, facilities, and pipelines.

The changes in decommissioning obligations are as follows:

<i>(\$000's)</i>	September 30, 2022	December 31, 2021
Balance, beginning of period	154,618	139,177
Acquisition (disposition)	(6,058)	473
Government subsidy for decommissioning expenditures	(612)	(1,861)
Decommissioning expenditures	(995)	(1,734)
Effect of change in discount rate and inflation	(49,787)	16,174
Revisions to estimates	105	(48)
Accretion expense	2,696	2,437
Balance, end of period	99,967	154,618
Current portion	2,757	2,382
Long-term portion	97,210	152,236
Decommissioning obligations	99,967	154,618

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

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

	September 30, 2022	December 31, 2021
Undiscounted cash flows (000's)	142,502	148,813
Discount rate (%)	3.09	1.68
Inflation rate (%)	1.65	1.82
Weighted average expected timing of cash flows (years)	28	28

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

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

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

11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series.

AUTHORIZED AND ISSUED

A reconciliation of the number and dollar amount of outstanding shares is shown below.

	September 30, 2022		December 31, 2021	
	Number	(\$000's)	Number	(\$000's)
Common Shares				
Shares outstanding, beginning of period	23,314,466	29,358	21,064,466	27,540
Private placement	-	-	2,250,000	1,890
Rights offering	1,960,784	5,000	-	-
Premium on flow-through shares	-	(471)	-	-
Share issuance costs	-	(191)	-	(72)
Shares outstanding, end of period	25,275,250	33,696	23,314,466	29,358

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

RIGHTS OFFERING

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

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

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

The Rights Offering closed on May 11, 2022. A total of 23,314,466 rights were exercised, resulting in the issuance of 1,960,784 Common Shares for gross proceeds of \$5.0 million.

AWARD BASED INCENTIVE PLANS

Razor Energy Corp.

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The number and weighted-average exercise prices of stock options are as follows:

	September 30, 2022		December 31, 2021	
	Number	Price (\$)	Number	Price (\$)
Outstanding, beginning of period	-	-	-	-
Granted	1,096,000	1.48	-	-
Forfeited	(135,700)	2.29	-	-
Outstanding, end of period	960,300	1.37	-	-
Vested and exercisable, end of period	-	-	-	-

The following weighted average assumptions were used to value the options granted using the Black-Scholes pricing model with the following inputs:

Period ending	September 30, 2022	December 31, 2021
Risk-free interest rate	1.98%	-
Expected life (years)	5	-
Forfeiture rate	5%	-
Expected volatility	108%	-
Fair value of options granted	\$1.09	-

FutEra Power Corp.

On October 1, 2021, the Company initiated a stock option plan for its subsidiary, FutEra Power Corp. The number and weighted-average exercise prices of stock options are as follows:

	September 30, 2022		December 31, 2021	
	Number	Price (\$)	Number	Price (\$)
Outstanding, beginning of the period	261,000	1.74	-	-
Granted	3,000	1.74	261,000	1.74
Outstanding, end of the period	264,000	1.74	261,000	1.74
Vested and exercisable, end of period	200,000	1.74	200,000	1.74

The following weighted average assumptions were used to value the options granted using the Black-Scholes pricing model with the following inputs:

Period ending	September 30, 2022	December 31, 2021
Risk-free interest rate	1.61%	1.07%
Expected life (years)	5	4.75
Expected volatility	108%	107%
Fair value of options granted	\$1.36	\$1.35

Total share-based compensation expense of \$0.1 million and \$0.3 million was recorded for the three and nine months ended September 30, 2022 respectively (2021 - \$0).

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The fair value hierarchy is as follows:

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

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

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

The carrying value and fair value of the Company's financial instruments at September 30, 2022 are as follows:

<i>(\$000's)</i>	Carrying Value	Fair Value
Cash and cash equivalents	3,681	3,681
Restricted cash	4,597	4,597
Accounts receivable	19,122	19,122
Commodity contract asset	630	630
Accounts payable and accrued liabilities	49,877	49,877
Commodity contract liability	3,298	3,298
Minimum lease obligation	5,249	5,249
Promissory notes and equipment loans	939	793
Term Loan Facilities (AIMCo and Arena)	86,417	83,477

MARKET RISK

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

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

Liquidity Risk

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

The table below summarizes the Company's contractual obligations as at September 30, 2022:

(\$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	49,877	49,877	-	-	-
AIMCo Term Loan	Yes-Liability	55,486	-	55,486	-	-
Arena Amended and Restated Term Loan 1&2	Yes-Liability	15,434	10,560	4,874	-	-
Arena Amended and Restated Term 3 Loan	Yes-Liability	15,497	-	9,990	5,507	-
Promissory notes and equipment loans	Yes-Liability	939	246	458	235	-
Commodity contracts	Yes-Liability	3,275	3,275	-	-	-
Flow-through Share eligible expenditures	Yes-Liability	5,000	-	5,000	-	-
Minimum lease obligation	Yes-Liability	5,249	1,902	2,634	713	-
Interest payable ^{1 2}	No	17,679	11,216	6,002	376	85
Lease operating costs	No	127	52	67	8	-
Transportation services	No	1,020	35	253	186	546
Total		169,582	77,162	84,765	7,024	631

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

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

Commodity Price Risk

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

As at September 30, 2022, Razor had the following derivative contracts outstanding:

Oil - Upside enhanced traditional collars ¹

Reference point	Volume (bbls/mth)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl	Fair Value (CAD 000's)
NYMEX WTI financial futures	11,000	Oct 31'22-Sept 30'23	50.00	65.00	75.00	(585)

Oil - options

Reference point	Volume (bbls/mth)	Remaining Term	Option type	Strike price	Fair Value (CAD 000's)	
NYMEX WTI financial futures	11,000	Oct 31'23-Apr 30'24	Long	Put	50.00	636
NYMEX WTI financial futures	11,000	Oct 31'22-Dec 31'22	Short	Put	100.00	(1,022)
NYMEX WTI financial futures	15,000	Jan 31'23-Mar 31'23	Short	Put	100.00	(1,697)

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, 2022, the Company recorded the fair value of the oil commodity contracts as an asset of \$0.6 million and a liability of \$3.3 million (December 31, 2021 – liability of \$0.6 million) on the Statement of Financial Position. The Company recorded an unrealized gain of \$0.3 million and an unrealized loss of \$0.5 million for the three and nine month periods ended September 30, 2022 (September 30, 2021 – unrealized loss of \$0.4 million and \$1.3 million for the three and nine months respectively) and a realized loss of \$1.1 million and \$1.0 million in earnings for the three and nine month periods ended September 30, 2022 (September 30, 2021 – realized loss of \$0.1 million and \$0.2 million for the three and nine months). In conjunction with entering into the above contracts Razor received CAD \$1.5 million (US\$1.1 million).

Subsequent to September 30, 2022, the Company has purchased certain commodity contracts as follows:

Oil - options

Reference point	Volume (bbls/mth)	Remaining Term		Option type	Strike price
NYMEX WTI financial futures	11,000	May 31'24	Long	Put	50.00
NYMEX WTI financial futures	15,000	Apr 30'23	Short	Put	100.00

Credit Risk

Razor is exposed to third party credit risk through its contractual arrangements with its partners in jointly owned assets, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Razor, such failures could have a material adverse effect. The maximum credit risk that the Company is exposed to is the carrying value of cash and cash equivalents, restricted cash, and accounts receivable.

The Company's accounts receivables of \$19.1 million at September 30, 2022, (December 31, 2021 - \$16.4 million) are non-interest bearing. The Company's receivables are summarized as follows:

	September 30, 2022	December 31, 2021
<i>(\$000's)</i>		
Trade receivables	11,072	13,754
Joint venture receivables	8,040	2,610
Other receivables	104	282
Allowance for doubtful accounts	(94)	(279)
	19,122	16,367

The majority of the credit exposure on trade receivables as at September 30, 2022, pertains to revenue for accrued September 2022 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:

<i>(\$000's)</i>	September 30, 2022	December 31, 2021
Current (less than 30 days)	11,440	12,432
31 to 90 days	3,143	2,724
Over 90 days	4,539	1,211
Total receivables	19,122	16,367

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

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and long-term debt. Razor manages its interest rate risk by entering into fixed interest rates on the AIMCo Term Loan, Arena Amended and Restated Term Loan, lease obligation, and Promissory Notes and equipment loans. See notes 7 and 8.

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 Arena Amended and Restated Term Loan facility matures on March 9, 2026 and bears interest at the rate of 7.875% per annum and paid monthly. The Promissory Notes mature on 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 equipment loans mature on August 1, 2026 and September 1, 2026, and interest is paid monthly at 8.75%, 8.85% and 8.99%.

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 Amended and Restated 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)	(263,000)	263,000

13. COMMITMENTS AND CONTINGENCIES

The Company has a firm commitment for oil and gas transportation services that includes contracts to transport oil and natural gas through third party owned pipeline systems. The Company also has a firm commitment for gas processing services that includes contracts to process natural gas through third party owned processing facilities (see note 12).

Razor assumed decommissioning liabilities included in its Swan Hills, Kaybob and District South acquisitions. In Q3 2022, the Company spent \$550 thousand on abandonment, reclamation and remediation expenditures for a nine month total of \$1,607 thousand (2021 - \$1,106 thousand and \$2,314 for the three and nine months, respectively) which includes \$612 thousand related to government grants earned for well site rehabilitation through the SRP program (2021 - \$349 thousand and \$1,274 thousand for the three and nine months, respectively).

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

In May 2022, the Company issued a letter of credit in favor of a utility provider in the amount of \$1.0 million. As security, the Company has set aside an equivalent GIC at the financial institution that issued the letter of credit. The Company held a total of \$4.6 million as restricted cash at September 30, 2022 (December 31, 2021 - \$1.4 million).

As a result of the Flow-through Share Issuance, Razor and its subsidiaries are committed to incur an amount of eligible expenses equal to the Rights Offering proceeds of \$5.0 million prior to December 31, 2023, of which \$0.8 million was spent in the third quarter 2023.

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. The Company did not have any amounts related to the Statement of Claim owing to this joint venture partner as at September 30, 2022. During the fourth quarter of 2021, Razor filed a Statement of Defence and a Counterclaim which alleges the joint venture partner over charged the joint account, underpaid revenue, conducted work without authorization and generally mis handled the joint account to the detriment of Razor.

14. REVENUES

The significant components recognized in revenues are as follows:

(\$000's)	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2022	2021	2022	2021
Crude oil	29,497	17,354	90,070	42,314
Gas	1,978	1,348	6,930	3,179
NGL	3,662	1,941	12,637	4,794
Power Generation	1,893	-	1,893	-
Blending and processing	873	455	2,692	2,599
Road use	127	156	518	419
Other revenue ¹	540	92	1,152	381
	38,570	21,346	115,892	53,686

1) Primarily comprised of trucking and road maintenance.

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

Razor's revenue transactions do not contain any significant financing components and payments are typically due within 30 days of revenue recognition. The Company does not adjust transaction prices for the effects of a significant financing component

when the period between the transfer of the promised goods or services to the customer and payment by the customer is less than one year. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

15. FINANCING COSTS

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

The components of financing costs are summarized below.

(\$000's)	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2022	2021	2022	2021
Interest expense	2,245	1,716	6,431	4,682
Amortization of deferred financing costs (note 7)	857	650	2,429	1,442
Accretion (note 9)	788	620	2,696	1,846
	3,890	2,986	11,556	7,970

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

16. PER SHARE AMOUNTS

Per share amounts are calculated by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted per share amounts are calculated by adjusting the weighted average number of common shares outstanding for potentially dilutive instruments. The net loss and average number of shares used to calculate the per share amounts are as follows:

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2022	2021	2022	2021
Weighted average shares outstanding (basic and diluted)				
Basic and Diluted ¹	25,275,250	21,064,466	24,334,361	21,064,466
Net income (loss) for the period (000's)	\$ (8,788)	\$ 9,669	(11,842)	\$ (1,510)
Net income (loss) per share				
Basic and Diluted ¹	\$ (0.36)	\$ 0.46	(0.50)	\$ (0.07)

(1) For the three and nine months ended September 30, 2022, 960,300 stock options were excluded from the calculation of diluted loss per share as their effect was anti-dilutive.

17. OTHER INCOME

The components for other income are summarized below.

(\$000's)	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2022	2021	2022	2021
Insurance proceeds	389	90	728	225
Interest and other	(8)	205	37	270
SRP subsidy for decommissioning expenditures (note 9)	-	349	612	1,274
	381	644	1,377	1,769

During the three months ended September 30, 2022, there were insurance proceeds received of \$0.3 million (the three months ended September 30, 2021 - \$90 thousand) and for the nine months ended September 30, 2022, insurance proceeds received were \$0.7 million (the nine months ended September 30, 2021 - \$225 thousand).

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$000's)	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2022	2021	2022	2021
Accounts receivable	1,028	(4,960)	(2,755)	(5,885)
Prepaid expenses and deposits	35	(3,921)	(2,392)	(5,550)
Inventory	(135)	251	(15)	31
Accounts payable and accrued liabilities	7,688	10,455	6,079	15,443
	8,616	1,825	917	4,039

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

(\$000's)	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2022	2021	2022	2021
Operating	8,809	(2,646)	(3,221)	(4,699)
Financing	1,655	1,462	1,655	1,462
Investing	(1,848)	3,009	2,483	7,276
	8,616	1,825	917	4,039

CORPORATE INFORMATION

MANAGEMENT

Doug Bailey

President and Chief Executive Officer

Michael Blair

Chief Operating Officer

Kevin Braun

Chief Financial Officer

Lisa Mueller

Vice President, New Ventures

President and Chief Executive Officer of FutEra Power Corp.

Devin Sundstrom

Vice President, Production

Stephen Sych

Vice President, Operations

BOARD OF DIRECTORS

Doug Bailey

Sonny Mottahed ⁽¹⁾ ⁽²⁾ ⁽³⁾

Frank Muller

Sean Phelan ⁽¹⁾ ⁽²⁾ ⁽³⁾

CORPORATE OFFICE

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Calgary, Alberta, Canada T2P 3L5

Website: www.razor-energy.com

TRANSFER AGENT

Alliance Trust Company

1010, 407-2 Ave SW

Calgary, Alberta T2P 2Y3

403-237-6111

BANK

National Bank of Canada

AUDITORS

KPMG LLP

LEGAL COUNSEL

McCarthy Tétrault LLP

INDEPENDENT RESERVE EVALUATORS

Sproule Associates Limited

STOCK SYMBOL

RZE.V

TSX Venture Exchange

(1) Audit Committee

(2) Reserves and Environment Committee

(3) Corporate Governance and Compensation Committee