



RAZOR ENERGY CORP.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Razor Energy Corp.

Opinion

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 28, 2019

RAZOR ENERGY CORP.


CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
	Note	2018	2017
<i>(Stated in thousands of Canadian dollars)</i>			
ASSETS			
Current assets			
Cash and cash equivalents		2,239	7,487
Restricted cash	5	1,810	984
Accounts receivable	14	6,069	9,618
Prepaid expenses and deposits		1,316	2,152
Inventory	6	1,205	—
Commodity contracts	14	8,265	—
		20,904	20,241
Deferred tax asset	18	320	1,912
Property, plant and equipment	8	136,713	111,751
TOTAL ASSETS		157,937	133,904
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		16,311	14,987
Commodity contracts	14	—	633
Decommissioning obligations	11	2,880	2,469
Current portion of lease obligation	10	1,017	—
Current portion of long-term debt	9	279	—
		20,487	18,089
Non-Current			
Long-term debt	9	43,553	27,161
Long-term lease obligation	10	2,843	—
Decommissioning obligations	11	76,310	73,821
Other liabilities		128	140
Total liabilities		143,321	119,211
SHAREHOLDERS' EQUITY			
Share capital	12	18,057	18,333
Contributed surplus/warrants	12	694	694
Deficit		(4,135)	(4,334)
		14,616	14,693
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		157,937	133,904

Commitments and Contingencies

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See accompanying notes to the Consolidated Financial Statements.



SONY GILL, DIRECTOR



STAN SMITH, DIRECTOR

RAZOR ENERGY CORP.

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

		Years Ended December 31,	
	Note	2018	2017
<i>(Stated in thousands of Canadian dollars, except per share amounts)</i>			
REVENUES			
Commodity sales from production		94,382	61,094
Sales of commodities purchased from third parties		15,639	—
Blending and processing revenue		10,472	4,333
Other revenue		2,406	840
Total revenues	16	122,899	66,267
Royalties		(19,551)	(12,568)
		103,348	53,699
Realized gain (loss) on commodity contracts settlement		(2,647)	148
Unrealized gain (loss) on commodity risk management	14	8,898	(633)
		109,599	53,214
EXPENSES			
Operating		51,178	35,638
Transportation and treating		3,787	780
Commodities purchased from third parties		14,812	—
Blending and processing		5,207	1,037
General and administrative		5,663	5,417
Acquisition and transaction		16	1,150
Financing	17	7,465	5,077
Depletion, depreciation and amortization	8	16,825	9,183
Foreign exchange (gain) loss		(172)	16
		104,781	58,298
Gain on sale of assets		1,013	—
Income (loss) before income tax		5,831	(5,084)
Deferred income tax expense (recovery)	18	1,592	(1,434)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		4,239	(3,650)
NET INCOME (LOSS) PER SHARE			
Basic and diluted	19	0.27	(0.27)

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Stated in thousands of Canadian dollars)</i>	Note	Share Capital	Contributed surplus/ warrants	Deficit	Total Shareholders' Equity
December 31, 2016		10	—	(434)	(424)
Shares issued		20,106	—	—	20,106
Share issuance costs, net of tax		(1,294)	—	—	(1,294)
Shares repurchased and cancelled		(489)	—	(250)	(739)
Issue of warrants		—	694	—	694
Net loss		—	—	(3,650)	(3,650)
December 31, 2017		18,333	694	(4,334)	14,693
Shares issued	12	409	—	—	409
Shares repurchased and cancelled	12	(685)	—	(914)	(1,599)
Dividends	12	—	—	(3,126)	(3,126)
Net income		—	—	4,239	4,239
December 31, 2018		18,057	694	(4,135)	14,616

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years ended December 31,	
(Stated in thousands of Canadian dollars)	Note	2018	2017
Operating Activities			
Net income (loss) for the year		4,239	(3,650)
Adjustments for:			
Unrealized (gain) loss on commodity risk management	14	(8,898)	633
Unrealized gain (loss) on foreign currency translation		(172)	16
Gain on sale of assets		(1,013)	—
Financing costs	17	7,465	5,077
Lease inducement		(12)	140
Depletion, depreciation and amortization	8	17,143	9,183
Provision for bad debt		91	—
Decommissioning costs incurred	11	(3,235)	(3,308)
Deferred income tax expense (recovery)	18	1,592	(1,434)
Change in non-cash working capital	20	5,160	(2,306)
Net cash flows from operating activities		22,360	4,351
Financing Activities			
Proceeds from long term debt	9	16,211	30,000
Repayment of long term debt	9	(57)	—
Deferred financing costs	9	(190)	(158)
Cash acquired		—	14
Repayment of lease obligation	10	(501)	—
Repayment of shareholder loan	21	—	(50)
Interest expense	17	(4,579)	(2,775)
Proceeds from issue of common shares	12	—	17,250
Share issuance costs	12	—	(1,772)
Shares repurchased and cancelled	12	(1,599)	(739)
Dividends		(3,126)	—
Change in non-cash working capital	20	—	—
Net cash flows from financing activities		6,159	41,770
Investing Activities			
Property acquisitions	7	(3,921)	(32,750)
Proceeds from resource property dispositions	8	953	—
Capital expenditures	8	(29,397)	(9,852)
Restricted cash	5	(826)	(984)
Change in non-cash working capital	20	(748)	4,960
Net cash flows from operating activities		(33,939)	(38,626)
Foreign currency translation		172	(16)
Change in cash and cash equivalents		(5,248)	7,479
Cash and cash equivalents, beginning of year		7,487	8
Cash and cash equivalents, end of year		2,239	7,487
			—
Cash interest paid		4,579	2,775

See accompanying notes to the Consolidated Financial Statements.

RAZOR ENERGY CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(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 acquisition, exploration, development and production of oil and natural gas properties in Alberta. The Company was formed and listed on the TSXV following the amalgamation of Razor Energy Corp. ("Razor Private") and Vector Resources Inc. ("Vector") in January and February, 2017, respectively.

Razor Private was incorporated on June 14, 2016 under the Business Corporations Act (Alberta). On January 31, 2017, a plan of arrangement (the "Arrangement") involving Razor Private and Vector, a publicly-traded capital pool company listed on the TSXV, was completed that constituted a reverse takeover, including a change of control of Vector and the acquisition of Razor Private and Vector to form a new corporation that carries on the business of Razor Private and Vector under the name "Razor Energy Corp.". Following completion of the Arrangement, Razor Private shareholders held approximately 98% of the outstanding shares of the Company and, as a result, the transaction has been accounted for as a reverse acquisition with Razor Private being the acquirer for accounting purposes. Consequently, Razor Private is the continuing legal entity.

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

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") effective as of December 31, 2018.

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

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

Certain prior year amounts have been reclassified to conform to current year presentation.

The consolidated financial statements were authorized for issue by the Board of Directors, on March 28, 2019.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS

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

JOINTLY OWNED ASSETS

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

REVENUE RECOGNITION

Razor recognizes revenue from the following major products and services:

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

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

Effective January 1, 2018 Razor adopted IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and several revenue related interpretations. Razor adopted IFRS 15 using the modified retrospective approach. The adoption of IFRS 15 did not materially impact the timing or measurement of revenue.

The Company reviewed contracts with customers for its major revenue streams and concluded that the adoption of IFRS 15 did not have a material impact on the consolidated financial statements. The adoption of IFRS 15 required the Company to expend its disclosures in the notes to the consolidated financial statements, including the disaggregation of revenue streams by product type.

EXPLORATION AND EVALUATION (E&E) ASSETS

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Subsequent costs

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

Depletion, depreciation and amortization

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

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

Other assets are depreciated on a straight-line basis over their estimated useful lives estimated to be three years. Depreciation methods, useful lives, and residual values are reviewed annually.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

PROVISIONS

The Company recognizes provisions when:

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

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

INVENTORY

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

DECOMMISSIONING OBLIGATIONS

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

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

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

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

FINANCIAL INSTRUMENTS

Effective January 1, 2018, Razor adopted IFRS 9, Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 provides revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting. It also provides a single impairment model for financial instruments. The Company applied the new standard retrospectively. The adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements.

Non-derivative financial instruments

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

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

Derivative financial instruments

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

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

Impairment of financial instruments

IFRS 9 introduces a new single expected credit loss ("ECL") impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from our previous approach where the impairment was recorded only on incurred losses and the effects of possible future loss events were not considered, even if they were expected.

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

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

INCOME TAXES

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

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

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

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

LEASES

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as finance leases and recorded as an asset at the lower of the fair value of the leased asset and the present value of the minimum lease payments, together with an offsetting liability. The finance charge is allocated to each period to produce a constant rate of interest. The asset is depreciated over the shorter of the lease term or the life of the asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the finance lease liability. Finance charges are charged directly against income through Net Finance Expense. The finance lease liability is accreted over the life of the lease and reduced by actual lease payments.

All other leases are accounted for as operating leases and the lease costs are expensed as on a straight-line basis over the life of the lease.

FOREIGN CURRENCY TRANSLATION

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

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

CONTINGENCIES

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

SHARE CAPITAL

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

DIVIDENDS

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

SHARE-BASED COMPENSATION PLANS

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

SHARE PURCHASE WARRANTS

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

PER SHARE AMOUNTS

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

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new or amended standards or interpretations issued by the IASB or IFRS Interpretations Committee (IFRIC) do not have to be early adopted in the current period.

The standards issued, but not yet effective, are described below:

- IFRS 16 Leases - this standard replaces IAS 17 Leases and related interpretations and is effective on or after January 1, 2019. It requires a lessee to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting remains substantially unchanged. The Company is assessing the impact of the adoption of IFRS 16 on the financial statements.

Razor evaluated the financial impact of the adoption of IFRS 16 on the Company's financial statements. The actual impact of applying the standard will depend on the Company's borrowing rate, lease portfolio, whether the Company will exercise any lease renewal options and the practical expedients applied on January 1, 2019. The Company plans to adopt IFRS 16 using the modified retrospective approach. The Company intends to use the following practical expedients permitted under the standard:

- account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases;
- account for lease payments as an expense and not recognize a right-of-use ("ROU") asset if the underlying asset is of a lower dollar value;
- use hindsight when assessing the lease term; and
- use a single discount rate to a portfolio of leases with similar characteristics.

Some of these expedients are on a lease-by-lease basis and others are applicable by class of underlying assets.

On adoption of IFRS 16, the Company will recognize lease liabilities related to leases previously classified as operating leases. The lease liability will be initially measured at the present value of the remaining lease payments, discounted at Razor's incremental borrowing rate on January 1, 2019. The associated ROU asset will be measured on a lease-by-lease basis as the amount equal to the lease liability on January 1, 2019 with no impact to retained earnings.

The quantified impacts of IFRS 16 are subject to change in future periods pending updates to individual contract terms, assumptions, and other facts and circumstances arising subsequent to the date of these financial statements.

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

USE OF ESTIMATES AND JUDGMENTS

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

SIGNIFICANT JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

PROPERTY, PLANT AND EQUIPMENT (PP&E)

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

CASH GENERATING UNIT (CGU)

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

ASSESSMENT OF ASSET IMPAIRMENT

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

SIGNIFICANT ESTIMATES

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

BUSINESS COMBINATIONS

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

IMPAIRMENT OF ASSETS

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

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

Forward commodity prices used in the December 31, 2018 impairment test:

Year	WTI Oil (\$US/Bbl)	Edmonton Light Sweet Oil (\$Cdn/Bbl)	Natural Gas AECO (\$Cdn/MMBTU)	Exchange Rate (\$US/\$CDN)
Forecast				
2019	63.00	75.27	1.95	0.77
2020	67.00	77.89	2.44	0.80
2021	70.00	82.25	3.00	0.80
2022	71.40	84.79	3.21	0.80
2023	72.83	87.39	3.30	0.80
2024	74.28	89.14	3.39	0.80
2025	75.77	90.92	3.49	0.80
2026	77.29	92.74	3.58	0.80
2027	78.83	94.60	3.68	0.80
Thereafter 2% inflation rate				

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

DEPLETION, DEPRECIATION AND AMORTIZATION (DD&A)

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

For other assets, a straight-line basis is used over the assets' estimated useful lives. Average useful life for other assets is three years. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

RESERVES

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

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

evaluator's estimate of future prices and evaluated for reasonability by the Company against other available information. The Company believes these prices are reasonable estimates for a long-term outlook.

DECOMMISSIONING OBLIGATIONS

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

INCOME TAXES

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

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

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

FINANCIAL INSTRUMENTS

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

SHARE PURCHASE WARRANTS

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

5. RESTRICTED CASH

Restricted cash consists of cash held in a restricted account as collateral under the terms of the commodity contracts and is considered not available for general use by the Company. As at December 31, 2018, the Company held \$1.8 million as restricted cash (December 31, 2017 - \$1.0 million).

6. INVENTORY

Razor's product inventory consists of the Company's unsold crude oil barrels, which is valued at the lower of cost and net realizable value. Cost includes operating expenses and depletion associated with the unsold crude oil barrels on a CGU basis.

As at December 31, 2018, the Company held 35,267 barrels of oil in inventory valued at cost of \$34.18 per barrel (December 31, 2017 - nil barrels). As at December 31, 2018, the Company recorded \$1.2 million of costs to inventory.

7. ACQUISITIONS

Razor accounts for acquisitions using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired and liabilities assumed by Razor as at December 31, 2018 and 2017 are presented in the table below:

(\$000's)	Acquisition Date	Years ended December 31					
		2018			2017		
Acquisitions		PP&E ³	ARO ²	Cash	PP&E ³	ARO ²	Cash
Swan Hills ¹	31-Jan-17	(184)	—	(184)	38,546	(22,731)	15,815
Kaybob ¹	24-May-17	(764)	—	(764)	16,197	(3,882)	12,315
Kaybob South Triassic Unit 1 & 2 working interest ¹	15-Dec-17	(105)	—	(105)	5,077	(457)	4,620
Kaybob South Triassic Unit 1 & 2 working interest	15-Jan-18	5,840	(1,392)	4,448	—	—	—
Kaybob South Triassic Unit 1 working interest	15-Jun-18	802	(276)	526	—	—	—
Total net assets acquired		5,589	(1,668)	3,921	59,820	(27,070)	32,750

1) In 2018 final settlements were received with respect to acquisitions completed in 2017.

2) Established using a credit adjusted rate of 15%.

3) The fair value of property, plant and equipment has been determined with reference to a reserve report.

SWAN HILLS ACQUISITION

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

If this acquisition had been effective on January 1, 2017, the proforma results of the revenue and revenue, net of royalties and operating costs for the year ended December 31, 2017 would have been as follows:

(\$000's)	Year ended December 31, 2017		
	As stated	Amounts prior to acquisition	Pro Forma
Revenue	66,267	5,102	71,369
Revenue, net of royalties and operating costs ¹	16,244	1,291	17,535

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

KAYBOB ACQUISITION

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

If this acquisition had been effective on January 1, 2017, the proforma results of the revenue and revenue, net of royalties and operating costs for the year ended December 31, 2017 would have been as follows:

	Year ended December 31, 2017		
(\$000's)	As stated	Amounts prior to acquisition	Pro Forma
Revenue	66,267	5,053	71,320
Revenue, net of royalties and operating costs ¹	16,244	1,273	17,517

1) Operating, and transportation and treating costs

Additional Working Interest Acquisition

On December 15, 2017, the Company completed the acquisition of certain non-operated working interest positions to consolidate its existing Kaybob Triassic Units 1 and 2 from a third party for cash consideration of \$4.6 million, including customary closing and post-closing reconciliation adjustments. This acquisition was accounted for using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition.

If this acquisition had been effective on January 1, 2017, the proforma results of the revenue and revenue, net of royalties and operating costs for the year ended December 31, 2017 would have been as follows:

	Year ended December 31, 2017		
(\$000's)	As stated	Amounts prior to acquisition	Pro Forma
Revenue	66,267	12,782	79,049
Revenue, net of royalties and operating costs ¹	16,244	4,825	21,069

1) Operating, and transportation and treating costs

In 2018, Razor completed further acquisitions of non-operated working interest in Kaybob Triassic Units 1 and 2 for total cash consideration of \$5.0 million, including customary closing and post-closing reconciliation adjustments. These acquisitions increased Razor's operated working interest position in Kaybob Triassic Unit 1 and 2 and were accounted for using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition.

If these acquisitions had been effective on January 1, 2018, the proforma results of the revenue and revenue, net of royalties and operating costs for the year ended December 31, 2018 would have been as follows:

	Year ended December 31, 2018		
(\$000's)	As stated	Amounts prior to acquisition	Pro Forma
Revenue	122,899	77	122,976
Revenue, net of royalties and operating costs ¹	28,364	(55)	28,309

1) Operating, and transportation and treating costs

VECTOR AMALGAMATION

On January 31, 2017, Vector was acquired by Razor Private under the Arrangement, pursuant to which, each common share of Razor Private was exchanged for 2,042.13 common shares of Vector resulting in a reverse takeover of Vector by Razor Private. In connection with the Arrangement, Vector amalgamated with Razor Private and continued as a combined entity under the name "Razor Energy Corp.". Following completion of the Arrangement, Razor Private shareholders held approximately 98% of the outstanding shares and provided the management and directorship of the ongoing entity. Consequently, Razor Private is the continuing legal entity. The above noted transaction allowed the combined entity to be a listed entity on the TSXV.

Fair value of net assets acquired	<i>(\$000's)</i>
Cash	14
Non-cash working capital	14
Total net assets acquired	28

Consideration	<i>(\$000's)</i>
Shares issued (8,976,285 shares-post consolidation)	28

8. PROPERTY, PLANT AND EQUIPMENT

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

<i>(\$000's)</i>	Petroleum and Natural Gas Assets	Other Assets	Total
Balance at December 31, 2016	—	20	20
Property acquisitions	59,820	—	59,820
Capital expenditures	9,342	510	9,852
Change in decommissioning obligations	51,244	—	51,244
Balance at December 31, 2017	120,406	530	120,936
Property acquisitions	5,589	—	5,589
Capital expenditures	27,870	1,527	29,397
Leased assets	4,361	—	4,361
Change in decommissioning obligations	2,757	—	2,757
Balance at December 31, 2018	160,983	2,057	163,040
Accumulated depletion, depreciation and amortization			
Balance at December 31, 2016	—	2	2
Depletion, depreciation and amortization for the year	9,054	129	9,183
balance at December 31, 2017	9,054	131	9,185
Depletion, depreciation and amortization for the year ¹	16,816	326	17,142
Balance at December 31, 2018	25,870	457	26,327
Net book value			
At December 31, 2017	111,352	399	111,751
December 31, 2018	135,113	1,600	136,713

1) Includes depletion costs of inventory of \$317 thousand.

At December 31, 2018, Razor evaluated its developed and producing assets on a CGU (Swan Hills and Kaybob) basis for indicators of any potential impairment. The decrease in crude oil prices was identified as an indicator of impairment. As a result, the Company completed impairment tests on all of its CGU's in accordance with IAS 36 and determined that the recoverable value of each CGU exceeded its carrying value. The discount rate applied was fifteen percent and the discounted future before-tax cash flows did not result in an impairment loss.

There were no borrowing costs capitalized in 2018 or 2017, as the Company did not have any qualifying assets. Future development costs required to develop proved and probable reserves in the amount of \$60.6 million (2017 - \$55.1 million) are included in the depletion calculation for PP&E.

9. LONG-TERM DEBT

On January 31, 2017, Razor entered into a \$30.0 million senior secured term loan facility ("Term Loan Facility") with Alberta Investment Management Corporation ("AIMCo"). The Company issued 1,024,128 common shares to AIMCo, as consideration for Term Loan Facility representing approximately 10.05% of the issued and outstanding common shares of the Company at the time.

On January 15, 2018, Razor secured an increase of \$15.0 million in its existing non-revolving Term Loan Facility from AIMCo, for an amended principal amount of \$45.0 million (the "Amended Term Loan Facility"). As consideration for the Amended Term Loan Facility, 255,600 common shares have been issued to AIMCo.

The terms of the Amended Term Loan Facility are materially unchanged from the Term Loan Facility. The Amended Term Loan Facility matures on January 31, 2021 and bears interest at the rate of 10% per annum, with interest paid semi-annually on June 30 and December 31. The Amended Term Loan Facility is secured by a first charge on all present and after-acquired personal property as well as a floating charge on land pursuant to a general security agreement and a promissory note. Razor has obtained exemptions to the first charge from AIMCo for certain field equipment for which razor obtained loans or lease financing.

The proceeds of the Amended Term Loan Facility were used by Razor to fund asset acquisitions, its development program and for general corporate purposes. Including share based consideration, the effective interest rate of the Amended Term Loan Facility is 12% per annum (December 31, 2017 - 13%).

On September 12, 2018, the Company entered into a \$1.0 million promissory note and security agreement ("Promissory Note-1") with an unrelated third party for the purpose of purchasing a power generator. The Promissory Note-1 is secured by the power generator purchased and is due on September 12, 2022. The Promissory Note-1 bears interest of 6.1% per annum. Monthly payments of \$24.0 thousand include interest and principal.

On December 13, 2018, the Company entered into a \$0.2 million promissory note and security agreement ("Promissory Note-2") with an unrelated third party for the purpose of purchasing field service equipment. The Promissory Note-2 is due on December 13, 2022. The Promissory Note-2 bears interest of 6.50% per annum. Monthly payments of \$4.5 thousand include interest and principal.

The changes in long-term debt are as follows:

(\$000's)	2018	2017
Balance, beginning of year	27,161	—
Proceeds of Amended Term Loan Facility	15,000	30,000
Proceeds of Promissory Notes	1,211	—
Repayment of Promissory Notes	(57)	—
Deferred financing costs	(598)	(3,680)
Amortization of deferred financing costs	1,115	841
Balance, end of year	43,832	27,161

As at December 31, 2018, Razor had the following outstanding long-term debt:

(\$000's)	Interest Rate	Maturity	December 31,	
			2018	2017
Amended Term Loan Facility	10%	Jan-2021	45,000	30,000
Promissory Note-1	6.1%	Sep-2022	964	—
Promissory Note-2	6.5%	Dec-2022	190	—
Deferred financing costs			(2,322)	(2,839)
Long-term debt			43,832	27,161
Current portion			279	—
Long-term portion			43,553	27,161
Long-term debt			43,832	27,161

Deferred financing costs related to the Amended Term Loan Facility have been presented net against the debt obligation and will be accreted such that the debt balance equals the principal of \$45.0 million at maturity. As at December 31, 2018, deferred financing costs are comprised of legal fees of \$0.3 thousand (2017 - \$0.2 thousand) and the fair value of the shares issued to AIMCo of \$3.9 million (December 31, 2017 - \$3.5 million) (see note 12).

The Amended Term Loan Facility is subject to the following annual financial covenants for the year ended December 31, 2018 and onwards:

- a maximum adjusted net debt-to-adjusted cash flow ratio of less than 5:1 for 2018, 4:1 for 2019, and 3:1 for each year thereafter; and
- a minimum working capital ratio of 0.85:1 for 2018 and 1:1 for each year thereafter.

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.

The Company met the maximum adjusted net debt-to-adjusted cash flow ratio, however, due to the significant decrease in commodity prices in Q4-2018, Razor was not in compliance with its minimum working capital ratio requirement as at December 31, 2018. In anticipation of this, on November 23, 2018 the Company obtained a waiver from AIMCo, waiving the requirement to maintain the Minimum Working Capital Ratio as at December 31, 2018.

10. LEASE OBLIGATION

In June 2018, Razor entered into a lease agreement for the lease of power generators with the option to purchase at a nominal value at the end of the lease term. The lease agreement is discounted with an effective interest rate of 6.1% per annum and expires on June 18, 2022. The Company has accounted for the agreement as a finance lease and recorded the asset with the corresponding obligation on the Statement of Financial Position. Monthly payments of \$104.0 thousand include interest and principal.

The changes in lease obligations are as follows:

(\$000's)	2018	2017
Balance, beginning of year	—	—
Liabilities incurred	4,361	—
Liabilities settled	(501)	—
Balance, end of year	3,860	—
Current portion	1,017	—
Long-term portion	2,843	—
Lease obligation	3,860	—

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is \$4.3 million. Razor's minimum lease payments are as follows:

(\$000's)	As at December 31,	
	2018	2017
Within one year	1,254	—
Later than one year but not later than two years	2,509	—
Later than two years	523	—
Minimum lease payments	4,286	—
Amount representing finance charge	(426)	—
Present value of net minimum lease payments	3,860	—

11. DECOMMISSIONING OBLIGATIONS

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

The changes in decommissioning obligations are as follows:

(\$000's)	2018	2017
Balance, beginning of year	76,290	—
Additions	394	—
Acquisitions	1,668	27,070
Decommissioning costs incurred	(3,235)	(3,308)
Effect of change in discount rate ¹	5,566	49,405
Dispositions	(60)	(176)
Revisions to estimates	(3,204)	1,839
Accretion expense	1,771	1,460
Balance at December 31	79,190	76,290
Current portion	2,880	2,469
Long-term portion	76,310	73,821
	79,190	76,290

(1) Decommissioning obligations acquired as part of a business combination are initially measured at fair value using a credit-adjusted risk-free rate to discount estimated future cash outflows. The revaluation of liabilities acquired using the risk-free rate at the end of the period results in an increase in the present value of the obligation reported in the Consolidated Statements of Financial Position.

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

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

	December 31,	
	2018	2017
Undiscounted cash flows (\$000's)	90,702	83,828
Discount rate (%)	2.18	2.26
Inflation rate (%)	1.50	1.50
Weighted average expected timing of cash flows (years)	21	13

12. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

AUTHORIZED AND ISSUED

A reconciliation of the number and dollar amount of outstanding shares at December 31, 2018 is shown below.

Common Shares	December 31, 2018		December 31, 2017	
	Number	(\$000's)	Number	(\$000's)
Shares outstanding, beginning of year	15,511,934	18,333	—	37
Share consolidation (20:1) post amalgamation	—	—	9,163,106	—
Common shares issued as part of debt issuance	255,600	409	1,024,128	3,522
Prospectus financing	—	—	5,750,000	16,557
Share issuance costs	—	—	—	(1,772)
Tax effect of share issuance costs	—	—	—	478
Shares repurchased and cancelled	(578,700)	(685)	(425,300)	(489)
Shares outstanding, end of year	15,188,834	18,057	15,511,934	18,333

On January 31, 2017, Vector and Razor Private closed an arrangement agreement with Vector. Pursuant to the terms of the agreement, each common share of Razor Private was exchanged for 2,042.13 common shares of Vector resulting in a reverse takeover of Vector by Razor Private. The transaction was the qualifying transaction for Vector pursuant to the policies of the TSXV. The above noted transaction allowed the combined entity to be a listed entity.

On January 31, 2017, Vector changed its name to Razor Energy Corp. and consolidated its shares on a 20:1 ratio basis, resulting in 9,163,106 post consolidation common shares outstanding. In addition, 1,024,128 common shares were issued to AIMCo as additional consideration for the Term Loan Facility. The common shares issued to AIMCo were valued based on discounted cash flow analysis in determination of the fair value of long-term debt using the estimated market rate of interest of 11%.

On February 13, 2017, the Company began trading on the TSXV under the symbol RZE.V.

On May 15, 2017, the Company closed a prospectus financing of 5,750,000 subscription receipts at a price of \$3.00 per subscription receipt for gross proceeds of \$17.3 million (net proceeds of \$15.5 million). In connection with the closing of the Kaybob Acquisition, on May 24, 2017, each subscription receipt was converted to one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole warrant is exercisable into one common share of the Company at an exercise price of \$3.50 per common share and expired on May 24, 2018.

On January 15, 2018, Razor issued 255,600 common shares to AIMCo as consideration for the Amended Term Loan Facility. The common shares issued to AIMCo were valued based on the share price of the Company.

SHARE PURCHASE WARRANTS

The fair value of the warrants issued during 2017 was estimated at \$0.24 per warrant at the issue date using the Black-Scholes pricing model for a total value of \$694 thousand. The weighted average assumptions used for the Black-Scholes pricing model were a common share price of \$2.75, exercise price of \$3.50, expected share price volatility of 43%, risk-free interest rate of 0.60%, and expected term of 1 year. These warrants expired on May 24, 2018 unexercised, and transferred to contributed surplus.

DIVIDENDS

Dividends declared for the year ended December 31, 2018 were \$0.20 per share (2017-\$nil). In total the Company paid \$3.1 million in dividends in 2018 (2017- \$nil).

Subsequent to year end, on January 2, 2019, February 1, 2019 and March 1, 2019, Razor announced the monthly cash dividend of \$0.0125 per share, for a total of \$570 thousand in dividends. The dividend is paid monthly and is subject to commodity prices, production levels, and other factors.

NORMAL COURSE ISSUER BID

On September 11, 2017, Razor announced its intention to commence a Normal Course Issuer Bid (the "NCIB") to repurchase shares in open market transactions on the TSXV. Under the NCIB, the Company may purchase for cancellation up to 796,861 of its common shares, which represents 5% of the outstanding common shares at September 11, 2017. The NCIB expired on September 13, 2018.

Subsequent to September 13, 2018, Razor announced its intention to renew the NCIB and repurchase up to 772,442 of its common shares in open market transactions on the TSXV, representing 5% of the outstanding common shares at September 13, 2018. The NCIB was approved by the TSXV and will expire no later than September 13, 2019. A copy of Razor's notice of intention to make an NCIB may be obtained by contacting Razor's Chief Financial Officer at Suite 800, 500-5th Ave. S.W. Calgary, AB T2P 3L5.

During the course of 2018, the Company repurchased and canceled 578,700 common shares (2017 - 425,300 common shares) for \$1.6 million at an average price of \$2.76 per share (2017 - \$1.73 per share). The purchases resulted in a decrease to share capital of \$685 thousand (2017 - \$489 thousand) and an increase to deficit of \$914 thousand (2017 - \$250 thousand).

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

1. Retain access to capital markets
2. Ensure its ability to meet all financial obligations and meet its operational and strategic objectives
3. Maintain a sustainable dividend policy.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The fair value hierarchy is as follows:

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

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Accounts receivable, accounts payable and accrued liabilities, lease obligation	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	
Cash, cash equivalents and restricted cash	Measured at fair value through profit or loss. Fair value approximates carrying value due to their short-term nature.
Commodity contracts	Financial contracts are classified as commodity contracts and are measured at fair value with the changes during the period recorded in profit or loss as unrealized gains or losses. Determined using observable period-end forward curves. (Level 2)

The carrying value and fair value of the Company's financial instruments at December 31, 2018 are as follows:

(\$000's)	Carrying Value	Fair Value
Cash and cash equivalents	2,239	2,239
Restricted cash	1,810	1,810
Accounts receivable	6,069	6,069
Accounts payable and accrued liabilities	16,311	16,311
Lease obligation	3,860	3,860
Commodity contracts	8,265	8,265
Promissory note	1,154	1,154
Amended Term Loan Facility	42,678	43,785

MARKET RISK

Razor is exposed to normal market risks inherent in the oil and natural gas business, including, but not limited to, commodity price risk, credit risk, interest rate risk, foreign exchange risk, and liquidity 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.

Commodity Price Risk

Razor is exposed to commodity price risk as prices for oil and natural gas products fluctuate in response to many factors including local and global supply and demand, weather patterns, pipeline transportation, political stability, and economic factors. Commodity price fluctuations are an inherent part of the oil and gas business. Razor mitigates some of the exposure to commodity price risk to protect the return on investment and provide a level of stability to operating cash flow. The Company hedges a portion of its future production to protect cash flows to allow it to meet its strategic objectives. The Company does not apply hedge accounting for these contracts.

The following table demonstrates the impact of changes in commodity pricing on loss before taxes, based on the derivative contracts in place at December 31, 2018:

(USD \$000's)	Gain/(Loss)
\$10 increase in USD WTI/bbl	(4,868)
\$10 decrease in USD WTI/bbl	6,152

As at December 31, 2018, Razor had the following derivative contracts outstanding:

Reference point	Volume (bbls)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl	Fair Value (CAD 000's)
Oil - Upside enhanced traditional collars ¹						
NYMEX WTI financial futures	45,000	Jan-2019	54.50	N/A*	62.00	—
NYMEX WTI financial futures	45,000	Feb-2019	54.50	N/A*	63.00	5
NYMEX WTI financial futures	45,000	Mar-2019	54.50	N/A*	65.00	11
NYMEX WTI financial futures	45,000	Apr-2019	54.50	N/A*	68.00	591
NYMEX WTI financial futures	45,000	May-2019	54.50	N/A*	68.00	602
NYMEX WTI financial futures	45,000	Jun-2019	57.00	N/A*	69.00	726
NYMEX WTI financial futures	45,000	Jul-2019	57.00	N/A*	69.00	731
NYMEX WTI financial futures	45,000	Aug-2019	57.00	N/A*	73.00	723
NYMEX WTI financial futures	45,000	Sep-2019	59.50	N/A*	76.00	838
NYMEX WTI financial futures	45,000	Oct-2019	59.50	N/A*	69.00	865
NYMEX WTI financial futures	45,000	Nov-2019	47.00	51.00	55.00	246
NYMEX WTI financial futures	45,000	Dec-2019	42.00	47.00	51.00	94

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.

* Ceiling short call unwound in Dec 2018

Reference point	Volume (bblspd)	Remaining Term	Price USD/bbl	Fair Value (CAD 000's)
Oil - Long Put				
NYMEX WTI financial futures	45,000	Jan - Mar 2019	54.50	3,386
NYMEX WTI financial futures	45,000	Apr-2019	59.50	831
NYMEX WTI financial futures	45,000	May-2019	47.00	289
NYMEX WTI financial futures	45,000	June-2019	40.00	128
Oil - Short Call				
NYMEX WTI financial futures	45,000	Feb-2019	43.00	(284)
NYMEX WTI financial futures	45,000	Feb-2019	47.00	(156)
NYMEX WTI financial futures	45,000	Mar-2019	43.00	(142)
NYMEX WTI financial futures	45,000	Apr-2019	43.00	(382)
Oil - Short Put				
NYMEX WTI financial futures	45,000	Feb-2019	43.00	(111)
NYMEX WTI financial futures	45,000	Feb-2019	47.00	(226)
NYMEX WTI financial futures	45,000	Mar-2019	43.00	(338)
NYMEX WTI financial futures	45,000	Apr-2019	43.00	(161)

As at December 31, 2018, the Company fair valued the oil and gas commodity contracts recording an asset of \$8.3 million (2017 - \$0.6 million liability) on the Statement of Financial Position and recorded an unrealized gain of \$8.9 million (2017 - \$0.6 million loss) in earnings for the year ended December 31, 2018.

Subsequent to December 31, 2018, the Company has sold and purchased certain commodity contracts outstanding at year-end. Razor had the following derivative contracts outstanding as at March 28, 2019:

Reference point	Volume (bblspd)	Remaining Term	Floor Long Put USD/bbl	Ceiling Short Call USD/bbl	Long Upside Call USD/bbl
Oil - Upside enhanced traditional collars ¹					
NYMEX WTI financial futures	100,000	Mar-2019	45.00	53.00	57.00
NYMEX WTI financial futures	50,000	Apr-2019	45.00	53.00	57.00
NYMEX WTI financial futures	50,000	Apr-2019	50.00	56.00	60.00
NYMEX WTI financial futures	55,000	May-2019	50.00	56.00	60.00
NYMEX WTI financial futures	55,000	Jun-2019	50.00	56.00	60.00
NYMEX WTI financial futures	55,000	Jul-2019	52.50	60.00	64.00
NYMEX WTI financial futures	100,000	Aug-2019	52.50	60.00	64.00
NYMEX WTI financial futures	45,000	Nov-2019	47.00	51.00	55.00
NYMEX WTI financial futures	45,000	Dec-2019	42.00	47.00	51.00
NYMEX WTI financial futures	45,000	Jan-2020	45.00	54.00	58.00
NYMEX WTI financial futures	25,000	Feb-2020	45.00	55.00	59.00
NYMEX WTI financial futures	25,000	Mar-2020	45.00	54.00	58.00

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.

Reference point	Volume (bblspd)	Remaining Term	Price USD/bbl
Oil - Long Call			
NYMEX WTI financial futures	45,000	Mar-2019	65.00
NYMEX WTI financial futures	45,000	Apr-2019	68.00
NYMEX WTI financial futures	45,000	May-2019	68.00
NYMEX WTI financial futures	45,000	Jun-2019	69.00
NYMEX WTI financial futures	45,000	Jul-2019	69.00
NYMEX WTI financial futures	45,000	Aug-2019	73.00
NYMEX WTI financial futures	45,000	Sep-2019	76.00
NYMEX WTI financial futures	45,000	Oct-2019	69.00
Oil - Long Put			
NYMEX WTI financial futures	45,000	May-2019	47.00
NYMEX WTI financial futures	45,000	Jun-2019	40.00
NYMEX WTI financial futures	45,000	Jul-2019	45.00

In order to mitigate price fluctuations for the gas consumed internally for operations, Razor had entered into physical gas contracts. As at December 31, 2018, the Company had the following contracts outstanding:

Reference point	Type	Volume (GJ/d)	Term	Price per GJ (CAD)
Natural gas - fixed price physical contracts				
AECO	Buy	1,250	2019	1.41
AECO	Buy	1,250	2020	1.45

Credit Risk

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

The Company's trade and other receivables of \$6.1 million at December 31, 2018 (2017 - \$9.6 million) are non-interest bearing and have not been impaired. The Company's receivables are summarized as follows:

(\$000's)	December 31,	
	2018	2017
Trade receivables	4,032	7,515
Joint interest billings	2,037	2,103
Accounts receivable	6,069	9,618

The majority of the credit exposure on trade receivables as at December 31, 2018, pertains to revenue for accrued December 2018 production volumes. Receivables from the oil and gas marketing companies are typically collected on the 25th day of the month following production. Razor mitigates the credit risk associated with these receivables by establishing relationships with credit worthy purchasers. Razor has not experienced any collection issues with its oil and gas marketers.

Receivables from partners in jointly owned assets are typically collected within one to three months of the bill being issued to the partner. The Company mitigates the risk from joint interest billings by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with partners in jointly owned assets as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by Razor, production can be withheld from partners in jointly owned assets in the event of non-payment.

The Company's accounts receivable is aged as follows:

(\$000's)	December 31,	
	2018	2017
Current (less than 30 days)	4,348	8,109
31 to 90 days	701	1,049
Over 90 days	1,020	460
Total receivables	6,069	9,618

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

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and long-term debt. Razor manages its interest rate risk by entering into fixed interest rates on the Amended Term Loan Facility, lease obligation, and Promissory Note. Consequently, there is no exposure to fluctuations in market interest rates.

The Amended Term Loan Facility matures on January 31, 2021 and bears interest at the rate of 10% per annum (paid semi-annually on June 30 and December 31), while the lease obligation bears interest at the rate of 6.1% per annum and expires on June 18, 2022. The Promissory Notes mature on September 12, 2022 and December 13, 2022, and interest is paid monthly at 6.1% and 6.5% per annum along with the principal.

Foreign Exchange Risk

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

The Company estimates that a 10% increase or decrease of the Canadian dollar against the U.S. dollar would result in an increase or decrease of \$819 thousand respectively in net income. The Company does not currently utilize derivative instruments to manage this risk.

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.

The Company anticipates having adequate cash flow to meet its contractual obligations, identified above, as they come due in 2019 and beyond. At December 31, 2018, volatility in commodity prices resulted in a violation of the working capital covenant on the AIMCo Amended Term Loan Facility for which the Company was able to obtain a waiver. The Company is projecting potential future working capital covenant compliance issues with respect to the AIMCo Amended Term Loan Facility and as such has received an additional relief for the year ended December 31, 2019 through an amendment to the working capital ratio covenant from 1:1 to 0.5:1. Management is forecasting that the adjusted debt-to-adjusted cash flow and the amended working capital ratio covenants will be met as at December 31, 2019. However, given the volatile economic environment, there exists significant uncertainty as pertains to cash flow projections, which although not currently anticipated, could manifest into other future covenant violations. The Company is dependent on the ongoing support of AIMCo through to its contractual maturity of January 2021.

The table below summarizes the Company's contractual obligations as at December 31, 2018:

(\$000's)	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Accounts payable and accrued liabilities ¹	16,311	16,311	—	—	—
Long-term debt	45,000	—	45,000	—	—
Promissory note	1,154	279	613	262	—
Interest payable ²	9,525	4,563	4,962	—	—
Minimum lease obligation	4,286	1,254	2,509	523	—
	76,276	22,407	53,084	785	—

1) Accounts payable and accrued liabilities exclude interest payable on long-term debt.

2) Excludes interest paid on minimum lease obligation.

15. COMMITMENTS AND CONTINGENCIES

In June 2017, the Company entered into an operating lease for office premises. The term of the lease commenced on June 1, 2017 and expires on June 30, 2022.

(\$000's)	Total	2019	2020	2021	2022-2032
Office leases	1,116	300	313	331	172

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.

(\$000's)	Total	2019	2020	2021	2022-2032
Transportation services	2,082	633	341	98	1,010
Processing services	483	389	94	—	—
	2,565	1,022	435	98	1,010

1) Commitments exclude interest and principal on long-term debt and payments to settle derivative contracts.

Razor inherited decommissioning liabilities included in its Swan Hills and Kaybob acquisitions. In Q4 2018, the Company spent \$1.1 million on abandonment, reclamation, and remediation expenditures (Q4 2017 - \$1.6 million).

The Company has an annual commitment with the Alberta Energy Regulator (AER) to either suspend, reactivate, or abandon non-compliant inactive wells, under the Inactive Well Compliance Program ("IWCP"). As at April 1, 2018, the Company had 64 wells remaining in the IWCP that it needs to address before March 31, 2020. The Company continues to invest in end-of-life well and facility decommissioning.

In the normal course of its operations, the Company may be subject to litigation and claims and records provisions for claims as required. On March 20, 2017, the Company was served with a statement of claim whereby the plaintiffs allege that the Company was provided with confidential information about certain petroleum and natural gas assets that a third party had agreed to sell to the plaintiff. The Company has filed a statement of defense denying all allegations made against them. The potential outcome of the lawsuit and claim are uncertain, however the Company's opinion is that the claim is without merit. For additional information, refer to "Legal Proceedings and Regulatory Actions" in the Company's most recent annual information form, which is available on SEDAR at www.sedar.com.

16. REVENUES

The significant components recognized in revenues are as follows:

(\$000's)	Years ended December 31,	
	2018	2017
Oil	78,241	50,651
Gas	2,481	1,635
NGL	13,660	8,808
Blending and processing	10,472	4,333
Sales of commodities purchased from third parties	15,639	—
Road use	873	471
Interest	139	139
Other income ¹	1,394	230
	122,899	66,267

(1) Primarily comprised of non-recurring green house gas credits

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

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

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

17. FINANCING COSTS

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

The components of financing costs are summarized below.

	Years ended December 31,	
(\$000's)	2018	2017
Interest expense	4,579	2,775
Amortization of deferred financing costs (Note 9)	1,115	842
Accretion (Note 11)	1,771	1,460
	7,465	5,077

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

18. INCOME TAX

The provision for income taxes is as follows:

	Years ended December 31,	
(\$000's)	2018	2017
Income (loss) before income taxes	5,831	(5,084)
Combined statutory tax rate	27%	27%
Expected income tax at statutory tax rate	1,574	(1,373)
Non-deductible expenses	(36)	8
Change in unrecognized deferred tax asset	—	(117)
Other	54	48
Income tax expense (recovery)	1,592	(1,434)

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

	December 31,	
(\$000's)	2018	2017
Property, plant and equipment	(21,567)	(20,383)
Decommissioning obligations	21,381	20,598
Commodity contracts	(2,232)	171
Financing charges	404	411
Non-capital losses	2,334	1,115
	320	1,912

The estimated tax pools are as follows:

	December 31,	
(\$000's)	2018	2017
Canadian oil and gas property expenses	23,478	23,580
Canadian development expenses	27,317	6,539
Undepreciated capital cost	6,042	6,138
Non-capital losses ¹	8,639	4,130
Other	3,819	4,362
Estimated tax pools	69,295	44,749

1) The non-capital losses will expire in 2036 and 2037.

19. INCOME (LOSS) PER SHARE

Per share amounts are calculated by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted per share amounts are calculated by adjusting the weighted average number of common shares outstanding for potentially dilutive instruments. For the years December 31, 2018 and 2017, there is no dilution in the per share amounts.

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

	Years ended December 31,	
	2018	2017
Weighted average shares outstanding (basic and diluted)	15,622,374	13,709,753
Net income (loss) for the period (\$000's)	4,239	(3,650)
Net income (loss) per share (basic and diluted)	\$ 0.27	\$ (0.27)

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years ended December 31,	
(\$000's)	2018	2017
Accounts receivable	3,457	(9,767)
Prepaid expenses and deposits	836	(2,102)
Inventory	(1,205)	—
Accounts payable and accrued liabilities	1,324	14,523
	4,412	2,654

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

	Years ended December 31,	
(\$000's)	2018	2017
Operating	5,160	(2,306)
Financing	—	—
Investing	(748)	4,960
	4,412	2,654

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

	Years ended December 31,	
(\$000's)	2018	2017
Cash	1,948	7,219
Short-term investments	291	268
	2,239	7,487

21. RELATED PARTY TRANSACTIONS

On November 24, 2016, two shareholders of the Company provided the Company with a shareholders' loan of \$50 thousand. The loan was repaid in full in February, 2017. During the year ended December 31, 2017, the Company incurred \$135 thousand in advisory services from an entity related due to common directorship. Transactions with related parties are conducted and recorded at the exchange amount.

KEY MANAGEMENT COMPENSATION

In 2018, key management personnel include executive management and the Board of Directors. The compensation of key management personnel is as follows:

(\$000's)	Years ended December 31,	
	2018	2017
Salary and employee benefits	2,507	1,921

CORPORATE INFORMATION

MANAGEMENT

Doug Bailey

President and Chief Executive Officer

Frank Muller

Senior Vice President and Chief Operating Officer

Kevin Braun

Chief Financial Officer

Marc Bergevin

Vice President, Engineering

Lisa Mueller

Vice President, New Ventures

Devin Sundstrom

Vice President, Production

Stephen Sych

Vice President, Operations

BOARD OF DIRECTORS

Sony Gill ^{(1) (3) (4)}

Chair

Doug Bailey

Sonny Mottahed ^{(1) (2) (3)}

Frank Muller

Vick Saxon ^{(2) (3) (4)}

Stan Smith ^{(1) (2) (4)}

(1) Audit Committee

(2) Reserves and Environment Committee

(3) Compensation Committee

(4) Corporate Governance Committee

CORPORATE OFFICE

Razor Energy Corp.

800, 500-5th Ave SW

Calgary, Alberta, Canada T2P 3L5

Website: www.razor-energy.com

TRANSFER AGENT

Alliance Trust Company

1010, 407-2 Ave SW

Calgary, Alberta T2P 2Y3

403-237-6111

BANK

National Bank of Canada

AUDITORS

KPMG LLP

LEGAL COUNSEL

McCarthy Tétrault LLP

INDEPENDENT RESERVE EVALUATORS

Sproule Associates Limited

STOCK SYMBOL

RZE

TSX Venture Exchange