RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	June 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**5,324**	2,239
Restricted cash	4	**1,073**	1,810
Accounts receivable	13	**9,937**	6,069
Prepaid expenses and deposits		**3,056**	1,316
Inventory	5	**439**	1,205
Commodity contracts	13	**—**	8,265
		19,829	20,904
Deferred tax asset		**3,701**	320
Property, plant and equipment	7	**148,837**	136,713
TOTAL ASSETS		**172,367**	**157,937**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**28,194**	16,311
Commodity contracts	13	**30**	—
Decommissioning obligations	10	**2,912**	2,880
Current portion of lease obligation	9	**1,529**	1,017
Current portion of long-term debt	8	**288**	279
		32,953	20,487
Non-Current			
Long-term debt	8	**43,959**	43,553
Long-term lease obligation	9	**3,579**	2,843
Decommissioning obligations	10	**90,162**	76,310
Other liabilities		**—**	128
TOTAL LIABILITIES		**170,653**	143,321
SHAREHOLDERS' EQUITY			
Share capital	12	**17,944**	18,057
Contributed surplus/warrants	12	**694**	694
Deficit		**(16,924)**	(4,135)
		1,714	14,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**172,367**	**157,937**
Commitments and Contingencies	14		
Subsequent Events	19		

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

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

(UNAUDITED)

(Stated in thousands of Canadian dollars, except per share amounts)	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
REVENUES					
Commodity sales from production		**22,853**	27,907	**42,468**	50,141
Sales of commodities purchased from third parties		**2,413**	7,031	**8,454**	7,031
Blending and processing revenue		**2,332**	3,560	**4,573**	5,935
Other revenue		**272**	1,642	**625**	1,875
Total revenues	15	**27,870**	40,140	**56,120**	64,982
Royalties		**(3,473)**	(3,935)	**(6,269)**	(8,909)
		24,397	36,205	**49,851**	56,073
Realized loss on commodity contracts settlement		**(1,862)**	(1,195)	**(2,158)**	(2,715)
Unrealized gain (loss) on commodity risk management	13	**1,135**	(763)	**(8,295)**	(624)
		23,670	**34,247**	**39,398**	**52,734**
EXPENSES					
Operating		**13,450**	14,914	**27,033**	25,021
Transportation and treating		**1,073**	1,271	**1,853**	1,940
Commodities purchased from third parties		**2,256**	6,948	**8,564**	6,948
Blending and processing		**1,146**	1,787	**1,970**	2,639
General and administrative		**813**	1,354	**3,073**	2,525
Acquisition and transaction	6	**—**	—	**—**	16
Financing	16	**1,878**	1,834	**3,728**	3,578
Depletion, depreciation and amortization	7	**4,512**	4,031	**8,772**	7,536
Foreign exchange loss (gain)		**50**	(191)	**103**	(123)
		25,178	**31,948**	**55,096**	**50,080**
Gain on asset swap	6	**—**	836	**780**	836
Income (loss) before income tax		**(1,508)**	**3,135**	**(14,918)**	**3,490**
Deferred income tax expense (recovery)		**238**	631	**(3,381)**	719
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**(1,746)**	**2,504**	**(11,537)**	2,771
NET INCOME (LOSS) PER SHARE					
Basic and diluted	17	**(0.12)**	0.16	**(0.76)**	0.18

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	Share Capital	Warrants	Deficit	Total Shareholders' Equity
December 31, 2017		18,333	694	(4,334)	14,693
Shares issued		409	—	—	409
Net income		—	—	2,771	2,771
June 30, 2018		**18,742**	**694**	**(1,563)**	**17,873**
December 31, 2018		**18,057**	**694**	**(4,135)**	**14,616**
Shares repurchased and cancelled	12	(113)	—	(115)	(228)
Dividends	12	—	—	(1,137)	(1,137)
Net loss		—	—	(11,537)	(11,537)
June 30, 2019		**17,944**	**694**	**(16,924)**	**1,714**

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

RAZOR ENERGY CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Stated in thousands of Canadian dollars)	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating Activities					
Net income (loss) for the period		**(1,746)**	2,504	**(11,537)**	2,771
Adjustments for non-cash items:					
Unrealized loss (gain) on commodity risk	13	**(1,135)**	763	**8,295**	624
Loss (gain) on foreign currency translation		**50**	(191)	**103**	(123)
Gain on sale of assets	6	**—**	(836)	**(780)**	(836)
Financing costs	16	**1,878**	1,834	**3,728**	3,578
Lease inducement		**—**	(3)	**—**	(6)
Depletion, depreciation and amortization	7	**4,339**	4,031	**8,573**	7,536
Decommissioning costs incurred	10	**254**	(265)	**42**	(477)
Deferred income tax expense (recovery)		**238**	631	**(3,381)**	719
Changes in non-cash working capital	18	**4,385**	(4,685)	**7,319**	(4,546)
Net cash flows from operating activities		**8,263**	**3,783**	**12,362**	**9,240**
Financing Activities					
Proceeds from long-term debt	8	**—**	—	**—**	15,000
Repayment of long-term debt	8	**(69)**	—	**(137)**	—
Deferred financing costs	8	**—**	(37)	**—**	(190)
Payment of lease obligation	9	**(316)**	—	**(611)**	—
Repayment of shareholder loan		**—**	—	**—**	—
Interest expense	16	**(1,232)**	(1,126)	**(2,429)**	(2,179)
Shares repurchased and cancelled		**(228)**	—	**(228)**	—
Dividends	12	**(567)**	—	**(1,137)**	—
Changes in non-cash working capital	18	**(1,128)**	(1,048)	**(18)**	—
Net cash flows from (used in) financing activities		**(3,540)**	**(2,211)**	**(4,560)**	**12,631**
Investing Activities					
Property acquisitions	7	**—**	491	**(88)**	(4,150)
Asset dispositions	7	**—**	800	**—**	800
Capital expenditures	7	**(4,619)**	(7,620)	**(7,459)**	(22,022)
Proceeds from government grants for assets	7	**441**	—	**2,456**	—
Restricted cash	4	**634**	(698)	**737**	(761)
Changes in non-cash working capital	18	**(345)**	(4,224)	**(260)**	269
Net cash flows used in investing activities		**(3,889)**	**(11,251)**	**(4,614)**	**(25,864)**
Foreign currency translation		**(50)**	191	**(103)**	123
Change in cash and cash equivalents		**784**	**(9,488)**	**3,085**	**(3,870)**
Cash and cash equivalents, beginning of period		**4,540**	13,105	**2,239**	7,487
Cash and cash equivalents, end of period		**5,324**	**3,617**	**5,324**	**3,617**
Cash interest paid		**2,361**	2,174	**2,448**	2,179

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

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

1. CORPORATE INFORMATION

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

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim condensed consolidated financial statements are prepared according to International Accounting Standard (IAS) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") effective as of June 30, 2019. They do not include all the disclosures required in annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2018. Certain comparative figures have been reclassified to conform with current period presentation.

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

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors, on August 20, 2019.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

3. CHANGES IN ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements are prepared following the same accounting policies used in the Company’s audited consolidated financial statements as at December 31, 2018, except as described below.

GOVERNMENT GRANTS

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. If a grant is received but compliance with any attached condition is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item, it is recognized as income in the period in which the costs are incurred. Where the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and then subsequently in net income (loss) over the expected useful life of the related asset through lower charges to impairment and/or depletion, depreciation and amortization.

LEASES

The Company applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information before the initial application has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 9.

At inception of a contract, Razor assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contracts entered into, or changed, on or after January 1, 2019.

The Company may elect not to apply the lessee accounting model to:

- leases with a lease term of 12 months or less that do not contain a purchase option; and
- leases for which the underlying asset is of low value when it is new.

At inception or on reassessment of a contract that contains a lease component, Razor allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. For the leases of building spaces in which it is a lessee, Razor has elected to separate non-lease components, and account for the lease and non-lease components as a separate lease component. Any additional payment for the operating costs is a non-lease component and is accounted for as a rent expense.

The lease liability is initially measured at the present value of the lease payments that are not paid at the initial application date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, Razor uses its incremental borrowing rate as the discount rate.

The Company recognizes a right-of-use (ROU) asset 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 right-of-use asset is subsequently depreciated using the straight-line method from the initial application date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The following table show the impact of IFRS 16 implementation on opening balances:

($000's)	**January 1, 2019**
Right-of-use asset	339
Lease liabilities	(467)
Other liabilities	128
Retained earnings	—

The following table shows the impact of IFRS 16 implementation on the operating lease commitments previously disclosed:

($000's)	
Operating lease commitments at December 31, 2018 as disclosed in the Company's consolidated financial statements	1,116
Non-lease component included in the above	(812)
Lease component of lease commitment at December 31, 2018	304
Discounted using the lessee's incremental borrowing rate at the date of initial application	269
Add: lease liabilities recognized on adoption of IFRS 16	198
Lease liability recognized at January 1, 2019	467

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

4. 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 June 30, 2019, the Company held $1.1 million as restricted cash (December 31, 2018 - $1.8 million).

5. INVENTORY

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

As at June 30, 2019, the Company held 11,228 barrels of oil in inventory valued at cost of $38.75 per barrel (December 31, 2018 - 35,267 barrels at $34.18 per barrel). As at June 30, 2019, the Company recorded $0.4 million of costs to inventory (December 31, 2018 - $1.2 million). During the three months ended June 30, 2019, product inventory of $0.7 million was recorded as an expense (2018 - $Nil).

6. ACQUISITIONS

Asset Swap

On February 6, 2019, Razor completed a non monitory asset swap whereby Razor increased its working interest positions in its Virginia Hills Unit 1 and completely disposed its working interest in Kaybob Beaverhill Lake Unit 1. This transaction increases Razor's operated working interest position in Virginia Hills Unit 1 to 100% and completely disposes it's working interest in Kaybob Beaverhill Lake Unit 1. The acquisition had an effective date of December 1, 2018.

This acquisition was accounted for using the acquisition method, with the operating results included in the Company’s financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired, and liabilities assumed by Razor were based on the more readily available information being the asset given up versus that of the acquired assets.

Based on the fair value of the assets given up Razor recorded $2.7 million of decommissioning obligation estimated using the credit adjusted rate of 15% and removed $0.2 million of net book value of property, plant and equipment and the associated risk-free decommissioning obligation of $3.7 million. The Company recognized a gain on disposition of $0.8 million as a result of the swap.

7. PROPERTY, PLANT AND EQUIPMENT

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

($000's)	
Cost	
December 31, 2018	163,040
Property acquisitions	88
Capital expenditures	7,459
Right-of-use assets (Note 3)	1,734
Disposals and derecognition	(992)
Change in decommissioning obligations	14,084
Government grants	(2,456)
June 30, 2019	**182,957**
Accumulated depletion, depreciation and amortization	
December 31, 2018	26,327
Depletion, depreciation and amortization	8,573
Disposals and derecognition	(780)
June 30, 2019	**34,120**
Net book value	
December 31, 2018	136,713
June 30, 2019	**148,837**

Effective January 1, 2019, Razor applied IFRS 16 accounting policy for its office lease contracts and certain land surface leases and recognized a right-of-use (ROU) asset on a lease-by-lease basis as the amount equal to the lease liability. See Note 9.

At each reporting period, Razor evaluates its developed and producing assets on a cash generating unit basis for indicators of any potential impairment. As a result of this assessment, the Company did not identify any indicators of impairment at June 30, 2019.

There were no borrowing costs capitalized in the quarter, as the Company did not have any qualifying assets. Equipment not yet put in service and undeveloped land costs excluded from the costs subject to depletion for the three months ended June 30, 2019 total $1.7 million (December 31, 2018 - $0.8 million), offset by $1.8 million in government grants. As at June 30, 2019, future development costs required to develop proved and probable reserves in the amount of $59.6 million are included in the depletion calculation for PP&E (December 31, 2018 - $60.6 million).

8. 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 (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.

The proceeds of the Amended Term Loan Facility were used by Razor to fund its development program and for general corporate purposes. The effective interest rate of the Amended Term Loan Facility is 12% per annum (December 31, 2018 - 12%).

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. Promissory Note-1 is secured by the power generator purchased with the term ending and last payment to be made on September 12, 2022. 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 with the term ending and last payment to be made on December 13, 2022. 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)	**June 30, 2019**	**December 31, 2018**
Balance, beginning of year	**43,832**	27,161
Proceeds of Amended Term Loan Facility	**—**	15,000
Proceeds from Promissory Notes	**—**	1,211
Repayment of Promissory Notes	**(137)**	(57)
Deferred financing costs	**—**	(598)
Amortization of deferred financing costs	**552**	1,115
Balance, end of period	**44,247**	43,832

As at June 30, 2019, Razor had the following outstanding long-term debt:

($000's)	Interest Rate	Maturity	**June 30, 2019**	**December 31, 2018**
Amended Term Loan Facility	10%	Jan-2021	**45,000**	45,000
Promissory Note-1	6.1%	Sep-2022	**848**	964
Promissory Note-2	6.5%	Dec-2022	**169**	190
Deferred financing costs			**(1,770)**	(2,322)
Long-term debt			**44,247**	**43,832**
Current portion			**288**	279
Long-term portion			**43,959**	43,553
Long-term debt			**44,247**	**43,832**

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 June 30, 2019, deferred financing costs are comprised of legal fees of $348 thousand (December 31, 2018 - $348 thousand) and the fair value of the shares issued to AIMCo of $3.9 million (December 31, 2018 - $3.9 million) (see Note 12).

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

- a maximum adjusted net debt-to-adjusted cash flow ratio of less than 4:1 for 2019, and 3:1 for each year thereafter, measured on December 31 of each year; and
- a minimum working capital ratio of 0.5:1 for 2019, and 1:1 for each year thereafter, measured on December 31 of each year.

As at June 30, 2019, Razor was in compliance with all of its non-financial debt covenants.

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.

9. LEASE OBLIGATION

On June 18, 2018, Razor entered into a lease agreement for the lease of natural gas power generators for $4.1 million. The lease agreement is discounted with an effective interest rate of 6.1% and ends on June 18, 2022 with a nominal final payment after which Razor will own the equipment. Monthly payments of $104.5 thousand include interest and principal.

On February 22, 2019, the Company entered into two lease agreements for lease of field equipment for $0.1 million each. The lease agreements are discounted with an effective interest rate of 8.95% and 4.99% respectively. Both lease agreements end on February 22, 2023 with a nominal final payment after which Razor own the equipment. Monthly payments for both leases are $5.7 thousand and include interest and principal.

On March 15, 2019, Razor entered into a lease agreement for the lease of field service equipment for $1.1 million. The lease agreement is discounted with an effective interest rate of 8.95% per annum and ends on April 15, 2023 with a nominal final payment after which Razor will own the equipment. Monthly payments of $24.0 thousand include interest and principal.

Effective January 1, 2019, Razor applied IFRS 16 accounting policy and recognized its office lease contracts and certain land surface leases as a right-of-use (ROU) assets on a lease-by-lease basis. Lease liability is discounted with an effective interest rate of 6.1% and right-of-use asset is amortized based on the lease term or expected life of their respective operating area.

According to IFRS 16, Razor separates the lease components from non-lease components. Any additional payment for the operating costs is a non-lease component and is accounted for as a rent expense. The asset amount was recognized equal to the lease liability for the following contracts:

- In 2017, Razor has entered into a fixed contract for office space for a period of 5 years and 1 month. There is no renewal option in the lease agreement.

- In addition, Razor has entered into a fixed contract for warehouse space and field office space for a period of 3 years. For these contracts, Razor has the option to renew the lease if required. At this time Razor has assumed that these leases will not be renewed.

The changes in lease obligations are as follows:

($000's)	June 30, 2019	December 31, 2018
Balance, beginning of period	**3,860**	—
Liabilities incurred	**1,859**	4,361
Liabilities settled	**(767)**	(628)
Interest expense	**156**	127
Balance, end of period	**5,108**	3,860
Current portion	**1,529**	1,017
Long-term portion	**3,579**	2,843
Lease obligation	**5,108**	3,860

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $5.8 million. Razor's minimum lease payments are as follows:

($000's)	June 30, 2019	December 31, 2018
Within one year	**1,825**	1,254
Later than one year but not later than two years	**1,826**	2,509
Later than two years	**2,164**	523
Minimum lease payments	**5,815**	4,286
Amount representing finance charge	**(707)**	(426)
Present value of net minimum lease payments	**5,108**	3,860

10. 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)	June 30, 2019	December 31, 2018
Balance, beginning of period	**79,190**	76,290
Additions	**—**	394
Acquisitions	**2,744**	1,668
Decommissioning costs incurred	**42**	(3,235)
Effect of change in discount rate [1]	**13,904**	5,566
Dispositions	**(3,732)**	(60)
Revisions to estimates	**180**	(3,204)
Accretion expense	**746**	1,771
Balance, end of period	**93,074**	**79,190**
Current portion	**2,912**	2,880
Long-term portion	**90,162**	76,310
Decommissioning obligations	**93,074**	**79,190**

(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 Interim Condensed Consolidated Statements of Financial Position. Impact of the adjustment from credit-adjusted risk-free rate to the risk-free rate on acquisitions was $4.8 million (2018-$2.4 million).

The provision for the costs of decommissioning production wells, facilities and pipelines at the end of their economic lives has been estimated using existing technology, at current prices or long-term assumptions and based upon the expected timing of the activity.

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

	June 30, 2019	December 31, 2018
Undiscounted cash flows (000's)	**96,283**	90,707
Discount rate (%)	**1.66**	2.18
Inflation rate (%)	**1.50**	1.50
Weighted average expected timing of cash flows (years)	**21**	21

11. 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 common or preferred equity, or debt, changing its dividend policy, or making adjustments to its capital expenditure program, subject to customary restrictions and covenants in the Amended Term Loan Facility.

12. SHARE CAPITAL

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

AUTHORIZED AND ISSUED

A reconciliation of the number and dollar amount of outstanding shares at June 30, 2019 is shown below.

	June 30, 2019		December 31, 2018	
Common Shares	**Number**	**($000's)**	**Number**	**($000's)**
Shares outstanding, beginning of period	**15,188,834**	**18,057**	15,511,934	18,333
Common shares issued as part of debt issuance	**—**	**—**	255,600	409
Shares repurchased and cancelled	**(95,400)**	**(113)**	(578,700)	(685)
Shares outstanding, end of period	**15,093,434**	**17,944**	15,188,834	18,057

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. No preferred shares have been issued.

NORMAL COURSE ISSUER BID

On September 13, 2018, Razor announced its intention to commence a new NCIB to 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 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 three and six months ended June 30, 2019, the Company repurchased 95,400 of its common shares (three and six months ended June 31, 2018 - no shares were repurchased).

DIVIDENDS

Razor declared a monthly cash dividend of $0.0125 per share for the six months ended June 30, 2019 for a total of $1.1 million. The dividend is paid monthly and is subject to commodity prices, production levels, and other factors.

On July 2, 2019, Razor announced monthly cash dividend of $0.0125 per share, payable on July 31, 2019.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The fair value hierarchy is as follows:

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

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, cash equivalents and restricted cash, 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	
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 June 30, 2019 are as follows:

($000's)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	**5,324**	5,324
Restricted cash	**1,073**	1,073
Accounts receivable	**9,937**	9,937
Accounts payable and accrued liabilities	**28,194**	28,194
Lease obligation	**5,108**	5,108
Commodity contracts	**30**	30
Promissory Notes	**1,017**	1,104
Amended Term Loan Facility	**43,230**	44,437

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.

As at June 30, 2019, Razor had the following derivative contracts outstanding:

Oil - Upside enhanced traditional collars [1]

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)
NYMEX WTI financial futures	55,000	Jul-19	52.50	60.00	64.00	(44)
NYMEX WTI financial futures	100,000	Aug-19	52.50	60.00	64.00	(55)
NYMEX WTI financial futures	50,000	Sep-19	52.50	59.00	63.00	(13)
NYMEX WTI financial futures	50,000	Oct-19	52.50	59.00	63.00	14
NYMEX WTI financial futures	45,000	Nov-19	47.00	51.00	55.00	(100)
NYMEX WTI financial futures	45,000	Dec-19	42.00	47.00	51.00	(143)
NYMEX WTI financial futures	45,000	Jan-20	45.00	54.00	58.00	(63)
NYMEX WTI financial futures	25,000	Feb-20	45.00	55.00	59.00	(178)
NYMEX WTI financial futures	25,000	Feb-20	52.50	61.00	65.00	219
NYMEX WTI financial futures	25,000	Mar-20	45.00	54.00	58.00	(21)
NYMEX WTI financial futures	25,000	Apr-20	55.00	61.00	65.00	116
						(268)

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 (bbls)	Remaining Term	Price USD/bbl	Fair Value (CAD 000's)
Oil - Long Call				
NYMEX WTI financial futures	45,000	Jul-19	69.00	1
NYMEX WTI financial futures	45,000	Aug-19	73.00	3
NYMEX WTI financial futures	45,000	Sep-19	76.00	5
NYMEX WTI financial futures	45,000	Oct-19	69.00	34
Oil - Long Put				
NYMEX WTI financial futures	45,000	Jul-19	45.00	1
NYMEX WTI financial futures	100,000	Jul-19	50.00	5
NYMEX WTI financial futures	100,000	Aug-19	45.00	17
NYMEX WTI financial futures	150,000	Sep-19	45.00	64
NYMEX WTI financial futures	150,000	Oct-19	45.00	108
				238

As at June 30, 2019, the Company fair valued the oil and gas commodity contracts with a liability of $30 thousand (June 30, 2018 - liability of $1.3 million) on the Statement of Financial Position and recorded an unrealized loss of $8.3 million in earnings for the six months ended June 30, 2019 (June 30, 2018 - unrealized loss of $624 thousand).

In order to mitigate price fluctuations for the gas consumed internally for operations, Razor had entered into physical gas contracts. As at June 30, 2019, 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 accounts receivables of $9.9 million at June 30, 2019 (December 31, 2018 - $6.1 million) are non-interest bearing. The Company's receivables are summarized as follows:

($000's)	**June 30, 2019**	**December 31, 2018**
Trade receivables	8,414	4,032
Joint venture receivables	1,523	2,037
	9,937	6,069

The majority of the credit exposure on trade receivables as at June 30, 2019, pertains to revenue for accrued June 2019 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)	June 30, 2019	December 31, 2018
Current (less than 30 days)	10,215	4,348
31 to 90 days	117	701
Over 90 days	100	1,020
Total receivables	10,432	6,069

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

Interest Rate Risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and long-term debt. Razor manages its interest rate risk by entering into fixed interest rates on the Amended Term Loan Facility, lease obligation, and Promissory Notes. See Notes 8 and 9.

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

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

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. Accounts payable have increased in the second quarter of 2019, management believes that it has sufficient cash in the bank, cashflows from operations, and the ability to carefully manage its vendor obligations.

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, and operational challenges that affected production and operating costs, 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 June 30, 2019:

($000's)	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Accounts payable and accrued liabilities [1]	**28,212**	28,212	—	—	—
Long-term debt	**45,000**	—	45,000	—	—
Promissory notes	**1,017**	288	631	98	—
Interest payable[2]	**9,030**	5,675	3,354	1	—
Minimum lease obligation	**5,815**	1,825	3,464	311	215
	89,074	**36,000**	**52,449**	**410**	**215**

1) Accounts payable and accrued liabilities exclude interest payable on long-term debt.
2) Excludes interest paid on minimum lease obligation and right-of-use asset liability.

14. COMMITMENTS AND CONTINGENCIES

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

($000's)	Total	2019	2020	2021	2022-2032
Lease operating costs	596	99	199	199	99
Transportation services	1,669	263	297	98	1,011
Processing services	199	134	65	—	—
	2,464	**496**	**561**	**297**	**1,110**

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

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 June 30, 2019, the Company had 22 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.

15. REVENUES

The significant components recognized in revenues are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	2019	2018	2019	2018
Light oil	**20,404**	23,912	**36,501**	42,980
Gas	**328**	626	**1,088**	1,331
NGL	**2,121**	3,369	**4,879**	5,830
Blending and processing	**2,332**	3,560	**4,573**	5,935
Sales of commodities purchased from third parties	**2,413**	7,031	**8,454**	7,031
Road use	**162**	278	**432**	433
Interest	**15**	39	**33**	88
Other income	**95**	1,325	**160**	1,354
	27,870	40,140	**56,120**	64,982

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.

16. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Interest expense	**1,232**	1,126	2,429	2,179
Amortization of deferred financing costs (Note 8)	**278**	275	553	548
Accretion (Note 10)	**368**	433	746	851
	1,878	1,834	3,728	3,578

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

17. PER SHARE AMOUNTS

Per share amounts are calculated by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted per share amounts are calculated by adjusting the weighted average number of common shares outstanding for potentially dilutive instruments. For three and six months ended June 30, 2019 and 2018, there are no dilutive instruments affecting the basic common share calculations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Weighted average shares outstanding (basic and diluted)	**15,161,598**	15,767,534	**15,134,660**	15,746,352
Net income (loss) for the period (000's)	**$ (1,746)**	$ 2,504	**$ (11,537)**	$ 2,771
Net income (loss) per share (basic and diluted)	**$ (0.12)**	$ 0.16	**$ (0.76)**	$ 0.18

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Accounts receivable	**(1,443)**	(6,060)	**(3,868)**	(5,859)
Prepaid expenses and deposits	**(1,582)**	1,926	**(1,740)**	(546)
Inventory	**636**	—	**766**	—
Accounts payable and accrued liabilities	**5,301**	(5,823)	**11,883**	2,128
	2,912	(9,957)	**7,041**	(4,277)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($000's)	**2019**	**2018**	**2019**	**2018**
Operating	**4,385**	(4,685)	**7,319**	(4,546)
Financing	**(1,128)**	(1,048)	**(18)**	—
Investing	**(345)**	(4,224)	**(260)**	269
	2,912	(9,957)	**7,041**	(4,277)

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

($000's)	**June 30, 2019**	**June 30, 2018**
Cash	**5,067**	3,348
Short-term investments	**257**	269
	5,324	3,617

19. SUBSEQUENT EVENT

On August 20, 2019, the Company entered into a binding pre-acquisition agreement (the "Pre-Acquisition Agreement") with Little Rock Resources Ltd. ("Little Rock"), an arm's length private exploration and production company operating in southern Alberta. The Pre-Acquisition Agreement provides for the acquisition by Razor of all issued and outstanding common shares (the "Little Rock Shares") of Little Rock (the "Transaction").

Under the terms of the Pre-Acquisition Agreement, Little Rock shareholders will receive 0.45 of a Razor common share for each Little Rock Share held. All the officers and directors of Little Rock have entered into support agreements in favor of the Transaction, which includes a reciprocal break fee of $0.5 million.

The board of directors of each of Razor and Little Rock have unanimously approved the Transaction and recommended that Little Rock shareholders support the Transaction. The Transaction remains subject to customary closing conditions including the acquisition by Razor of not less than 90% of the Little Rock shares, the TSX Venture Exchange and other regulatory approvals, and is expected to close on or about September 19, 2019.

CORPORATE INFORMATION

MANAGEMENT

Doug Bailey
President and Chief Executive Officer

Frank Muller
Senior Vice President and Chief Operating Officer

Kevin Braun
Chief Financial Officer

Mark 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)
Chair

Doug Bailey

Sonny Mottahed (1) (2) (3)

Frank Muller

Vick Saxon (2) (3)

Stan Smith (1) (2)

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

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BANK

National Bank of Canada

AUDITORS

KPMG LLP

LEGAL COUNSEL

Stikeman Elliott LLP
McCarthy Tétrault LLP

INDEPENDENT RESERVE EVALUATORS

Sproule Associates Limited

STOCK SYMBOL
RZE
TSX Venture Exchange