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Ticker Symbol: **RZE-V**

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## FINANCIAL TARGETS

Shares Outstanding	15.77M	Current Price (May 18, 2018)	\$2.70
Market Capitalization	\$42.6M	Attractive Purchase	Under \$2.30
Q1/18 Actual Production (87% liquids)	4,353 boe/d	Table-Pounding BUY	Under \$2.10
Enterprise Value (Debt: \$41.9M)	\$84.5M	12 Month Target	\$3.50/share
Enterprise Value/boe	\$19,412	Bull Market Peak	\$12.00/share
Junior Energy Producer		Book Value (Q1/18)	\$0.97/share

## BACKGROUND

Razor Energy is a western Canadian based junior energy company engaged in acquisition, exploration, development and production of petroleum and natural gas, primarily in Alberta. It likes to buy mature, producing long-life legacy light oil fields and then focus on enhancing the value and production by implementing optimization of water floods and utilizing new tertiary recovery technologies as well as recompleting wells and drilling infill wells.

RZE started operations in February 1, 2017 with the reverse takeover of a CPC (formed in 2010) and then did their qualifying transaction via the acquisition of producing assets in the Swan Hills area. In Q2/17 it added to its asset base via the acquisition of complementary assets in the Kaybob area. In Q4/17 and Q1/18 Razor added to its working interests in the Kaybob area. They have year round access to their producing areas. These acquisitions were well timed as current purchase prices would be substantially higher. The corporate profile can be seen in Chart #1.

Chart #1  
Corporate Profile

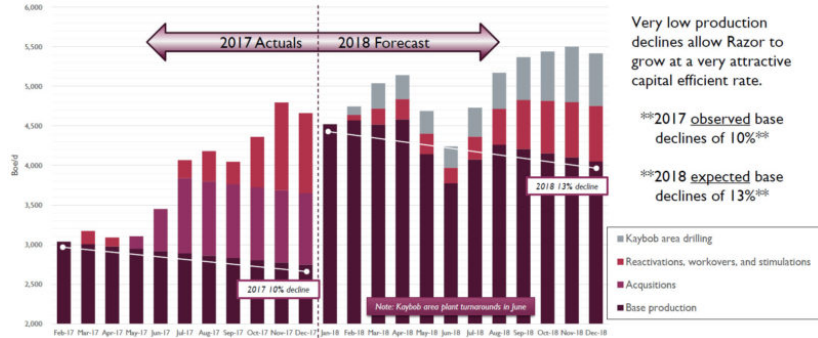
Corporate Profile		Reserves December 31, 2017						
Shares outstanding basic and fully diluted (MM)	15.8	COMPANY GROSS RESERVES				PV BEFORE TAX	NET ASSET VALUE w/\$31.0MM net debt	
Market capitalization (\$MM)	\$42.6	Oil	Natural Gas	NGL	Total	10%	10%	Per Share
Net debt - February 2018 (\$MM)	45.0	Mbbl	MMcf	Mbbl	MBOE	(000s)	(000s)	
Term debt (due January 2021)	(16.3)							
Cash on hand	2.0							
Working capital deficit/(surplus)	35.7							
Net Debt								
Enterprise Value (\$MM)	\$84.5	Proved Developed Producing	8,142.3	7,412.0	2,532.9	11,909.5	\$178.34	\$147.64 \$9.34
January 2018 production - field estimate (boepd)	4,800	Total Proved	10,187.5	9,343.0	3,327.0	15,071.7	\$216.92	\$186.22 \$11.79
2018 budgeted average production (boepd)	5,000	Proved Plus Probable	14,023.9	12,000.0	4,302.5	20,326.4	\$265.05	\$234.35 \$14.83
Light oil & natural gas liquids	88%							
Natural gas	12%							
2018 budgeted capital expenditures including decommissioning	\$38.4 million							

**Notes:**  
 • Values: Sproule's price forecast as of December 31, 2017.  
 • Values are net of abandonment liabilities and before reclamation and remediation.  
 • Values may not add due to rounding.  
 • BT Unit Value is the unit value before income tax discounted at 10% per year based upon net reserves.  
 • Estimates of future net revenue do not represent fair market value.

Source: Razor Energy Corp. Corporate Presentation February 2018

Chart #2  
Shallow Decline Production

At year end 2017, Razor had proved developed producing reserves of 11.9Mb (90% liquids and oil) worth \$178M according to their reserve engineers Sproule. Their 1P reserves were 15.1Mb and their 2P reserves came in at 20.3Mb.



The company's Reserve Life Index is at a very healthy level of 6.8 years for PDP, 8.6 years for 1P and 11.6 years for 2P based on December 2017 production levels. To top this off they have very low declines rates with a forecast for 2018 at expected base declines of 13% (Chart #2) which means treadmill drilling is low and the bulk of cash flow can be used for growth.

Source: Razor Energy Corp. Corporate Presentation February 2018

## INVESTMENT PARAMETERS: PEOPLE

Razor has 24 full time employees in Calgary head office and 18 employees in field operation locations for a total employee count of 42 people.

The largest shareholder is AIMco (Alberta Investment Management) which has funded the company with debt and also owns 2.16M shares of RZE or 13.7% of the outstanding shares.

Management's bios are in Chart #3. Insiders own 41% of the outstanding shares.

Title	Management	Shares Owned	Title	Management	Shares Owned
CEO & President	Doug Bailey	1.16M	VP New Ventures	Lisa Muller	103K
Director	Shahin Mottahed	499K	CFO	Kevin Braun	180K
Director	Sanjib Gill	398K	VP New Ventures	Devin Sundstrom	203K
Director	Vick Saxon	405K	VP Operations	Stephen Sych	192K
SVP & COO	Frank Muller	1.76M			

Source: www.sedi.ca May 2018

Chart #3  
Management Bios

• **Doug Bailey** President, Chief Executive Officer and Director

Doug Bailey is a designated accountant with over 20 years of commercial experience from heavy infrastructure construction to oil and gas exploration and production. Mr. Bailey has been engaged in the oil and gas industry since the early 2000's. Starting with various restructuring mandates, Mr. Bailey evolved into a founder of Canadian Phoenix, which sold to Renegade Petroleum, and Hyperion Exploration. Most recently, Mr. Bailey co-founded Striker Exploration Corp. ("Striker"), which amalgamated with Gear Energy Ltd. in July 2016. Mr. Bailey is a member of the Chartered Professional Accountants of Alberta.

• **Frank Muller** Senior Vice President, Chief Operating Officer and Director

Frank Muller is a professional geoscientist with over 30 years of experience in Western Canada. Mr. Muller's technical foundation was built while employed with Chevron Canada, Hillcrest Resources and Jordan Petroleum. Mr. Muller reinvigorated Real Resources and co-founded WestFire Energy where he held increasingly senior managerial and executive roles. Most recently, Mr. Muller co-founded Striker, which amalgamated with Gear Energy Ltd. in July 2016. Mr. Muller is a member of APEGA and CSPG.

• **Kevin Braun** Chief Financial Officer

Kevin Braun is a Chartered Professional Accountant with 23 years of experience in financial management including financial reporting, corporate accounting, budgeting and forecasting as well as stewardship of internal controls. Mr. Braun began his career with Coopers & Lybrand prior to moving into the upstream oil and gas sector. He has held the Controller position at Athabasca Oil and most recently was the Controller of Brion Energy. Mr. Braun is a member of the Chartered Professional Accountants of Alberta.

• **Lisa Mueller** Vice President, New Ventures

Lisa Mueller is a mechanical engineer with over 20 years of technical and business development experience. Ms. Mueller began her career with a role in the space sciences on a NASA project then moved into the commercial arena by founding and growing a manufacturing company. Most recently she served as Senior Business Development Manager of Infrastructure at Shell Canada and President & CEO at Epoch Energy Development.

• **Devin Sundstrom** Vice President, Production

Devin Sundstrom is a professional engineer with 23 years of experience in Western Canada. Mr. Sundstrom has developed a strong background in production, exploitation and acquisitions and divestitures. Mr. Sundstrom began his career at Northstar Energy and then progressed through roles of increasing responsibility while at Renaissance, Pengrowth and Hunt oil. Most recently, Mr. Sundstrom was at Long Run Exploration, as Vice President, Production, and its predecessors dating back to Galleon. Mr. Sundstrom is a member of APEGA.

• **Stephen Sych** Vice President, Operations

Steve Sych is a certified engineering technologist with 25 years of experience in Western Canada. Mr. Sych has developed a strong background in production and operations management. Mr. Sych began his career in the field and has held increasingly managerial roles with various oil and gas companies, including MGV Energy, Zargon Oil and Gas, and most recently with Arsenal Energy, which amalgamated with Lone Pine Resources in September 2016. Mr. Sych is a member of ASET.

Source: Razor Energy Corp. Corporate Presentation February 2018

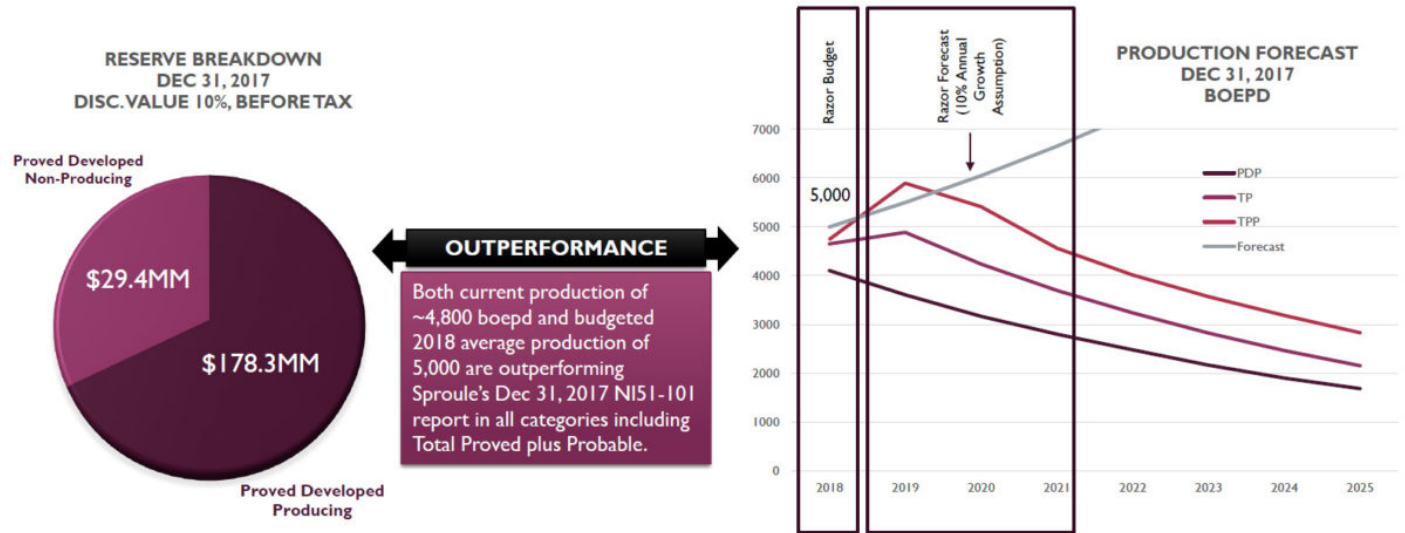
# INVESTMENT PARAMETERS: PROJECTS

Razor has two core areas: one at Swan Hills with Q4/17 production of 3,425 boe/d and at Kaybob with production of 1,109 boe/d of which 89% is oil and liquids. In Q1/18 production was 3,044 boe/d at Swan Hills and 1,309 boe/d at Kaybob. They hold over 220 net sections of land and majority owned infrastructure. Their reserve value at year end 2017 can be seen in Chart #4.

Razor had working interest in 126 net producing oil wells and seven natural gas wells at Dec 31, 2017. For their LMR issues, they have ownership in 140 net non-producing oil and natural gas wells.

RZR at year end had 27,230 net acres in its core areas.

Chart #4  
Reserves Value

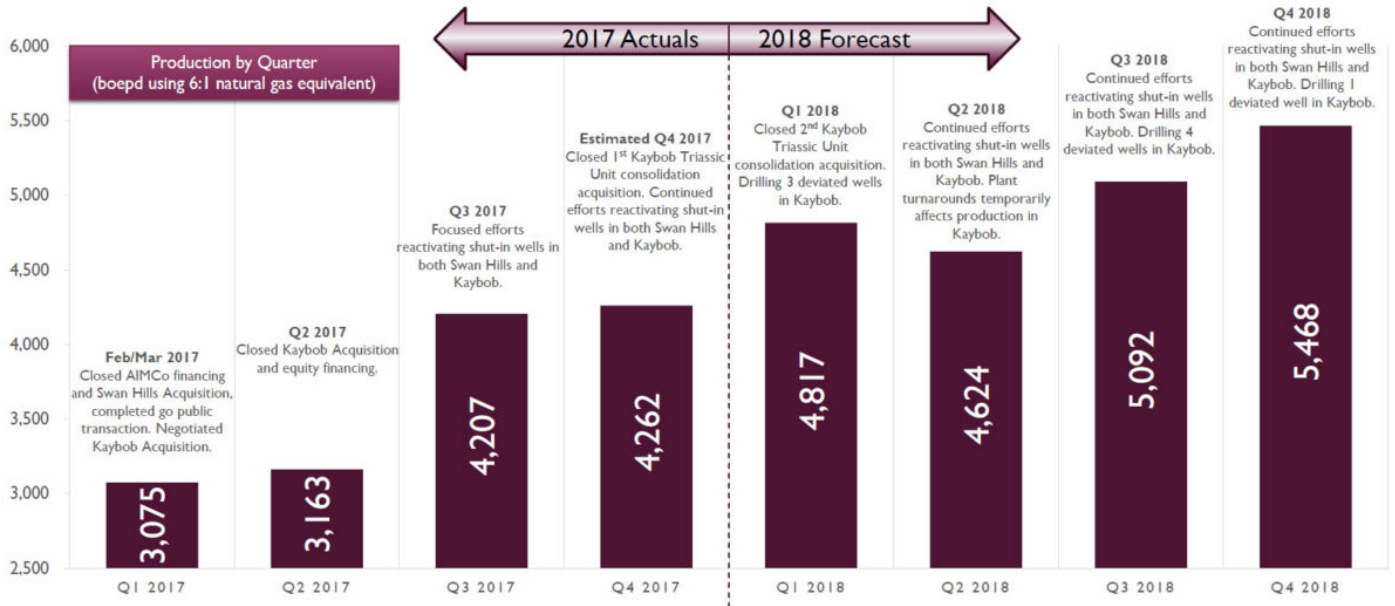


Source: Razor Energy Corp. Corporate Presentation February 2018

In 2018 (Chart #5), Razor plans on spending \$38.4M; \$8M to drill four new well drills in the Kaybob area, \$12M for recompletions in their two core areas, \$8.6M on natural gas power etc., \$5.9M for land and acquisitions, and \$2.9M for end of life expenditures to meet their LMR goals. Depending upon opportunities, we may see some of the Kaybob spending move to purchase tuck under acquisitions if great deals come available. The need for their own electricity is due to these costs now being 25% of operating costs and having their own sourced electricity will lower these costs this year and in the future. RZE needs to recomplete only 20 wells per year to keep production flat.

In 2017 they purchased the core assets of the company for \$32.75M funded by an issue of shares for \$17.25M and the proceeds of \$30M of debt provided by AIMco.

Chart #5  
Corporate Timeline



Source: Razor Energy Corp. Corporate Presentation February 2018

Recompletions are a big part of the RZE story as they cost only \$150,000 to complete and bring production up from miniscule levels to an average of 39 boe/d. Since the start of RZE they have recompleted/reactivated 63 gross wells which have added 1,750 boe/d net to Razor (Chart #6). In 2017 they reactivated 25 gross wells and added 880 boe/d of production. In Q1/18 they reactivated seven gross wells (6.4 wells net) that added 40 b/well. The capital efficiency is excellent at under \$4,000/boe and they continue to work with three service rigs on this growth initiative.

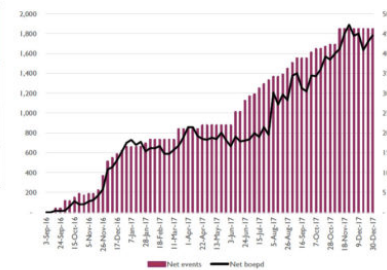
Chart #6  
Reactivation Activity

Razor has reactivated 63 (gross) wells since September 2016 adding over 1,750 boepd (net)

Gross/net	Events (#)	Expenditure (\$MM)	Production (boepd)
Swan Hills	31 / 28	4.6 / 4.2	1,180 / 1,074
Kaybob	32 / 18	4.8 / 2.7	1,270 / 711
<b>Total</b>	<b>63 / 46</b>	<b>9.4 / 6.9</b>	<b>2,500 / 1,784</b>

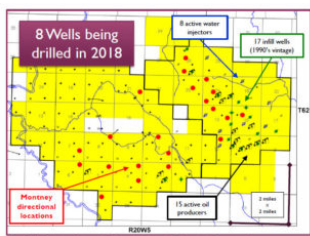
Note: All figures above are Razor gross/net working interest

- Average capital efficiency - \$3,900 / boepd
- Average expenditure per event - \$149,000
- Average production per event - 39 boepd

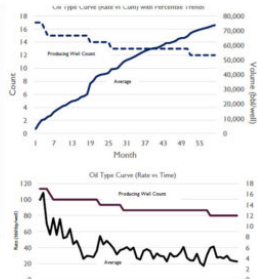


Source: Razor Energy Corp. Corporate Presentation February 2018

Chart #7  
Kaybob Directional Locations



Note: Only Triassic productive wells shown. All deeper (in Devonian) wells removed.  
Since acquiring its Kaybob assets in May 2017, Razor technical and operating staff have identified over twenty directional drill locations (1,2) on its high reservoir quality Montney coquina oil pools at 2,000m (6,500ft) depth.  
Ongoing technical analysis continues to build additional inventory. Razor plans to drill a number of directional wells during 2018.



\* Razor's internal assessment of its Kaybob Triassic Montney directional drill location inventory

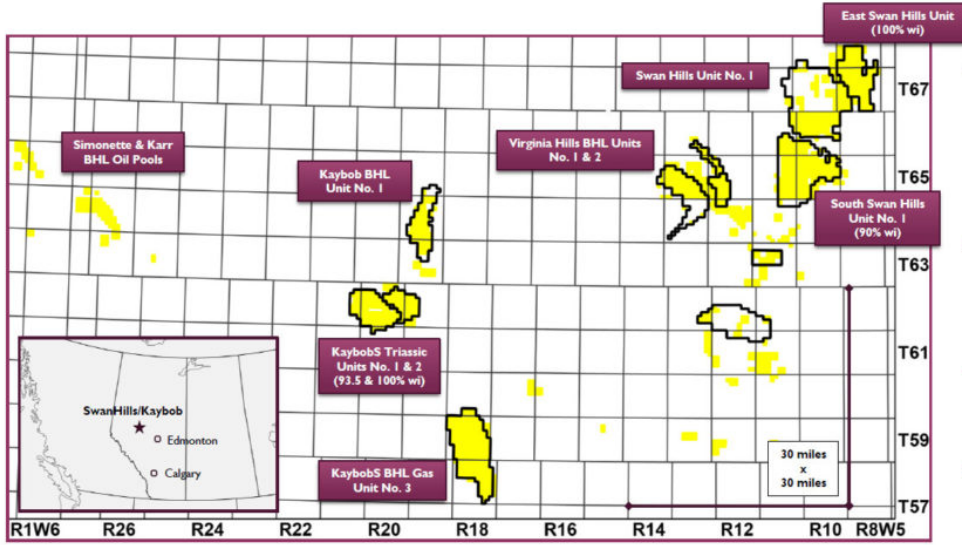
WTI (USD/bbl)	NPV \$T10 (\$M)	IRR (%)	Payout (years)
\$50	760	50	1.7
\$55	1,110	65	1.4
\$60	1,450	90	1.1
\$65	1,790	110	1.0
\$70	2,110	140	0.9

Assumptions:  
 • EUR 100,000 bbl  
 • 90 day initial production rate 90 bblpd  
 • DCET capital of \$1.5MM  
 • Lifetime operating costs of \$20/bbl  
 • CAD\$/US\$ = 0.80  
 • Edm Light to WTI - \$5.75/bbl  
 • Quality adjustment - \$3/bbl  
 • Crown royalty framework

Source: Razor Energy Corp. Corporate Presentation February 2018

Chart #8  
Swan Hills/Kaybob Core Region

In Q1/18 RZE drilled four directional wells across their large land block in the Kaybob area (Chart #7) out of a planned eight well program in 2018. The results from such a large spread format were disappointing so they will need to do more work on the migration issues. These wells cost \$1.5M each to drill and complete. In 2019 they may drill horizontal wells in Swan Hills at a cost of \$4.0M each which are targeted with productive capacity of IP90, 175 boe/d. A good well could produce nearly 300 boe/d (Chart #8, #9 and #10).

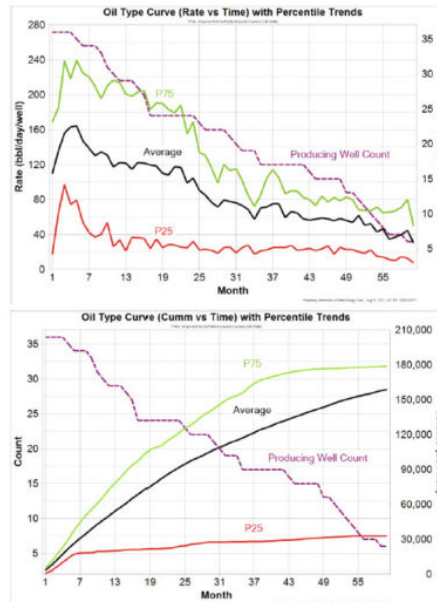
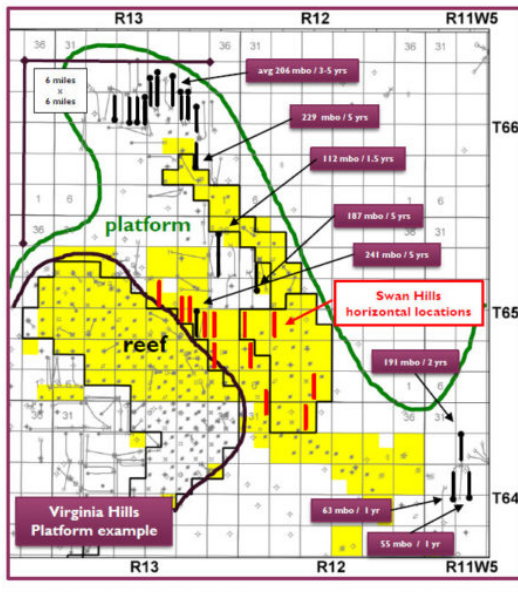


- 394 (270 net) sections of land with majority-owned infrastructure plus 4,800 boepd at 90% light oil & natural gas liquids with stable 10% base decline provides foundation for Razor's operations and future growth
- Production and development is focused on light oil in Swan Hills Beaverhill Lake ("BHL") and Kaybob Triassic ("Montney") formations
- Geographically focused and highly synergistic from a field, operating, technical and financial perspective
- Abundant running room with organic growth potential through reactivations, vertical and horizontal drilling

Source: Razor Energy Corp. Corporate Presentation February 2018

Chart #9

Swan Hills Horizontal Locations



WTI (USD/bbl)	NPV BT10 (\$M)	IRR (%)	Payout (years)
\$50	1,420	30	2.6
\$55	2,250	40	2.1
\$60	3,380	50	1.8
\$65	3,775	65	1.5
\$70	4,485	80	1.4

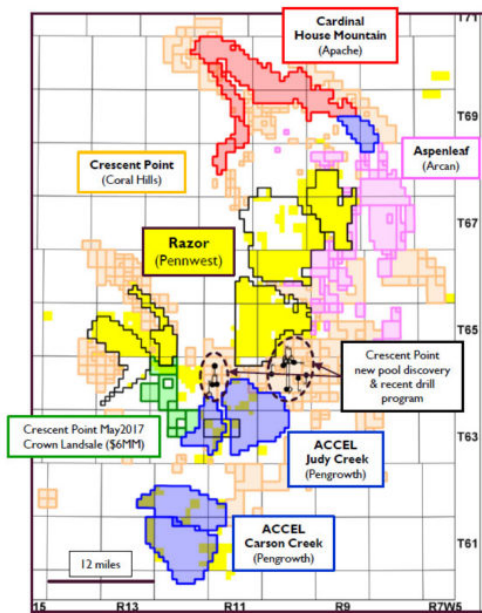
Assumptions:

- EUR 250,000 bbl
- 90 day initial production rate 170 bblpd
- DCET capital of \$4.0MM
- Lifetime operating costs of \$18/bbl
- CAD\$/US\$ = 0.80
- Edm Light to WTI -\$4/bbl
- Quality adj. -\$3/bbl
- Crown royalty framework

Source: Razor Energy Corp. Corporate Presentation February 2018

Chart #10

Swan Hills Precedent Transactions



PRECEDENT TRANSACTION SUMMARY							Transaction Valuation Metrics		Implied Valuation For RZE (\$/sh) (1,2)	
Source: Haywood Securities (updated 2017-09-06)										
Date	Acquiring Company – Company/Asset Acquired	Consideration (C\$mm)	Production (boe/d)	2P Reserves (mmboe)	EV/Production (\$/boepd)	EV/2P (\$/boe)	EV/Production (\$/sh)	EV/2P (\$/sh)		
Sep 2017	ACCEL - Pengrowth Carson Creek	\$150	5,060	31.0	\$29,644	\$4.84	\$6.30	\$4.11		
Jun 2017	Cardinal – Apache House Mountain <sup>3</sup>	\$138	2,150	10.2	\$64,000	\$13.49	\$17.25	\$12.63		
Apr 2017	ACCEL - Pengrowth Judy Creek	\$185	5,150	21.0	\$35,922	\$8.81	\$9.15	\$7.82		
Sep 2015	Cardinal - Slave Lake	\$129	3,300	18.2	\$39,091	\$7.11	\$10.06	\$6.08		
Jul 2015	Crescent Point - Coral Hill corporate	\$258	3,200	17.6	\$80,625	\$14.66	\$22.05	\$13.83		
<b>Average</b>						<b>49,857</b>	<b>\$9.78</b>			
<b>Implied Valuation for RZE (\$/sh)</b>						<b>\$12.96</b>	<b>\$9.78</b>			
<b>Implied Valuation for RZE (\$/sh) - excl. outliers</b>						<b>\$8.50</b>	<b>\$6.00</b>			Based on estimated Exit 2017 RZE production 4,700 boepd (90% oil & ngl's)
<b>RZE Share Price as of January 29, 2018</b>						<b>\$1.60</b>	<b>\$1.60</b>			
<b>Implied Premium to RZE Share Price</b>						<b>641%</b>	<b>459%</b>			
<b>Implied Premium to RZE Share Price - excl. outliers</b>						<b>386%</b>	<b>243%</b>			

Notes:  
 (1) Razor 2P reserves include 3.7 mmboe of 2P reserves acquired in Kaybob acquisition on May 24, 2017  
 (2) Razor shares outstanding 15.8 million  
 (3) Cardinal Energy consideration is pro-rated for percent of production from House Mountain assets not including potential sale of Royalty Interests

Source: Razor Energy Corp. Corporate Presentation February 2018

## INVESTMENT PARAMETERS: FINANCIAL CAPACITY

- Capex in Q1 was \$14.4M to drill four wells and complete seven reactivations. Cash on the balance sheet at the end of Q1/18 was \$13.1M. Production of 4,353 boe/d was negatively impacted by over 380 boe/d as a pipeline issue occurred in the Swan Hills area. This has since been addressed. During Q2/18 some of their Kaybob production will be curtailed. Our forecast includes these issues. The Q1/18 production compares to 3,075 boe/d in Q1/17 and 4,534 boe/d in Q4/17. Operating netback in Q1/18 was \$16.55 per boe versus \$8.27 per boe in Q1/17.
- The company has gained additional support from Alberta Investment Management (AIMco) which increased its secured lending facility by \$15M to \$45M. The debt has a maturity of January 2021 and has interest payable at 10% semi-annually.
- To fund the Kaybob acquisition, Razor sold units of shares plus a half warrant in May of 2017 for \$3 per unit. A full warrant is exercisable into a common share at \$3.50 per share and expire this year on May 24. We expect the warrants to expire without being exercised.

### Quarterly Results

	Production (b/d)					Cash Flow Per Share				
	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast
Average Production		3,813	5,000	5,800						
Q1		3,075	4,353a	5,450			0.02	0.34a	0.40	
Q2		3,163	4,750	5,600			0.09	0.30	0.45	
Q3		4,207	5,300	5,850			0.04	0.36	0.50	
Q4		4,534	5,600	6,300			-0.11	0.30	0.40	0.67

### Valuation Comparisons

	2011	2012	2013	2014	2015	2016	2017	2018 YTD
Shares Outstanding							15.5	15.77
Shareholders Equity							\$14.7	\$15.4
Book Value/Share							\$0.95	\$ 0.97
Stock Price High							\$4.00	\$2.70
Stock Price Low							\$1.25	\$1.38
High Price/Book Value							4.2x	2.8x
Low Price/Book Value							1.3x	1.4x
Cash flow per share							\$0.28	\$1.40
CFPS x - high							14.3x	1.9x
CFPS x - low							4.5x	1.0x

Source: Razor Energy and SER forecasts

### Net Asset Value/Share 2017 Reserve Report

Sproule		April 16, 2018		
		M/b	Value \$	Total Value
<b>Oil &amp; NGL's</b>				
Proved Producing Reserves	Light and NGL's	8.41	10.00	84,100,000
	Heavy oil and Bitumen		6.50	-
Proved Undeveloped or Non-producing	Light and NGL's	2.36	8.00	18,880,000
	Heavy oil and Bitumen		5.75	-
Probables	Light and NGL's	3.99	7.00	27,930,000
	Heavy oil and Bitumen		5.00	-
<b>Natural Gas</b>				
		Mcf	per mcf	
Proved Producing Reserves		6,965,000	0.70	4,875,500
Proved Undeveloped or Non-producing		1,828,000	0.50	914,000
Probables		2,446,000	0.35	856,100
	<b>TOTAL</b>			<b>137,555,600</b>
Less - Debt				<b>27,161,000</b>
less decommissioning liabilities				<b>73,821,000</b>
	Reserves Value			<b>69,191,850</b>
	Equity Value			<b>69,191,850</b>
	Shares O/S M		15.8	<b>\$4.38</b>
				<b>\$2.31 Net</b>

Note: No value for land or tax pools

Source: Razor Energy and SER forecasts

- To protect their capital budget, RZE hedges through the use of put and call options.
- Razor sees their stock as cheap and has a normal course issuer bid out for 5% of their outstanding shares. In 2017 they purchased 425,300 shares for \$700,000 or at an average price of \$1.65 per share. This has been a very accretive move given where the stock is trading now.
- Our conservative NAV at flat pricing and no value for land came in at \$4.38 per share at year end 2017. If we go even more conservatively and remove the large amount for decommissioning liabilities we end up with a very, very conservative value of \$2.31 per share net (Chart #11)

- Our **12 Month Target** for RZE is \$3.50 or a very cheap 2.5x 2018 cash flow. The stock would be a very **Attractive Purchase** below \$2.30 per share, and a **Table Pounding BUY** under \$2.10. As RZE is a new company to investors, it may need a few more quarters of growth to gain a market multiple. Near term issues for investors is to see how they can grow via the drill bit as well as via reactivations and how they use new technology to lift recovery levels from their aged fields.
- Our **3-5 year bull market target of \$12.00** per share reflects our forecast of RZE producing >10,000 boe/d in 2022-2023 which should be worth \$50,000 per flowing boe. We are assuming that some additional share issues will occur from either a flow-through CDE offering or direct new equity sales and a lift in the debt level as cash flows and production warrant adding of debt. We expect they will have 22-25M shares outstanding in 2022 and debt and decommissioning obligations of \$200M.

## Annual Financials

May 18, 2018	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast
Revenue \$M			0	66.3	80	108
<b>Production</b>						
Oil & Liquids b/d				3,405	4,400	5,100
Natural Gas Mmc/d				3.3	3.5	4.4
Total 6:1				3,813	5,000	5,800
Volume Growth				n/a	31%	16%
Per Million Shares				246	317	367
Wells reactivated				25	35	45
Gross Wells Drilled				0	4	4
<b>Volumes Mix %</b>						
Oil & Liquids				89%	88%	88%
Natural Gas				11%	12%	12%
<b>Financials</b>						
Cash Flow/Share				\$0.45	\$1.40	\$2.02
Price/Cash Flow				6.0x	1.9x	1.3x
Net Capital Expenditure \$M				42.6	36.0	45
Cash Flow \$M				4.8	22.2	32
Book Value/Share				\$0.95		
Cap Expenditure/Cash Flow				8.9x	1.6x	1.4x
<b>Commodity Prices (SER forecasts)</b>						
US\$ WTI	\$92.92	\$48.80	\$43.46	\$50.80	\$54.00	\$75.00
C\$ AECCO	\$4.48	\$2.70	\$2.21	\$2.25	\$2.50	\$3.25

Source: Razor Energy and SER forecasts

## Balance of Evidence

### POSITIVES

- Razor's management have an attractive game plan to add production from large legacy oil fields. Via reactivations/recompletions, new drills plus the application of new technologies and water floods, they should be able to build a decent sized company with low decline rates and the ability down the road to pay substantial dividends.
- Razor may have considerable upside from drilling directionally to below the lake at Smoke Lake (south of Fox Creek) and gain access to reserves with higher productivity and growth potential.
- Razor has added more land in their core area taking advantage of very cheap land prices. At one area, Windfall, they added 24 sections to develop and explore. The oil exploration play is in the Belloy zone at 2,000 metres. This could be a 2019 activity area.

### ISSUES OF CONCERN

- Razor has a 1.2x LMR ratio (which is too low) but plans on bringing this up to 2.0 by mid-2019. If they exit 2018 at 5,600 boe/d the LMR will have risen to 1.7x.
- To lower operating costs RZE plans on utilizing some of their natural gas to create electricity for their water flood operations. We would like to see this occur over the next 12-18 months. Operating costs in Q1/18 were \$27.51 per boe and we would like to see them fall below \$18.00 per boe.
- The four well development program at Kaybob was disappointing with aggregate production adds of only 86 boe/d. They will need to refocus their drilling program once they determine where the best locations are, given the migration issues.

# RAZOR ENERGY CORP. (RZE-V)

3-5 year Target: \$ 12.00



Source: stockcharts.com May 18, 2018

BACK TO MAY SER

BACK TO COVERAGE LIST