



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2020 and SEPTEMBER 30, 2019**



LETTER TO OUR SHAREHOLDERS

November 10, 2020

Dear Shareholder:

We are pleased to update you on Karve's progress since our August 12, 2020 letter to shareholders.

In the third quarter of 2020, Karve continues to display that the Company is well positioned to persevere through these volatile times. We continue to focus on reducing and managing costs to ensure a strong balance sheet. With our low decline, pressure supported oil production, the Company has low sustaining capital requirements and therefore can ensure future sustainability with strong financial and operating results. Current production is 7,800 boe/d.

In the third quarter, Karve generated positive cash flow of \$8.8 million and reduced net debt by \$3.3 million from June 30, 2020 to \$55.3 million. Karve has also reduced its G&A expense per boe by over 42% in the third quarter of 2020 compared to the same quarter in 2019. The increase in oil prices since its low in the second quarter and recent levelling, combined with the derivative hedges the Company has in place will allow us to budget capital spending of \$7.0 million and continue debt reduction in the last quarter of 2020.

In the third quarter of 2020, The Company produced an average of 7,510 boe/d (68% liquids). Production is higher from 7,409 boe/d (66% liquids) in the second quarter of 2020 due to completing and bringing on 7 gross (6.9 net) horizontal wells that were previously drilled. For the three months ended September 30, 2020, Karve reported a field operating netback of \$14.39 per boe and generated adjusted funds flow from operations of \$8.8 million.

The Company incurred capital expenditures for the three months ended September 30, 2020 of \$4.9 million, including completing and bringing on production 7 gross (6.9 net) horizontal wells. Karve has now drilled, completed and brought on production a total of 236 gross (231.6 net) horizontal Viking oil wells since November 2016. Starting in 2016, Karve drilled 10 gross (9.9 net) horizontal Viking oil wells, 70 gross (68.7 net) in 2017, 110 gross (107.2 net) in 2018, 28 gross (27.9 net) in 2019 and 18 gross (17.9 net) drilled to date in 2020. Additional capital expenditures for the rest of 2020 include \$4.4 million on drilling, completions, and tie-ins, and \$2.0 million on facilities and waterflood expansion.

The Company currently has 3,000 bbl/d hedged at a weighted average price of \$51.62 CAD per barrel to December 31, 2020. For 2021, Karve has sold 2,500 bbl/d at a price of \$56.54 CAD per barrel from January 1, 2021 to June 30, 2021.

Enclosed are the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months and nine months ended September 30, 2020. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2020 to September 30, 2020. It is dated November 10, 2020 and should be read in conjunction with the unaudited consolidated financial statements for the three and nine months ended September 30, 2020 and the audited consolidated financial statements for the year ended December 31, 2019. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

Karve is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and natural gas properties in Western Canada. The Company was incorporated under the laws of the Province of Alberta on January 30, 2014, under the name "1799380 Alberta Ltd.". On June 16, 2014, the Company changed its name to "Bruin Oil & Gas Inc." ("Bruin") and on September 15, 2016, the Company changed its name to "Karve Energy Inc.". On July 15, 2019, the Company amalgamated with High Ground Energy Inc. The consolidated financial information of the Company is comprised of Karve and its wholly owned subsidiary "DTC Energy Inc."

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended		For the nine months ended	
FINANCIAL (Canadian \$000, except per share and per boe amounts)	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Net (loss) income	(4,430)	13,097	(16,296)	18,407
Per share - basic	(0.03)	0.09	(0.12)	0.13
Per share - diluted	(0.03)	0.09	(0.12)	0.12
Funds flow from operations ⁽¹⁾	8,487	20,300	25,757	58,865
Per share - basic ⁽¹⁾	0.06	0.15	0.18	0.42
Per share - diluted ⁽¹⁾	0.06	0.13	0.18	0.39
Adjusted funds flow from operations ⁽¹⁾	8,837	21,464	26,426	61,956
Per share - basic ⁽¹⁾	0.06	0.15	0.19	0.44
Per share - diluted ⁽¹⁾	0.06	0.14	0.19	0.41
Capital expenditures (before acquisitions and dispositions)	4,889	22,092	24,461	56,623
Net acquisitions (dispositions)	-	1,109	-	1,228
Total net capital expenditures	4,889	23,201	24,461	57,623
Adjusted (net debt) ⁽¹⁾	(55,280)	(55,284)	(55,280)	(55,284)
Total assets	355,386	379,670	355,386	379,670
Shares outstanding, weighted average (000s)	140,530	138,199	140,530	139,990
Shares outstanding, end of period (000s)	140,530	140,530	140,530	140,530
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	4,755	6,045	4,948	5,697
NGLs (bbl/d)	322	317	304	267
Natural gas (mcf/d)	14,596	18,386	15,145	15,553
Total (boe/d)	7,510	9,426	7,776	8,556
Average sales prices (excluding hedging gains and losses)				
Oil (\$/bbl)	44.90	63.64	39.77	63.75
NGLs (\$/bbl)	28.78	36.12	24.68	37.76
Natural gas (\$/mcf)	2.10	1.23	2.07	1.58
Boe basis (\$/boe)	33.74	44.44	30.31	46.51
Field netback (\$/boe excluding hedging gains and losses)				
Sales price	33.74	44.44	30.31	46.51
Royalties	(2.47)	(3.51)	(2.32)	(3.66)
Operating expense	(15.72)	(13.97)	(14.36)	(14.24)
Transportation expense	(1.16)	(1.55)	(1.26)	(1.53)
Field netback ⁽¹⁾	14.39	25.41	12.37	27.08

(1) Non-GAAP measure, see page 14 for details.



SALES VOLUMES

Sales volumes averaged 7,510 boe/d during the three months ended September 30, 2020 compared to 9,426 boe/d for the three months ended September 30, 2019. The decrease in sales volumes from the three months ended September 30, 2019 is due to natural declines and a substantial reduction in drilling year over year. To September 30, 2020, Karve has brought on 18 gross (17.9 net) horizontal Viking oil wells while over the same period in 2019, Karve brought on 36 gross (35.6 net) horizontal Viking oil wells. Average Company production is approximately 7,800 boe/d (62% liquids) for the first week of November 2020, with approximately 200 boe/d of productive capacity to be brought on in the near term for a total of 8,000 boe/d of productive capacity.

	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Sales volumes				
Oil (bbl/d)	4,755	6,045	4,948	5,697
NGLs (bbl/d)	322	317	304	267
Natural gas (mcf/d)	14,596	18,386	15,145	15,553
Total (boe/d)	7,510	9,426	7,776	8,556

SALES PRICES AND REVENUE

For the three months ended September 30, 2020, the Company generated total revenue of \$23.3 million (three months ended September 30, 2019 - \$38.5 million) on average sales volumes of 7,510 boe/d. The average sales price per boe for the three months ended September 30, 2020 was \$33.74 compared to \$44.44 for the three months ended September 30, 2019. The decrease in average sales price is primarily the result of the significant decrease to crude oil prices during the first nine months of 2020. The decrease in crude oil prices was caused by the global over supply of crude oil and the demand destruction resulting from COVID-19.

KARVE AVERAGE REALIZED PRICE ⁽¹⁾	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Revenue (\$000s)	23,314	38,535	64,584	108,633
Oil (\$/bbl)	44.90	63.64	39.77	63.75
NGLs (\$/bbl)	28.78	36.12	24.68	37.76
Natural gas (\$/mcf)	2.10	1.23	2.07	1.58
Karve realized price (\$/boe)	33.74	44.44	30.31	46.51
AVERAGE BENCHMARK PRICES ⁽²⁾				
Crude oil - WTI (\$US/bbl)	40.93	56.47	38.31	57.04
Crude oil - Canadian light sweet (\$CDN/bbl)	49.05	69.26	44.18	69.58
Natural gas - AECO-C spot (\$CDN/mcf)	2.27	0.95	2.10	1.57
Exchange Rate - (\$US/\$CAD)	0.75	0.76	0.74	0.75

(1) Excludes hedging gains and losses.

(2) Average benchmark pricing obtained from U.S. Energy Information Administration and Sproule Associates Limited.

The following table presents the composition of petroleum & natural gas sales by product:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Crude oil	19,640	35,393	53,921	99,153
Natural gas liquids	853	1,054	2,058	2,753
Natural gas	2,821	2,088	8,605	6,727
TOTAL PETROLEUM AND NATURAL GAS SALES	23,314	38,535	64,584	108,633

DERIVATIVE CONTRACTS

From time to time, the Company may hedge a portion of its crude oil sales through the use of financial derivative contracts. In accordance with standard industry practice, financial derivative contracts are marked to market.



As at September 30, 2020, the Company had the following commodity contracts in place for the remainder of 2020 and for 2021:

Type	Term	Basis ⁽¹⁾	Volume (Bbl/d)	Swap Price (\$CAD/Bbl) ⁽¹⁾	Current Liability (\$000s)
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	1,000	45.10	(1,041)
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	55.25	99
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	54.00	21
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	54.95	79
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	55.30	101
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2020			3,000	51.62	(741)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	58.25	218
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.50	63
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.00	17
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	55.95	11
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021			2,000	56.68	309

(1) Nymex WTI monthly average in \$CAD.

Subsequent to September 30, 2020, the Company entered into a fixed price derivative swap contract for 500 bbl/d for the period January 1, 2021 to June 30, 2021 at a price of \$56.00 CAD WTI per barrel. The total weighted average price of contracts entered for 2021 is \$56.54 CAD WTI per barrel.

The Company did not have any commodity contracts in place as at December 31, 2019.

The components of the gain on financial derivative contracts is as follows:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Unrealized gain (loss) on financial derivative contracts	711	30	(432)	30
Realized (loss) gain on financial derivative contracts	(804)	400	1,626	400
(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS	(93)	430	1,194	430

At September 30, 2020 the fair value of the financial derivative contracts was a current liability position of \$432,000 resulting in an unrealized loss of \$432,000 for the nine months ended September 30, 2020. The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at September 30, 2020 and may be different from what will eventually be realized. Assuming all other variables remain constant, a \$5.00 USD increase in WTI would result in an unrealized loss or derivative liability of \$4.2 million and a \$5.00 USD decrease in WTI would result in an unrealized gain or derivative asset of \$3.2 million. The Company did not have any commodity contracts in place at December 31, 2019.

As at November 9, 2020 the fair value of the financial derivative contracts was a current derivative asset position of \$842,000.

ROYALTIES

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Royalties	1,707	3,044	4,952	8,556
Royalties as a % of revenue	7.3%	7.9%	7.7%	7.9%
Per boe (\$)	2.47	3.51	2.32	3.66

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended September 30, 2020 was \$1.7 million (\$2.47 per boe) compared to \$3.0 million (\$3.51 per boe) for the three months ended September 30, 2019. For the three months ended September 30, 2020, the Company's royalty rate was 7.3% of revenues (three months ended September 30, 2019 – 7.9%). The decrease in royalties is due to the lower oil commodity price environment in the third quarter of 2020 compared to 2019.

OPERATING EXPENSE

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Operating expense	10,863	12,113	30,589	33,256
Per boe (\$)	15.72	13.97	14.36	14.24

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process and in-field trucking of the Company's production. Operating expenses were \$10.9 million (\$15.72 per boe) during the three months ended September 30, 2020 and \$12.1 million (\$13.97 per boe) during the three months ended September 30, 2019. The increase



in operating expenses per boe during the three months ended September 30, 2020 is due to lower production levels resulting from voluntary shut ins, the majority of the Company's operating costs being fixed in nature and the completion of a number of facility turnarounds during the third quarter of 2020.

TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Transportation expense	804	1,343	2,678	3,573
Per boe (\$)	1.16	1.55	1.26	1.53

Transportation expense includes costs paid to third parties for transporting clean oil and sales gas to a third party pipeline or processing plant point of sale. Transportation expenses were \$804,000 (\$1.16 per boe) during the three months ended September 30, 2020, compared to \$1.3 million (\$1.55 per boe) for the three months ended September 30, 2019. This decrease in transportation expense period over period is primarily due to lower oil trucking costs as the Company pipeline connects more of its production. The Company will continue to look to deliver volumes to the highest netback delivery points, which will lead to variability in transportation expense.

FIELD NETBACK

The components of field netbacks are summarized in the following table:

(\$000s, except per boe amounts)	For the three months ended		For the three months ended	
	September 30, 2020		September 30, 2019	
	\$	\$/boe	\$	\$/boe
Revenue	23,314	33.74	38,535	44.44
Royalties	(1,707)	(2.47)	(3,044)	(3.51)
Operating expense	(10,863)	(15.72)	(12,113)	(13.97)
Transportation expense	(804)	(1.16)	(1,343)	(1.55)
FIELD NETBACK (\$)⁽¹⁾	9,940	14.39	22,035	25.41

(1) Non-GAAP measure, see page 14 for details.

(\$000s, except per boe amounts)	For the nine months ended		For the nine months ended	
	September 30, 2020		September 30, 2019	
	\$	\$/boe	\$	\$/boe
Revenue	64,584	30.31	108,633	46.51
Royalties	(4,952)	(2.32)	(8,556)	(3.66)
Operating expense	(30,589)	(14.36)	(33,256)	(14.24)
Transportation expense	(2,678)	(1.26)	(3,573)	(1.53)
FIELD NETBACK (\$)⁽¹⁾	26,365	12.37	63,248	27.08

(1) Non-GAAP measure, see page 14 for details.

The period over period change in field netback is explained by the discussion of the netback components above.

OTHER INCOME

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Royalty income	648	1,092	1,894	3,482
Processing fee income	643	996	2,166	2,945
Other	88	26	217	145
Total other income	1,379	2,114	4,277	6,572
Per boe (\$)	2.00	2.44	2.01	2.81

Other income for the three months ended September 30, 2020 was \$1.4 million (\$2.00 per boe) and \$2.1 million (\$2.44 per boe) for the three months ended September 30, 2019. The other income streams relate to processing fee income, royalty income, and other income, all from third parties.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests. The decrease in royalty income for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 is due to declining production which generates royalty income and lower commodity pricing in 2020 compared to 2019.



Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. The decrease in processing fee income for the three months ended September 30, 2020 compared to three months ended September 30, 2019 is primarily due to lower third-party throughput volumes being processed at Karve operated facilities due to facility turnarounds completed in the third quarter of 2020.

Other income totalling \$88,000 for the three months ended September 30, 2020 (three months ended September 30, 2019 - \$26,000) relates to road use income, seismic licensing income, contract operating income and net foreign exchange.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three and nine months ended September 30, 2020 and September 30, 2019:

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Staff and consulting costs	931	2,411	3,490	6,428
Professional fees	51	43	290	427
Office and rent costs	448	572	1,297	1,407
Other	250	309	743	859
General and administration expense (gross)	1,680	3,335	5,820	9,121
Capitalized G&A and overhead recovery	(352)	(658)	(1,127)	(1,677)
Lease liability reclassification	(156)	(130)	(432)	(356)
General and administration expense (net)	1,172	2,547	4,261	7,088
Per boe (\$)	1.70	2.94	2.00	3.03

General and administrative expenses (net) for the three months ended September 30, 2020 were \$1.2 million (\$1.70 per boe) and \$2.5 million (\$2.94 per boe) for the three months ended September 30, 2019. This decrease in gross G&A is due to government support and significant cost-cutting measures in light of the current commodity environment.

OPERATING LOAN AND LONG TERM DEBT

On June 30, 2020, the secured bank credit facilities were renewed to \$65.0 million, comprised of a \$58.0 million syndicated committed facility (“Credit Facility”) and a \$7.0 million bank operating loan. The full facility is conforming. The Credit Facility is a committed 364 days + 1 year and extendible upon agreement annually. The Credit Facility and operating line incur interest based on the applicable Canadian prime rate or Banker’s Acceptance rate plus between 1.75 and 4.75 percent depending on the type of borrowing and the Corporation’s debt to EBITDA ratio. The Company is also subject to a standby fee of 0.6875 percent to 1.1875 percent based on the Corporation’s debt to EBITDA ratio.

Prior to the June 30, 2020 redetermination, the Credit Facility and operating line incurred interest based on the applicable Canadian prime rate or Banker’s Acceptance rate plus between 0.50 and 3.50 percent depending on the type of borrowing and the Corporation’s debt to EBITDA ratio. The Company was also subject to a standby fee of 0.3375 percent to 0.7875 percent based on the Corporation’s debt to EBITDA ratio.

On September 2, 2020, the Corporation issued an irrevocable standby letter of credit in favor of the Saskatchewan Ministry of Energy and Resources in the amount of \$551,000 thereby reducing available bank credit facility drawings by the same amount. This letter of credit represents a security deposit for the Corporation’s Licensee Liability Rating (“LLR”) with the Saskatchewan government and will be redetermined on September 02, 2021.

As at September 30, 2020, \$54.9 million (net of unamortized debt issue costs) (December 31, 2019 - \$57.9 million) was drawn on the Credit Facility and \$279,000 (December 31, 2019 - \$6.0 million) was drawn on the bank operating loan.

Long term debt as at September 30, 2020 and December 31, 2019 is as follows:

(\$000s)	As at	As at
	Sept. 30, 2020	Dec. 31, 2019
Credit Facility	55,000	58,000
Less: unamortized debt issue costs	(113)	(142)
LONG TERM DEBT	54,887	57,858
Bank operating loan	279	5,956
TOTAL BANK DEBT	55,166	63,814

Financing expense for the three and nine months ended September 30, 2020 and 2019 is comprised of the following:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Credit facility interest and charges	559	522	1,491	1,044
Operating loan interest and charges	11	28	81	153
Amortization of debt issue costs	32	75	158	181
Interest on lease liability	10	14	28	43
FINANCING EXPENSES	612	639	1,758	1,421

For the three months ended September 30, 2020, the effective interest rate on the credit facility was 4.11 percent (nine months ended September 30, 2020 – 4.47 percent). Key covenants of the bank credit facilities include standard business operating covenants. As at September 30, 2020, the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Share-based compensation - options	843	586	2,493	1,847
Share-based compensation - performance warrants	761	773	2,254	2,276
Share-based compensation expense	1,604	1,359	4,747	4,123
Per boe (\$)	2.32	1.57	2.23	1.77

Share-based compensation (“SBC”) is an estimate of the fair value of the share options and performance warrants granted by the Company using the Black-Scholes valuation methodology at the grant date. The Black-Scholes pricing model requires the Company to make assumptions including share volatility, a risk-free rate, and expected life of the options and performance warrants.

SBC expense related to stock options for the three months ended September 30, 2020 was \$843,000 (three months ended September 30, 2019- \$586,000) and SBC expense related to performance warrants for the three months ended September 30, 2020 was \$761,000 (three months ended September 30, 2019 - \$773,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended September 30, 2020.

As at September 30, 2020, 13,748,260 stock options and 32,067,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was \$1.79 per option and \$2.87 per warrant. The weighted average fair value of stock options and performance warrants outstanding was \$0.87 per option and \$0.47 per warrant.

At September 30, 2020, 9,338,884 stock options and 6,460,000 performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization (“DD&A”) are associated with Viking zone production assets in the Alberta Viking and also include the depreciation and amortization of corporate assets such as computer equipment and right of use assets. The net carrying value of production assets is depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves and estimated future development costs necessary to bring those reserves into production.

During the three months ended September 30, 2020, DD&A expense decreased to \$12.4 million (\$18.14 per boe) from \$16.7 million (\$19.29 per boe) during the three months ended September 30, 2019. The decrease in depletion expense is due to a decrease in production in the third quarter of 2020. The decrease per boe is due to a larger reserve base during the three months ended September 30, 2020 compared to September 30, 2019.

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Depletion	12,403	16,606	37,502	44,396
Depreciation and amortization	130	123	382	367
Total DD&A (\$)	12,533	16,729	37,884	44,763
Per boe (\$)	18.14	19.29	17.78	19.16

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three and nine months ended September 30, 2020 consisted of the following:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Drilling	610	9,053	8,623	11,565
Completions	2,470	4,711	7,652	13,729
Facilities and well equipment	1,142	7,953	7,087	29,778
Geological and geophysical	-	-	-	55
Land	667	255	933	1,067
Acquisitions	-	1,109	-	1,228
Other	-	120	166	201
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	4,889	23,201	24,461	57,623

During the three months ended September 30, 2020, the Company drilled nil gross (nil net) wells and completed 7 gross (6.9 net) horizontal Viking oil wells. During the three months ended September 30, 2019, the Company drilled 22 gross (21.9 net) wells and completed 10 gross (10.0 net) horizontal Viking oil wells.

The following table outlines total operated gross and net wells drilled, completed and brought on production:

For the quarter ended	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019
Drilled - Gross (Net) ⁽¹⁾	0 (0.00)	0 (0.00)	18 (17.9)	4 (4)	22 (21.9)
Completed - Gross (Net)	7 (6.90)	0 (0.00)	11 (11.0)	15 (14.9)	10 (10.0)
On production - Gross (Net)	7 (6.90)	0 (0.00)	11 (11.0)	15 (14.9)	10 (10.0)

(1) Drilled wells for September 30, 2019 includes one water source well.

For the quarter ended	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018
Drilled - Gross (Net)	0 (0.0)	5 (5.0)	21 (20.5)	52 (49.1)	12 (11.5)
Completed - Gross (Net)	14 (13.7)	12 (11.9)	9 (8.5)	49 (46.1)	9 (8.9)
On production - Gross (Net)	14 (13.7)	12 (11.9)	19 (18.3)	44 (41.2)	4 (4.0)

Since November 2016, the Company has drilled a total of 239 gross (233.7 net), completed and brought on production a total of 236 gross (231.6 net) horizontal Viking oil wells on production.

ACQUISITION OF OIL AND GAS ASSETS

High Ground Energy Inc. Acquisition

On July 15, 2019, the Company acquired all the issued and outstanding common shares of High Ground Energy Inc. for total consideration of \$8.8 million and assumption of estimated net debt of \$32.0 million, including all severance and transaction costs. The acquisition was financed by issuing 3.2 million shares of Karve with an estimated fair value of \$2.75 per common share.

The Acquisition of sweet, light oil-weighted Viking assets added approximately 2,000 boe/d of production (52% liquids) contiguous to Karve's existing core area at Monitor. The Acquisition increased Karve's dominant footprint in the Alberta Viking and enables expansion of the Company's waterflood project on the acquired lands.

(\$000s)	
Property, plant and equipment	40,566
Cash	965
Derivative asset	531
Deferred tax asset	13,833
Net working capital deficiency	(1,856)
Bank debt	(31,150)
Decommissioning liabilities	(3,308)
FAIR VALUE OF NET ASSETS ACQUIRED	19,581
CONSIDERATION	
Issue of common shares	8,798
TOTAL PURCHASE PRICE	8,798
GAIN ON ACQUISITION	(10,783)



During the year ended December 31, 2019, the Company incurred \$299,000 of transaction costs for the High Ground Acquisition which were included in “Transaction costs” in the Company’s consolidated statement of net (loss) income and comprehensive (loss) income.

The Company’s 2019 consolidated statement of net income and comprehensive income includes the results of the operations for the period following closing of the High Ground Acquisition on July 15, 2019 to December 31, 2019 and includes \$10.1 million of revenue and \$6.0 million of net income relating to the High Ground Acquisition. If the acquisition had closed on January 1, 2019, the Company’s pro-forma revenue and net income are estimated to have been \$165.9 million and \$25.8 million respectively for the year ended December 31, 2019. This pro-forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been in effect on the date indicated, or the results that may be obtained in the future.

Other Miscellaneous Acquisitions

During the year ended December 31, 2019, the Company acquired various working interests, land, light oil producing properties, royalty interest, and reserves. The fair value of the net assets acquired was \$3.9 million and as consideration, the Company paid cash of \$3.8 million and issued common shares valued at \$0.1 million.

DECOMMISSIONING LIABILITY

At September 30, 2020, the Company estimated a decommissioning liability of \$10.7 million for the future abandonment and reclamation of Karve’s properties (December 31, 2019 – \$19.2 million). \$909,000 is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining \$9.8 million of estimated decommissioning liability is presented as a long-term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$194.7 million (\$100.8 million undiscounted, uninflated), which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2060. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2019 – 8%) and an inflation rate of 2% (December 31, 2019 – 2%). The change in estimate for the nine months ended September 30, 2020 relates to an increase to the credit adjusted discount rate.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program (“SRP”) whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. The SRP will run from May 1, 2020 to March 31, 2022. Pursuant to the SRP, the Company was approved for \$2.5 million in funding. To date the Company has incurred \$51,000 in SRP costs.

SHARE CAPITAL

(\$000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2018	137,269,270	216,208
Issued common shares	3,243,729	8,909
Issued on exercise of options and performance warrants	16,666	27
Allocation of contributed surplus - exercise of options	-	14
BALANCE AT DECEMBER 31, 2019 and SEPTEMBER 30, 2020	140,529,665	225,158

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended (\$000s)	Sept. 30, 2020	June 30, 2020	Mar 31, 2020	Dec 31, 2019
Petroleum and natural gas sales	23,314	13,323	27,947	39,176
Funds flow from operations ⁽¹⁾	8,487	4,811	12,459	19,040
Adjusted funds flow from operations ⁽¹⁾	8,837	4,900	12,689	20,532
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,755	4,572	5,520	5,965
Natural gas liquids (bbl/d)	322	292	299	348
Natural gas (Mcf/d)	14,596	15,268	15,577	17,774
TOTAL PRODUCTION (BOE/d)	7,510	7,409	8,415	9,275
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	40.93	27.84	46.17	56.96
Crude oil - Canadian light sweet (\$CDN/bbl)	49.05	31.45	52.02	66.77
Natural gas - AECO-C spot (\$CDN/mcf)	2.27	2.01	2.03	2.42
Exchange Rate - (\$US/\$CAD)	0.75	0.72	0.74	0.76
FIELD NETBACK (\$/BOE)				
Revenue	33.74	19.76	36.50	45.91
Royalties	(2.47)	(1.47)	(2.94)	(3.65)
Operating expense	(15.72)	(12.75)	(14.53)	(15.49)
Transportation expense	(1.16)	(1.11)	(1.47)	(1.87)
FIELD NETBACK (\$/BOE) ⁽¹⁾	14.39	4.43	17.56	24.90
General and administration	(1.70)	(2.04)	(2.24)	(3.03)
Other income	2.09	1.91	2.00	2.37
Interest expense	(0.83)	(0.63)	(0.75)	(0.57)
Realized hedging	(1.16)	3.60	-	0.41
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	12.79	7.27	16.57	24.08

For the quarter ended (\$000s)	Sept. 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec. 31, 2018
Petroleum and natural gas sales	38,535	35,450	34,648	25,807
Funds flow from operations ⁽¹⁾	20,300	19,696	18,869	7,058
Adjusted funds flow from operations ⁽¹⁾	21,464	21,162	19,330	8,384
AVERAGE SALES VOLUMES				
Oil (bbl/d)	6,045	5,316	5,727	6,278
Natural gas liquids (bbl/d)	317	277	205	268
Natural gas (Mcf/d)	18,386	15,247	12,966	13,194
TOTAL PRODUCTION (BOE/d)	9,426	8,134	8,093	8,745
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	56.47	59.84	54.81	58.81
Crude oil - Canadian light sweet (\$CDN/bbl)	69.26	72.55	66.92	48.27
Natural gas - AECO-C spot (\$CDN/mcf)	0.95	1.05	2.62	1.62
Exchange Rate - (\$US/\$CAD)	0.76	0.75	0.75	0.76
FIELD NETBACK (\$/BOE)				
Revenue	44.44	47.89	47.57	32.08
Royalties	(3.51)	(3.93)	(3.58)	(2.60)
Operating expense	(13.97)	(13.93)	(14.87)	(15.33)
Transportation expense	(1.55)	(1.10)	(1.95)	(3.89)
FIELD NETBACK (\$/BOE) ⁽¹⁾	25.41	28.93	27.17	10.26
General and administration	(2.94)	(3.24)	(2.95)	(2.57)
Other income	2.43	3.34	2.73	2.67
Interest income (expense)	(0.61)	(0.44)	(0.41)	0.03
Realized hedging	0.46	-	-	(0.88)
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	24.75	28.59	26.54	9.51

(1) Non-GAAP measure, see page 14 for details.



NET (LOSS) INCOME SUMMARY

(\$000s, except per boe amounts)	For the three months ended Sept. 30, 2020		For the three months ended Sept. 30, 2019	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	23,314	33.74	38,535	44.44
Royalties	(1,707)	(2.47)	(3,044)	(3.51)
NET REVENUE	21,607	31.27	35,491	40.93
Other income	1,379	2.00	2,114	2.44
Gain on financial derivative contracts	(93)	(0.13)	430	0.50
Gain on acquisition	-	-	10,783	12.43
Loss on investment	-	-	1,000	1.15
Interest income	-	-	16	0.02
TOTAL REVENUE AND OTHER INCOME	22,893	33.14	49,834	57.47
Operating	10,863	15.72	12,113	13.97
Transportation	804	1.16	1,343	1.55
General and administration	1,172	1.70	2,547	2.94
Financing	612	0.89	639	0.74
Depletion, depreciation and amortization	12,533	18.14	16,729	19.29
Accretion	408	0.59	210	0.24
Share-based compensation	1,604	2.32	1,359	1.57
Exploration and evaluation - expiries	510	0.74	463	0.53
Transaction costs	-	-	291	0.34
(LOSS) INCOME FROM OPERATIONS BEFORE TAXES	(5,613)	(8.12)	14,140	16.30
Deferred income tax recovery	(1,183)	(1.71)	1,043	1.20
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME	(4,430)	(6.41)	13,097	15.10

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at September 30, 2020 are as follows:

(\$000s)	2020	2021	2022	Thereafter	Total
Operating leases	50	118	-	-	168
Pipeline transportation	358	1,449	985	1,005	3,797
TOTAL COMMITMENTS	408	1,567	985	1,005	3,965

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at September 30, 2020, there were 140,529,665 common shares outstanding (December 31, 2019 – 140,529,665).

As at November 10, 2020, the date of this MD&A, there were 140,529,665 common shares, 13,848,260 stock options and 32,067,500 performance warrants outstanding.

LIQUIDITY

The Company relies on operating cash flows, bank debt, and equity issuances to fund its capital requirements and provide liquidity. From time to time, the Company may access capital markets to meet its capital programs. Future liquidity depends primarily on cash flow generated from operations, bank credit facilities and the ability to access equity markets.

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At September 30, 2020, the Company remains in compliance with all terms of our Credit Facility and based on current available information, management expects to comply with all terms during the subsequent 12-month period. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for a recovery in such prices, pipeline and transportation capacity constraints, and the effects of the Coronavirus (COVID-19), preparation of financial forecasts is challenging.

SUBSEQUENT EVENTS

Subsequent to September 30, 2020, the Company entered into a fixed price derivative swap contract for 500 bbl/d for the period January 1, 2021 to June 30, 2021 at a price of \$56.00 CAD WTI per barrel.

OFF BALANCE SHEET ARRANGEMENTS

Karve has certain lease agreements that were entered into in the normal course of operations, all of which are included in the "Contractual Obligations and Commitments" section above.

The Company has treated some leases as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at September 30, 2020.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ materially from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Company to implement its strategic initiatives, the availability and price of energy commodities, government and regulatory decisions, plant availability, competitive factors in the oil and gas industry and prevailing economic conditions in the regions the Company operates. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements are as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Company has relied upon in the past will continue to be available to the Company on terms favorable to the Company and that future economic and operating conditions will not limit the Company's access to debt and equity markets. Forward-looking statements in respect of the costs anticipated being associated with the acquisition of oil and gas properties are based upon assumptions that future acquisition costs will not significantly increase from past acquisitions. Many of these factors, expectations and assumptions are based on management's knowledge and experience in the industry and on public disclosure of industry participants and analysts related to anticipated exploration and development programs, the effect of changes to regulatory, taxation and royalty regimes. The Company believes that the material factors, expectations and assumptions reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

Forward-looking statements involving significant risks and uncertainties should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements. The Company cannot assure investors that actual results will be consistent with the forward-looking statements and readers are cautioned not to place undue reliance on them.

The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of the risk factors set forth below and elsewhere in this document; general economic conditions in Canada; changes in the level of capital expenditures, volatility in market prices for oil and natural gas, risks inherent in the Company's ability to acquire any economic interest in certain oil and gas assets and then to generate sufficient cash flow from operations to meet its current and future obligations, the Company's ability to access external sources of debt and equity capital, changes in legislation and the regulatory environment, including uncertainties with respect to uncertainties in weather and temperature affecting the duration of the oilfield drilling activities, competition, sourcing, pricing and availability of oil field services, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel, liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations, credit risk to which the Company is exposed in the conduct of its business, and changes to the royalty regimes applicable to entities.

Although forward-looking statements contained in this MD&A are based upon what the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements.



The forward-looking statements in this MD&A are expressly qualified by this cautionary statement. Unless otherwise required by law, Karve does not intend, or assume any obligation, to update these forward-looking statements.

BARRELS OF OIL EQUIVALENT

The term referred to herein in respect of barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this MD&A are derived from converting gas to oil in the ratio of six thousand cubic feet to one barrel of oil. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

NON-GAAP MEASUREMENTS

The MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company’s performance. The reconciliation between cash flow from operating activities and funds flow from operations can be found in the statement of cash flows in the annual financial statements and is presented before the change in non-cash operating working capital.

The Company reconciles funds flow from (used for) operations and adjusted funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Cash flow from continuing operations	8,212	20,299	37,667	55,729
Change in non-cash working capital from operating activities	275	1	(11,910)	3,136
FUNDS FLOW FROM OPERATIONS	8,487	20,300	25,757	58,865
Transaction costs	-	291	-	299
Decommissioning expenditures	350	873	669	2,792
ADJUSTED FUNDS FLOW FROM OPERATIONS	8,837	21,464	26,426	61,956

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The MD&A contains other terms such as field netback and adjusted positive working capital (net debt) which are not recognized measures under IFRS. Management believes these measures are useful supplemental information. Field netback is the amount of revenues received on a per unit of production basis after the royalties, operating costs, and transportation costs are deducted and used to assess profitability on a per boe basis. Adjusted positive working capital represents current assets less current liabilities (excluding derivative assets (liabilities), current portion of decommissioning liability and current portion of lease liability) and is used to assess efficiency, liquidity and the general financial strength of the Company. Net debt is defined as long term debt plus any net working capital deficiency excluding derivative contract asset/liability and current portion of decommissioning liability. Adjusted funds flow from operations represents funds flow from (used for operations) excluding transaction costs and decommissioning expenditures and is used to assess cash flows adjusted for non-routine, discretionary expenditures. Readers are cautioned however, that these measures should not be construed as an alternative to other terms such as current and long-term debt or net earnings in accordance with IFRS as measures of performance. The Company’s method of calculating these measures may differ from other companies, and accordingly, such measures may not be comparable to measures used by other companies.

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^A Denotes member of the Audit Committee.

^R Denotes member of the Reserves Committee.

^C Denotes member of the Compensation Committee.