



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED
DECEMBER 31, 2019 and DECEMBER 31, 2018



LETTER TO OUR SHAREHOLDERS

March 25, 2020

Dear Shareholder:

Karve is pleased to report strong financial and operating results for 2019 and update shareholders on recent market developments.

Karve continues to be well positioned through the unprecedented events in the past month including the rapid spread of the COVID-19 virus as well as the oil war started by Russia and Saudi Arabia. Karve's asset base is largely comprised of low decline pressure supported production that has low sustaining capital requirements which is beneficial to managing through commodity price cycles. We expect little impact on our near-term production levels and net asset value, thereby preserving long term value for our shareholders and creditors. In response to dramatically lower oil prices, and to preserve our balance sheet, all further 2020 discretionary capital spending will be deferred until prices recover to a more sustainable level.

Throughout this commodity price cycle, Karve is committed to maintaining a flexible and disciplined capital allocation strategy, with a focus on maintaining a strong financial position. Karve has 3,000 bbl/d hedged at \$47.60 CAD per barrel for April 1, 2020 to June 30, 2020 including an MSW ("mixed sweet blend") hedge for 3,000 bbl/d at minus \$11.30 CAD per barrel from May 1, 2020 to June 30, 2020. Karve had \$56.0 million of net debt as at December 31, 2019 with a bank borrowing base of \$100.0 million.

The health and safety of all Karve employees, contractors, suppliers and stakeholders is our top priority. As such, Karve has taken a number of measures related to COVID-19 including, having Karve Calgary employees working from home with field employees ensuring social distancing practices throughout Karve's operations.

In the year ended of 2019, Karve drilled a total of 31.0 gross (30.9 net) horizontal Viking wells and completed a total of 51.0 gross (50.5 net) horizontal Viking wells. Karve has now completed and brought on a total of 218.0 gross (213.7 net) horizontal Viking oil wells on production since November 2016. Total capital expenditures (not including acquisitions and dispositions) was \$70.8 million in 2019 compared to \$119.7 million in 2018.

Karve produced an average of 9,275 BOE/d (68% liquids) in the fourth quarter of 2019, representing a 6% increase over production of 8,745 BOE/d in the fourth quarter 2018. Despite oil prices being lower in 2019 from 2018, field netback per BOE also increased by 11% year over year, due to higher realized pricing and reduced operating and transportation costs per BOE. Karve realized a 7% reduction in operating expenses per BOE year over year, from \$15.67 in 2018 to \$14.57 in 2019. Karve expects further operating cost reductions as it continues to optimize operations.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2019. Proved plus probable reserve volumes have increased from 31.5 to 44.4 MMBOE, an increase of 41%. The BT NPV 10 reserves value has increased from \$528.7 million to \$687.1 million, an increase year over year of 30% despite Sproule using lower prices for 2019 vs. 2018. On a per share basis, 2P reserve volumes increased 39% per share with reserve value increasing 27% on a per share basis. Karve delivered Finding, Development and Acquisition (FD&A) costs of \$13.86 per BOE on a 2P basis, with a 2019 recycle ratio of 2.1 times. In the attached management's discussion and analysis (MD&A) we have included a summary of the Sproule Report and a comparison of the 2019 results to 2018.

In the third quarter of 2019, the Company closed the strategic acquisition of High Ground Energy Inc. The acquisition added sweet, light oil-weighted Viking assets which are contiguous to Karve's existing core area at Monitor. This increased Karve's dominant footprint in the Alberta Viking and enabled near term expansion of the Company's waterflood project on acquired lands. Initial preliminary results are promising and outperforming expectations. In total, Karve now has 30.0 sections under waterflood across the portfolio.

The company was recognized by EPAC as "**Top Junior Producer**" for 2019. Karve was one of 7 nominees evaluated and ultimately chosen as the recipient based on superior financial and operating performance, technical innovation, environmental initiatives and community engagement.

At this time, we intend on holding our Annual General Meeting ("AGM") on Wednesday May 13, 2019 at 2:00PM both at our offices as well as via teleconference. Details for both are included in the Management Information Circular that can be found on our website at www.karveenergy.com.

You will find enclosed the Karve Energy Inc. audited consolidated financial statements and MD&A for the year ended December 31, 2019. 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 years ended December 31, 2019 and December 31, 2018. It is dated March 25, 2020 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and the audited consolidated financial statements for the year ended December 31, 2018. 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 year ended	
FINANCIAL (Canadian \$000, except per share and per boe amounts)	Dec 31, 2019	Dec 31, 2018
Net income	23,879	30,557
Per share - basic	0.17	0.22
Per share - diluted	0.17	0.21
Funds flow from operations ⁽¹⁾	77,905	69,814
Per share - basic ⁽¹⁾	0.56	0.51
Per share - diluted ⁽¹⁾	0.54	0.48
Adjusted funds flow from operations ⁽¹⁾	82,488	75,615
Per share - basic ⁽¹⁾	0.59	0.55
Per share - diluted ⁽¹⁾	0.57	0.52
Capital expenditures (before acquisitions and dispositions)	70,845	119,661
Net acquisitions (dispositions) ⁽²⁾	3,742	(18,207)
Total net capital expenditures	74,587	101,454
Adjusted (net debt) ⁽¹⁾	(55,993)	(24,976)
Total assets	383,794	314,741
Shares outstanding, weighted average (000s)	138,787	137,258
Shares outstanding, end of period (000s)	140,530	137,269
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	5,764	5,746
NGLs (bbl/d)	288	374
Natural gas (mcf/d)	16,113	18,289
Total (boe/d)	8,738	9,168
Average sales prices (excluding hedging gains and losses)		
Oil (\$/bbl)	63.54	62.68
NGLs (\$/bbl)	38.20	52.68
Natural gas (\$/mcf)	1.72	1.68
Boe basis (\$/boe)	46.35	44.80
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	46.35	44.80
Royalties	(3.66)	(3.05)
Operating expense	(14.57)	(15.67)
Transportation expense	(1.62)	(2.14)
Field netback ⁽¹⁾	26.50	23.94

(1) Non-GAAP measure, see page 20 for details.

(2) The corporate acquisition of High Ground Energy Inc. is not included in net acquisitions (dispositions).

RESERVES SUMMARY

The following is a summary of reserves for the Company's total reserves which are located in the Provost area as at December 31, 2019 as evaluated by Karve's independent reserve engineers, Sproule Associated Limited ("Sproule"). The reserves have been reviewed and approved by Karve's Reserve Committee. No provision for general and administration expenses has been made in the reserve evaluation and it should not be assumed that the net present value estimates made by Sproule represent fair market value of the assets.

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta as at December 31, 2019.

GROSS RESERVES SUMMARY ^(1,2)					Dec. 31, 2019
		Oil	NGLs	Natural Gas	
	% Liquids	Mbbl	Mbbl	MMcf	MBOE ⁽³⁾
Proved developed producing	59%	7,439	534	33,456	13,549
Proved non-producing and undeveloped	77%	14,414	525	27,156	19,465
TOTAL PROVED	69%	21,853	1,059	60,612	33,014
Probable	69%	7,562	375	20,914	11,423
TOTAL PROVED PLUS PROBABLE	69%	29,415	1,434	81,526	44,437

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2019.

(2) Karve working interest reserves, before royalty interests.

(3) MMcf has been converted to MBOE on a 6:1 basis.

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta as at December 31, 2018 for comparison to December 31, 2019.

GROSS RESERVES SUMMARY ^(1,2)					Dec. 31, 2018
		Oil	NGLs	Natural Gas	
	% Liquids	Mbbl	Mbbl	MMcf	MBOE ⁽³⁾
Proved developed producing	63%	6,320	380	23,504	10,617
Proved non-producing and undeveloped	82%	9,329	250	13,033	11,751
TOTAL PROVED	73%	15,649	630	36,537	22,368
Probable	72%	6,341	265	15,345	9,164
TOTAL PROVED PLUS PROBABLE	73%	21,990	895	51,882	31,532

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2018.

(2) Karve working interest reserves, before royalty interests.

(3) MMcf has been converted to MBOE on a 6:1 basis.

The reserves comparison compares the December 31, 2019 reserve report to the December 31, 2018 reserve report:

GROSS RESERVES COMPARISON ^(1,2)			
	Dec. 31, 2019	Dec. 31, 2018	% Change
	MBOE	MBOE	
Proved developed producing	13,549	10,617	28%
Proved non-producing and undeveloped	19,465	11,751	66%
TOTAL PROVED	33,014	22,368	48%
Probable	11,423	9,164	25%
TOTAL PROVED PLUS PROBABLE	44,437	31,532	41%

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2019 and December 31, 2018.

(2) Karve working interest reserves, before royalty interests.

The reserve life index is based on production of 9,275 boe/d for the quarter ended December 31, 2019 (December 31, 2018 – 9,000 boe/d).

RESERVE LIFE INDEX	Dec. 31, 2019 ⁽¹⁾	Dec. 31, 2018 ⁽²⁾
Total proved	9.8	6.8
Total proved plus probable	13.1	9.6

(1) Based on production of 9,275 BOE/d for the quarter ended December 2019.

(2) Based on production of 9,000 BOE/d as of December 2018.



The future development capital as at December 31, 2019 as compared to December 31, 2018 is as follows:

FUTURE DEVELOPMENT CAPITAL (\$000s)	Dec. 31, 2019	Dec. 31, 2018	% Change
Total proved plus probable	415,290	304,550	36%

Net present values are based on Sproule December 31, 2019 forecast pricing assumptions.

NET PRESENT VALUE, BEFORE TAX^(1,2) (\$000s)	Dec. 31, 2019			
	Undiscounted	5%	10%	15%
Proved developed producing	152,516	235,205	225,879	206,581
Proved non-producing and undeveloped	381,858	293,999	227,300	177,139
TOTAL PROVED	534,374	529,204	453,179	383,720
Probable	387,271	293,784	233,943	193,067
TOTAL PROVED PLUS PROBABLE	921,645	822,988	687,122	576,787

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2019.

(2) Karve working interest reserves, before royalty interests.

The net present values below are based on Sproule December 31, 2018 forecast pricing assumptions for comparison to December 31, 2019.

NET PRESENT VALUE, BEFORE TAX^(1,2) (\$000s)	Dec. 31, 2018			
	Undiscounted	5%	10%	15%
Proved developed producing	242,789	224,317	202,183	182,905
Proved non-producing and undeveloped	232,138	178,853	137,002	105,031
TOTAL PROVED	474,927	403,170	339,185	287,936
Probable	305,142	237,316	189,535	156,472
TOTAL PROVED PLUS PROBABLE	780,069	640,486	528,720	444,408

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2018.

(2) Karve working interest reserves, before royalty interests.

The net present value comparison compares the value attributed to Karve's reserves as of December 31, 2019 as compared to the value attributed to Karve's reserves as of December 31, 2018. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2019 and December 31, 2018 price deck, respectively), the table below should be used for directional purposes only.

NET PRESENT VALUE COMPARISON, BEFORE TAX^(1,2) (\$000s)	Dec. 31, 2019	Dec. 31, 2018	% Change
	10%	10%	
Proved developed producing	225,879	202,183	12%
Proved non-producing and undeveloped	227,300	137,002	66%
TOTAL PROVED	453,179	339,185	34%
Probable	233,943	189,535	23%
TOTAL PROVED PLUS PROBABLE	687,122	528,720	30%

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2019 and December 31, 2018.

(2) Karve working interest reserves, before royalty interests.

The net present value, after tax, is based on Sproule December 31, 2019 pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2019.

NET PRESENT VALUE, AFTER TAX^(1,2) (\$000s)	Dec. 31, 2019			
	Undiscounted	5%	10%	15%
Proved developed producing	152,516	235,205	225,879	206,581
Proved non-producing and undeveloped	299,100	227,346	172,382	131,025
TOTAL PROVED	451,616	462,551	398,261	337,606
Probable	301,115	226,464	179,289	147,372
TOTAL PROVED PLUS PROBABLE	752,731	689,015	577,550	484,978

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2019.

(2) Karve working interest reserves, before royalty interests.

Although benchmark pricing has decreased since last year's reserve report, the net present value of the Company's reserves has significantly increased primarily due to the reserve additions which includes a significant addition due to waterflood reserve bookings.

Below are the year over year benchmark commodity prices used by Sproule to calculate the net present value of the Company's reserves:

Year	WTI (USD/bbl)			Year	EDM light (\$CDN/bbl)		
	2018	2019	% Change		2018	2019	% Change
2020	67.00	61.00	-9.0%	2020	77.89	73.84	-5.2%
2021	70.00	65.00	-7.1%	2021	82.25	78.51	-4.5%
2022	71.40	67.00	-6.2%	2022	84.79	78.73	-7.1%
2023	72.83	68.34	-6.2%	2023	87.39	80.30	-8.1%
2024	74.28	69.71	-6.2%	2024	89.14	81.91	-8.1%
2025	75.77	71.10	-6.2%	2025	90.92	83.54	-8.1%
2026	77.29	72.52	-6.2%	2026	92.74	85.21	-8.1%
2027	78.83	73.97	-6.2%	2027	94.60	86.92	-8.1%

FINDING, DEVELOPMENT & ACQUISITION COSTS (\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2019	Dec. 31, 2018
Capital expenditures (excluding acquisitions/dispositions) ⁽¹⁾	69,516	117,248
Change in future development costs (FDC) ⁽²⁾	110,740	202,014
TOTAL	180,256	319,262
Acquisitions (net of dispositions)	42,725	(18,207)
TOTAL CAPITAL EXPENDITURES INCLUDING FDC	222,981	301,055

(1) Capital expenditures for the year ended December 31, 2019 exclude decommissioning expenditures of \$4.3 million. December 31, 2018 exclude decommissioning expenditures of \$5.4 million.

(2) FDC as at December 31, 2019 was \$415.3 million (December 31, 2018 - \$304.6 million).

RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)	For the year ended	
	Dec. 31, 2019	Dec. 31, 2018
Reserve additions ⁽¹⁾	12,386	12,821
Acquisitions (dispositions) reserve changes	3,708	(7,501)
RESERVE ADDITIONS INCLUDING ACQUISITIONS/DISPOSITIONS	16,094	5,320

(1) Reserve additions include infill drilling and extensions and technical revisions.

COMPANY METRICS - PROVED PLUS PROBABLE	Three-Year		
	Dec. 31, 2019	Dec. 31, 2018	Average
Finding & development costs (F&D) (\$/boe)	14.26	20.00	17.60
Finding, development & acquisition costs (\$/boe) ⁽¹⁾	13.85	56.59	16.04
Field netback (\$/boe) ⁽²⁾	29.19	26.49	26.57
Recycle ratio - F&D	2.0x	1.3x	1.5x
Recycle ratio - FD&A	2.1x	0.5x	1.7x

(1) Non-GAAP measure, see page 20 for details

(2) Recycle ratio is based on 2019 field netback of \$26.50/boe plus processing and royalty income of \$2.69/boe.

RESERVES RECONCILIATION (MBOE)	Total Proved plus Probable	
	Total Proved	plus Probable
December 31, 2018	22,368	31,532
Infill drilling and extensions	5,033	6,706
Acquisitions/Dispositions	2,771	3,451
Improved recovery - Waterflood	4,046	5,128
Technical revisions	1,985	809
Production	(3,189)	(3,189)
DECEMBER 31, 2019	33,014	44,437



SALES VOLUMES

Sales volumes averaged 8,738 boe/d during the year ended December 31, 2019 compared to 9,168 boe/d for the year ended December 31, 2018. Excluding changes in production from acquisitions and dispositions in the year ended December 31, 2019 and 2018, production remained relatively flat year over year by bringing 51 gross (50.5 net) (year ended December 31, 2018 - 99 gross (95.0 net)) horizontal wells on production, replacing the natural declines.

AVERAGE SALES VOLUMES	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Oil (bbl/d)	5,764	5,746
Natural gas liquids (bbl/d)	288	374
Natural gas (mcf/d)	16,113	18,289
TOTAL SALES VOLUMES (boe/d)	8,738	9,168

Average Company production is approximately 9,200 boe/d (65% liquids) for February 2020.

SALES PRICES AND REVENUE

For the year ended December 31, 2019, the Company generated total revenue of \$147.8 million (year ended December 31, 2018 - \$149.9 million) on average sales volumes of 8,738 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the year ended December 31, 2019 was \$46.35 compared to \$44.80 for the year ended December 31, 2018. The increase relates to a combination of lower oil differentials and more favorable Canadian oil pricing due to the \$US/\$CAD exchange rates in the year ended December 31, 2019 compared to December 2018.

KARVE AVERAGE REALIZED PRICE ⁽¹⁾	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Revenue (\$000s)	147,809	149,900
Oil (\$/bbl)	63.54	62.68
NGLs (\$/bbl)	38.20	52.68
Natural gas (\$/mcf)	1.72	1.68
Karve realized price (\$/boe)	46.35	44.80
AVERAGE BENCHMARK PRICES ⁽²⁾		
Crude oil - WTI (\$US/bbl)	57.02	64.77
Crude oil - Canadian light sweet (\$CDN/bbl)	68.87	68.49
Natural gas - AECO-C spot (\$CDN/mcf)	1.76	1.53
Exchange Rate - (\$US/\$CAD)	0.75	0.77

(1) Excludes hedging gains and losses.

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

(3) Refer to Note 23 "Supplemental Information" in the financial statements.

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 December 31, 2019 and December 31, 2018, the Company did not have any commodity contracts in place.

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

(\$000s)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Realized gain (loss) on financial derivative contracts	754	(4,076)
Unrealized loss on financial derivative contracts	(531)	-
GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	223	(4,076)

The Company had an unrealized loss of \$531,000 for the year ended December 31, 2019. The Company recognized a realized gain of \$754,000 for the year ended December 31, 2019 (December 31, 2018 - \$4.1 million realized loss).

On March 11, 2020, the Company entered into a fixed price swap contract, effective April 1, 2020, at a swap price of \$47.60 CAD per barrel. The contract is for a total volume of 273,000 barrels (3,000 barrels per day), with a termination date of June 30, 2020.



On March 18, 2020, the Company entered into a fixed price swap contract, effective July 1, 2020, at a swap price of \$45.10 CAD per barrel. The contract is for a total volume of 183,000 barrels (1,000 barrels per day), with a termination date of December 31, 2020.

On March 18, 2020, the Company entered into a Mixed Sweet Blend fixed price differential contract, effective May 1, 2020, at a differential price of Mixed Sweet Blend minus \$11.30 CAD per barrel. The contract is for a total volume of 183,000 barrels (3,000 barrels per day), with a termination date of June 30, 2020.

ROYALTIES

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Royalties	11,669	10,196
Royalties as a % of revenue	7.9%	6.8%
Per boe (\$)	3.66	3.05

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2019 was \$11.7 million (\$3.66 per boe) compared to \$10.2 million (\$3.05 per boe) for the year ended December 31, 2018. For the year ended December 31, 2019, the Company's royalty rate was 7.9% of revenues (year ended December 31, 2018 – 6.8%). The increase in royalty rate relates to higher oil crown royalties as additional low decline horizontal oil Viking wells came off royalty holiday in 2019.

OPERATING EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Operating expense	46,471	52,440
Per boe (\$)	14.57	15.67

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 \$46.5 million (\$14.57 per boe) during the year ended December 31, 2019 and \$52.4 million (\$15.67 per boe) during the year ended December 31, 2018. The decrease in operating expenses relates to the decrease in production volumes combined with operating efficiencies gained during 2019. In the current commodity price environment, the Company has implemented wide-spread cost cutting measures to lower gross operating expenses across our field operations.

TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Transportation expense	5,171	7,149
Per boe (\$)	1.62	2.14

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 \$5.2 million (\$1.62 per boe) during the year ended December 31, 2019 and \$7.1 million (\$2.14 per boe) for the year ended December 31, 2018. The decrease in transportation expense per boe during the year ended December 31, 2019 compared to the year ended December 31, 2018 is primarily due to lower oil trucking costs as the Company pipeline connects more of its production, combined with lower production volumes due to the divestiture of its non-core shallow Viking natural gas and Mannville oil assets .



FIELD NETBACK

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

(\$000s, except per boe amounts)	For the year ended Dec 31, 2019		For the year ended Dec 31, 2018	
	\$	\$/boe	\$	\$/boe
Revenue	147,809	46.35	149,900	44.80
Royalties	(11,669)	(3.66)	(10,196)	(3.05)
Operating expense	(46,471)	(14.57)	(52,440)	(15.67)
Transportation expense	(5,171)	(1.62)	(7,149)	(2.14)
FIELD NETBACK (\$)⁽¹⁾	84,498	26.50	80,115	23.94

(1) Non-GAAP measure, see page 20 for details.

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

OTHER INCOME

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Royalty income	4,544	3,698
Processing fee income	3,878	4,156
Other	172	668
Total other income	8,594	8,522
Per boe (\$)	2.69	2.55

Other income for the year ended December 31, 2019 was \$8.6 million (\$2.69 per boe) and \$8.5 million (\$2.55 per boe) for the year ended December 31, 2018. The other income streams relate to processing fee income, royalty income, and other income.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests which were acquired in the Provost Acquisition. The increase in royalty income for the year ended December 31, 2019 compared to year ended December 31, 2018 is due to higher production royalty volumes in 2019 compared to 2018.

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. There was a slight decrease in processing fee income for the year ended December 31, 2019 compared to year ended December 31, 2018. The decrease is due to is due to slightly lower third-party throughput volumes being processed at Karve operated facilities.

Other income totalling \$172,000 for the year ended December 31, 2019 (December 31, 2018 - \$668,000) relates to road use income, seismic licensing income, contract operating income and foreign exchange gains/losses.

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the year ended December 31, 2019 and December 31, 2018:

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Staff and consulting costs	8,554	8,562
Professional fees	607	659
Office and rent costs	1,875	1,930
Other	1,340	1,381
General and administration expense (gross)	12,376	12,532
Capitalized G&A and overhead recovery	(2,207)	(3,376)
Lease liability reclassification	(495)	-
General and administration expense (net)	9,674	9,156
Per boe (\$)	3.03	2.74



General and administrative expenses (net) for the year ended December 31, 2019 were \$9.7 million (\$3.03 per boe) and \$9.2 million (\$2.74 per boe) for the year ended December 31, 2018. This increase in net G&A is due to a decrease in capitalized G&A and overhead recovery due to a decrease in capital spending for the year ended December 31, 2019 compared to December 31, 2018. On a gross basis, G&A during the year ended December 31, 2019 remained relatively consistent with the year ended December 31, 2018.

OPERATING LOAN AND LONG TERM DEBT

On December 3, 2018 the Corporation secured bank credit facilities of \$100.0 million comprised of \$90.0 million syndicated committed facility ("Credit Facility") and a \$10.0 million operating loan (previously a \$25.0 million revolving operating demand facility). The Credit Facility is a committed 364 days + 1 year and extendible upon agreement annually. The Credit Facility and operating loan incur 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 Corporation is also subject to a standby fee of 0.3375 percent to 0.7875 percent depending on the Corporation's debt to EBITDA ratio. The next annual review date is May 31, 2020.

As at December 31, 2019, \$57.9 million (net of unamortized debt issue costs) was drawn on the Credit Facility and \$6.0 million was drawn on the operating loan.

Long term debt as at December 31, 2019 and December 31, 2018 is as follows:

(\$000s)	As at Dec 31, 2019	As at Dec. 31, 2018
Credit facility	58,000	15,000
Less: unamortized debt issue costs	(142)	(269)
LONG TERM DEBT	57,858	14,731
Operating loan	5,956	6,109
CARRYING VALUE OF BANK DEBT	63,814	20,840

The increase in long term debt relates to the High Ground bank debt that was assumed by the Company upon the acquisition that closed on July 15, 2019.

Financing expense for the year ended December 31, 2019 and 2018 is comprised of the following:

(\$000s)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Credit facility interest and charges	1,594	56
Operating loan interest and charges	204	60
Amortization of debt issue costs	256	5
Interest on lease liability	58	-
FINANCING EXPENSES	2,112	121

For the year ended December 31, 2019, the effective interest rate on the credit facility was 5.01 percent. Key covenants of the bank credit facilities include standard business operating covenants. As at December 31, 2019 the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Share-based compensation - options	2,556	4,082
Share-based compensation - performance warrants	2,978	3,036
Share-based compensation expense	5,534	7,118
Per boe (\$)	1.74	2.13

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 year ended December 31, 2019 was \$2.6 million (year ended December 31, 2018 - \$4.1 million) and SBC expense related to performance warrants for the year ended December 31, 2019 was \$3.0 million (year ended December 31, 2018 - \$3.0 million) using the graded vesting method. There were 3,055,165 stock options exercised during the year ended December 31, 2019.

As at December 31, 2019, 13,684,260 stock options and 32,129,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was \$1.78 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 December 31, 2019, 7,191,533 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 year ended December 31, 2019, depletion expense increased to \$59.4 million (\$18.63 per boe) from \$42.7 million (\$12.75 per boe) during the year ended December 31, 2018. The increases are due to increases in net carrying value, reserve base and future development costs.

(\$000s, except per boe amounts)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Depletion	58,915	42,592
Depreciation and amortization	489	82
Total DD&A (\$)	59,404	42,674
Per boe (\$)	18.63	12.75

INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined basic federal and provincial statutory income tax rates for Canada at December 31, 2019 at 26.5% (December 31, 2018 – 27%).

A reconciliation to the differences is as follows:

(\$000s)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Net income before taxes	23,468	39,058
Combined federal and provincial tax rate	26.5%	27.0%
Computed "expected" tax expense	6,219	10,546
Increase (decrease) in taxes due to:		
Permanent differences	(1,095)	(2,373)
Change in tax rate	(2,219)	-
Other	(1,423)	328
True-up	(1,893)	-
TOTAL INCOME TAX EXPENSE (RECOVERY)	(411)	8,501
Current income tax	-	-
Deferred income tax expense (recovery)	(411)	8,501
TOTAL INCOME TAX EXPENSE (RECOVERY)	(411)	8,501

The following table summarizes Karve's net deferred income tax asset (liability) at December 31, 2019:

	Balance at Jan. 1, 2019	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2019
Non-capital losses	3,090	641	-	3,731
Share issue costs	408	(154)	-	254
PP&E and E&E assets	(15,418)	55	-	(15,363)
Corporate acquisitions	-	-	13,833	13,833
Other	57	(131)	-	(74)
TOTAL DEFERRED INCOME TAX ASSET (LIABILITY)	(11,863)	411	13,833	2,381

A deferred tax asset was not recognized in respect of temporary differences related to successor tax pools of \$44.6 million (2018 - nil) as there is not sufficient certainty regarding future utilization.

As at December 31, 2019, the deferred tax asset was \$2.4 million (as at December 31, 2018 deferred tax liability - \$11.9 million) resulting in a deferred tax recovery for the year ended December 31, 2019 of \$411,000 (year ended December 31, 2018 - deferred tax expense of \$8.5 million). The Company's non-capital losses expire between 2034 and 2039.

The following table summarizes Karve's net deferred income tax asset (liability) at December 31, 2018:

	Balance at Jan. 1, 2018	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2018
Non-capital losses	5,841	(2,751)	-	3,090
Share issue costs	648	(240)	-	408
PP&E and E&E assets	(3,867)	(5,582)	(5,969)	(15,418)
Unrecognized deferred tax-assets	(15)	72	-	57
TOTAL DEFERRED INCOME TAX ASSET (LIABILITY)	2,607	(8,501)	(5,969)	(11,863)

The following table summarizes Karve's income tax pools available for deduction:

(\$000s)	As at Dec 31, 2019
Non-capital losses	63,128
Canadian exploration expense	201
Canadian development expense	131,431
Canadian oil and gas property expense	102,418
Capital cost allowance	82,491
Share issue costs	2,119
TOTAL TAX POOLS AVAILABLE FOR DEDUCTION	381,788

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the December 31, 2019 consisted of the following:

(\$000s)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Drilling	13,779	36,114
Completions	18,906	38,322
Facilities and well equipment	36,831	42,708
Geological and geophysical	-	104
Land	1,188	1,895
Acquisitions	3,742	12,448
Dispositions	-	(30,655)
Office equipment	141	518
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	74,587	101,454

During the year ended December 31, 2019, the Company drilled 31 gross (30.9 net) wells and completed 51 gross (50.5 net) horizontal Viking oil wells. During the year ended December 31, 2018, the Company drilled 110 gross (106.1 net) wells and completed 91 gross (88.2 net) horizontal Viking oil wells.

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

For the quarter ended	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018
Drilled - Gross (Net) ⁽¹⁾	4 (4)	22 (21.9)	0 (0.0)	5 (5.0)	21 (20.5)
Completed - Gross (Net)	15 (14.9)	10 (10.0)	14 (13.7)	12 (11.9)	9 (8.5)
On production - Gross (Net)	15 (14.9)	10 (10.0)	14 (13.7)	12 (11.9)	19 (18.3)

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

For the quarter ended	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Drilled - Gross (Net)	21 (20.5)	52 (49.1)	12 (11.5)	25 (25.0)	23 (22.1)
Completed - Gross (Net)	9 (8.5)	49 (46.1)	9 (8.9)	24 (24.7)	23 (22.4)
On production - Gross (Net)	19 (18.3)	44 (41.2)	4 (4.0)	24 (24.7)	23 (22.4)

Since November 2016, the Company drilled a total of 221 gross (215.8 net), completed 218 gross (213.7 net) and brought 218 gross (213.7 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 added sweet, light oil-weighted Viking assets which are contiguous to Karve's existing core area at Monitor, including approximately 2,000 boe/d of production (52% liquids). The Acquisition increased Karve's dominant footprint in the Alberta Viking and enables near term 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 income and comprehensive 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.

Alliance Acquisition

On October 31, 2018, the Company acquired assets in the Alliance area of Alberta (“Alliance Acquisition”) that complement Karve’s existing asset base for a total purchase price of \$10.8 million. At the time of acquisition, the assets were producing approximately 900 boe/d, and include future drilling locations in the Alliance area. The effective date of the acquisition was May 1, 2018.

(\$000s)	
Net working capital	1,251
Property, plant and equipment	37,241
Decommissioning liabilities	(5,544)
Deferred tax liabilities	(5,969)
FAIR VALUE OF NET ASSETS ACQUIRED	26,979
CONSIDERATION	
Cash	10,839
TOTAL PURCHASE PRICE	10,839
GAIN ON ACQUISITION	(16,140)

During the year ended December 31, 2018, the Company incurred \$34,000 of transaction costs for the Alliance Acquisition which were included in “Transaction costs” in the Company’s consolidated statement of net income and comprehensive income.

Other Miscellaneous Acquisitions

The Company acquired various working interests, land, light oil producing properties, royalty interest, and reserves.

The following table summarizes the aggregate fair value of the net assets acquired and the preliminary allocation of the purchase price:

(\$000s)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Property, plant and equipment	4,079	1,432
Decommissioning liabilities	(226)	(22)
FAIR VALUE OF NET ASSETS ACQUIRED	3,853	1,410
CONSIDERATION		
Common share issuance	111	-
Cash	3,742	1,410
TOTAL PURCHASE PRICE	3,853	-

DISPOSITION

On June 14, 2018, the Company closed a divestiture of its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of \$30.7 million. The disposition was effective March 1, 2018. The disposition includes the majority of the non-core and non-Viking oil assets acquired in the Provost Acquisition.

The carrying value of assets and associated decommissioning liabilities disposed during the year ended December 31, 2018 are summarized below:

(\$000s)	
Property, plant and equipment	40,855
Exploration and evaluation assets	228
Decommissioning liabilities	(13,284)
Net working capital	2,856
CARRYING VALUE OF NET ASSETS DISPOSED	30,655
CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS	30,655

As a result of the disposition, the Company’s tax pools have been reduced by 80% Canadian Oil and Gas Property Expense (“COGPE”) and 20% - Class 41 of the proceeds received.



OTHER LONG-TERM ASSET

On June 14, 2018 the Company acquired a 41% shareholding in a privately held oil and gas company (“PrivateCo”) for \$3.0 million in conjunction with a non-core asset disposition. As the Company had significant influence over PrivateCo’s operations, it had accounted for the investment using the equity method.

(\$000s)	As at Dec 31, 2019	As at Dec. 31, 2018
Balance, beginning of year	2,565	-
Investment in PrivateCo (write down)	(2,565)	3,000
Equity share of loss	-	(435)
BALANCE, END OF YEAR	-	2,565

The investment in PrivateCo was written down to nil in early 2019. On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of \$1.0 million. As such, the Company realized a 2019 net loss on investment of \$1.6 million. The net loss of PrivateCo for the period from January 1, 2019 to July 18, 2019 was \$8.3 million.

DECOMMISSIONING LIABILITY

At December 31, 2019, the Company estimated a decommissioning liability of \$19.2 million for the future abandonment and reclamation of Karve’s properties (December 31, 2018 – \$12.5 million). \$1.1 million is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining \$18.1 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 \$193.0 million (\$99.9 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 8% and an inflation rate of 2%.

SHARE CAPITAL

(\$000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2017	137,199,270	216,061
Issued on exercise of options and performance warrants	70,000	113
Allocation of contributed surplus - exercise of options and performance warrants	-	34
BALANCE AT DECEMBER 31, 2018	137,269,270	216,208
Issued common shares	3,243,729	8,909
Issued on exercise of options	16,666	27
Allocation of contributed surplus - exercise of options	-	14
BALANCE AT DECEMBER 31, 2019	140,529,665	225,158

During the year ended December 31, 2019 the Company issued 3.2 million common shares at \$2.75 per common share to fund the High Ground Acquisition (year ended December 31, 2018 – 70,000). During the year ended December 31, 2019, 16,666 vested stock options were exercised at a weighted average price of \$1.65 per share for gross and net proceeds of \$27,000.

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended (\$000s)	Dec 31, 2019	Sept 30, 2019	Jun 30, 2019	Mar 31, 2019
Petroleum and natural gas sales	39,176	38,535	35,450	34,648
Funds flow from operations ⁽¹⁾	19,040	20,300	19,696	18,869
Adjusted funds flow from operations ⁽¹⁾	20,532	21,464	21,162	19,330
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,965	6,045	5,316	5,727
Natural gas liquids (bbl/d)	348	317	277	205
Natural gas (Mcf/d)	17,774	18,386	15,247	12,966
TOTAL PRODUCTION (BOE/d)	9,275	9,426	8,134	8,093
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	56.96	56.47	59.84	54.81
Crude oil - Canadian light sweet (\$CDN/bbl)	66.77	69.26	72.55	66.92
Natural gas - AECO-C spot (\$CDN/mcf)	2.42	0.95	1.05	2.62
Exchange Rate - (\$US/\$CAD)	0.76	0.76	0.75	0.75
FIELD NETBACK (\$/BOE)				
Revenue	45.91	44.44	47.89	47.57
Royalties	(3.65)	(3.51)	(3.93)	(3.58)
Operating expense	(15.49)	(13.97)	(13.93)	(14.87)
Transportation expense	(1.87)	(1.55)	(1.10)	(1.95)
FIELD NETBACK (\$/BOE) ⁽¹⁾	24.90	25.41	28.93	27.17
General and administration	(3.03)	(2.94)	(3.24)	(2.95)
Other income	2.37	2.43	3.34	2.73
Interest income (expense)	(0.57)	(0.61)	(0.44)	(0.41)
Realized hedging	0.41	0.46	-	-
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	24.08	24.75	28.59	26.54

(1) Non-GAAP measure, see page 20 for details.

For the quarter ended (\$000s)	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Petroleum and natural gas sales	25,807	37,335	44,283	42,475
Funds flow from operations ⁽¹⁾	7,058	20,690	19,698	22,368
Adjusted funds flow from operations ⁽¹⁾	8,384	21,933	21,812	23,486
AVERAGE SALES VOLUMES				
Oil (bbl/d)	6,278	4,807	5,697	6,210
Natural gas liquids (bbl/d)	268	291	523	419
Natural gas (Mcf/d)	13,194	13,359	24,032	22,729
TOTAL PRODUCTION (BOE/d)	8,745	7,325	10,225	10,417
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	58.81	69.46	67.88	62.91
Crude oil - Canadian light sweet (\$CDN/bbl)	48.27	75.64	77.82	70.09
Natural gas - AECO-C spot (\$CDN/mcf)	1.62	1.28	1.20	2.06
Exchange Rate - (\$US/\$CAD)	0.76	0.77	0.77	0.79
FIELD NETBACK (\$/BOE)				
Revenue	32.08	55.41	47.59	45.31
Royalties	(2.60)	(4.77)	(2.86)	(2.38)
Operating expense	(15.33)	(15.50)	(15.87)	(15.89)
Transportation expense	(3.89)	(1.71)	(1.87)	(1.21)
FIELD NETBACK (\$/BOE) ⁽¹⁾	10.26	33.43	26.99	25.83
General and administration	(2.57)	(2.91)	(3.71)	(1.68)
Other income	2.67	4.01	2.24	1.69
Interest income	0.03	0.08	0.04	0.01
Realized hedging	(0.88)	(2.06)	(1.32)	(0.80)
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	9.51	32.55	24.24	25.05

(1) Non-GAAP measure, see page 20 for details.



NET INCOME SUMMARY

(\$000s, except per boe amounts)	For the year ended Dec 31, 2019		For the year ended Dec 31, 2018	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	147,809	46.35	149,900	44.80
Royalties	(11,669)	(3.66)	(10,196)	(3.05)
NET REVENUE	136,140	42.69	139,704	41.75
Other income	8,594	2.69	8,522	2.55
Gain (loss) on financial derivative contracts	223	0.07	(4,076)	(1.22)
Gain on acquisition	10,783	3.38	16,140	4.82
Gain (loss) on investment	(1,565)	(0.49)	(435)	(0.13)
Interest income	140	0.04	127	0.04
TOTAL REVENUE AND OTHER INCOME	154,315	48.38	159,982	47.81
Operating	46,471	14.57	52,440	15.67
Transportation	5,171	1.62	7,149	2.14
General and administration	9,674	3.03	9,035	2.70
Financing	2,112	0.66	121	0.04
Depletion, depreciation and amortization	59,404	18.63	42,674	12.75
Accretion	814	0.26	1,095	0.33
Share-based compensation	5,534	1.74	7,118	2.13
Exploration and evaluation - expiries	1,368	0.43	902	0.27
Transaction costs	299	0.09	390	0.12
INCOME FROM OPERATIONS BEFORE TAXES	23,468	7.35	39,058	11.66
Current income tax expense	-	-	-	-
Deferred income tax expense (recovery)	(411)	(0.14)	8,501	2.54
NET INCOME AND COMPREHENSIVE INCOME	23,879	7.49	30,557	9.12

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2019 are as follows:

(\$000s)	2020	2021	2022	Thereafter	Total
Operating leases	48	-	-	-	48
Pipeline transportation	1,481	1,449	985	1,005	4,920
TOTAL COMMITMENTS	1,529	1,449	985	1,005	4,968

RELATED PARTY DISCLOSURES

a) Key Management Personnel

Key management is defined as the Board of Directors and Officers of the Company. The table below summarizes the fair value of compensation and other fees paid to key management:

(\$000s)	For the year ended	
	Dec 31, 2019	Dec 31, 2018
Share-based compensation benefit	2,575	6,467
Salaries and benefits	3,182	3,046
TOTAL KEY MANAGEMENT COMPENSATION	5,757	9,513

b) Other Related Party Transactions

On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of \$1.0 million. For the period from January 1, 2019 to July 18, 2019, the Company received a total of \$1.9 million of gas processing income and royalty income (year ended December 31, 2018 - \$1.9 million) from PrivateCo. PrivateCo was a company with some common directors with Karve. Gas processing income and royalty income were based on standard third party agreements.



CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at December 31, 2019, there were 140,529,665 common shares outstanding (December 31, 2018 – 137,269,270).

As at March 25, 2020, the date of this MD&A, there were 140,529,665 common shares, 13,834,260 stock options and 32,129,500 performance warrants outstanding.

LIQUIDITY

The Company relies on operating cash flows, 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 December 31, 2019, 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.

CHANGES IN ACCOUNTING POLICY

On January 1, 2019, the Company adopted the new accounting standard IFRS 16 Leases ("IFRS 16"). IFRS 16 replaces IAS 17 Leases ("IAS 17"), IFRIC 4 Determining Whether an Arrangement Contains a Lease ("IFRIC 4"), the accounting for onerous lease liabilities which were previously measured under IAS 37 Provisions ("IAS 37") and other related IFRS interpretations. IFRS 16 prescribes a single recognition and measurement model for lease contracts and requires the recognition of a right of use asset and corresponding lease liability for most leases, including subleases.

The Company elected to adopt IFRS 16 using the prescribed modified retrospective approach (simplified method) by recognizing an opening balance sheet adjustment for the Company's discounted right of use assets and corresponding lease liabilities as at January 1, 2019. Accordingly, there was no opening adjustment to retained earnings and the comparative 2018 consolidated statements of comprehensive income and cash flows have not been restated to reflect the accounting presentation prescribed under IFRS 16.

At the date of transition, the Company recognized a lease liability of \$1.2 million in respect of long-term minimum commitments associated with corporate office lease arrangements under IFRS 16. The net balance sheet impact on transition was \$738,000 due to the derecognition of a \$416,000 deferred lease liability previously recognized on the balance sheet under IAS 37, now recognized under IFRS 16. The previously recognized deferred lease liability is netted against the right of use asset. Under previous IFRS standards, office lease arrangements were recognized as general and administrative expenses as incurred. Karve is the lessee for substantially all in-scope office lease arrangements. At January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated right of use asset. In this case, no impairment assessment was performed under IAS 36 Impairment of Assets.

The following table summarizes the opening balance sheet adjustment for the adoption of IFRS 16 as at December 31, 2018:

Opening Balance Sheet	Dec. 31, 2018 (previous IFRS)	Adoption of IFRS 16	Jan. 1, 2019 (new IFRS)
Right of use asset	-	738	738
Lease liability	-	1,154	1,154
Deferred lease liability	416	(416)	-

Certain of the Company's performance measures including funds flow from operations, adjusted funds flow from operations, and adjusted positive working capital (net debt) are impacted by the adoption of IFRS 16. Where lease payments made for certain operating items were previously included in G&A, these payments are now reflected as payments of interest and lease liabilities, which increases total funds flow from operations, adjusted funds flow from operations, and adjusted positive working capital (net debt). As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable. For more information on funds flow from operations, adjusted funds flow from operations, and adjusted positive working capital (net debt) refer to the section entitled "Non-GAAP Measurements" contained within this MD&A.

SUBSEQUENT EVENTS

a) Fixed Price Swap Contract

On March 11, 2020, the Company entered into a fixed price swap contract, effective April 1, 2020, at a swap price of \$47.60 CAD per barrel. The contract is for a total volume of 273,000 barrels (3,000 barrels per day), with a termination date of June 30, 2020.

On March 18, 2020, the Company entered into a fixed price swap contract, effective July 1, 2020, at a swap price of \$45.10 CAD per barrel. The contract is for a total volume of 183,000 barrels (1,000 barrels per day), with a termination date of December 31, 2020.

On March 18, 2020, the Company entered into a Mixed Sweet Blend fixed price differential contract, effective May 1, 2020, at a differential price of Mixed Sweet Blend minus \$11.30 CAD per barrel. The contract is for a total volume of 183,000 barrels (3,000 barrels per day), with a termination date of June 30, 2020.

b) Stock Option Grant

On March 25, 2020, 150,000 stock options were granted to certain employee/s of the Company at an exercise price of \$2.25 per share under the Company's Stock Option Plan.

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 December 31, 2019.

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 year ended	
	Dec 31, 2019	Dec 31, 2018
Cash flow from continuing operations	71,004	74,773
Change in non-cash working capital from operating activities	6,901	(4,959)
FUNDS FLOW FROM OPERATIONS	77,905	69,814
Transaction costs	299	390
Decommissioning expenditures	4,284	5,411
ADJUSTED FUNDS FLOW FROM OPERATIONS	82,488	75,615

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.

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