



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2020 and DECEMBER 31, 2019**



## LETTER TO OUR SHAREHOLDERS

March 24, 2021

Dear Shareholder:

We are pleased to update you on Karve's progress since our November 10, 2020 letter to shareholders.

Throughout 2020, the energy industry faced extreme volatility, declining global crude prices and further pricing uncertainty caused by the COVID-19 pandemic. Despite these global challenges, Karve managed our balance sheet, operated efficiently and executed a flexible and disciplined capital allocation strategy to maintain a strong financial position. With our low decline, waterflood pressure supported oil production, the Company has low maintenance capital requirements and therefore can ensure future sustainability with strong financial and operating results. The Company's current production is 7,600 boe/d.

In the fourth quarter of 2020, the Company produced an average of 7,180 boe/d (67% liquids), reported a field operating netback of \$14.19 per boe, generated adjusted funds flow from operations of \$7.9 million and reduced net debt by \$1.0 million from \$55.3 million at September 30, 2020 to \$54.3 million at December 31, 2020. Year over year, Karve reduced its G&A expense by 42% from \$9.7 million in 2019 to \$5.6 million in 2020. G&A per boe saw a reduction of 33% from \$3.03 per boe in 2019 to \$2.02 per boe in 2020.

The Company incurred capital expenditures for the three months ended December 31, 2020 of \$6.5 million, including drilling, completing, and bringing on production 5 gross (4.9 net) horizontal Viking oil wells. Karve has now drilled, completed and brought on production a total of 241 gross (236.5 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 23 gross (22.8 net) in 2020.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2020. Proved plus probable reserve volumes have decreased from 44.4 MMBOE to 40.8 MMBOE (a decrease of 8%) and the before tax NPV 10 reserves value has decreased to from \$687.1 million to \$414.2 million. The reductions were largely attributed to the reduction in benchmark pricing used by the reserve evaluator. As shown on page 5 and 6, when 2019 benchmark pricing assumptions were used in the 2020 reserve report the reserves showed that the total proved plus probable reserves would be consistent year over year and before tax NPV 10 of \$687.1 million in 2019 would increase to \$711.0 million in 2020. The lower benchmark pricing that was used in the report properly reflects the commodity pricing at the time the report is dated at December 31, 2020. Subsequent increases in commodity pricing in January, February and March of 2020 is more consistent with pricing that was used in the December 31, 2019 report (see page 5 and 6). In the attached management's discussion and analysis ("MD&A") we have included a complete summary of the Sproule Report and a comparison of the 2020 results to 2019.

With the recent increase in commodity prices in 2021, Karve is planning a capital expenditure program of \$78.9 million on the drilling of 58 horizontal Viking oil wells, \$13.5 million on waterflood, \$3.9 million on facilities and \$1.9 million on asset retirement obligations (which includes \$500,000 to fund an emissions reduction program). The additional asset retirement obligation spending is as a result of the Company's share in advancing the abandonment of additional wells due to the Company qualifying for \$4.5 million with the federal site rehabilitation program. Consistent with previous capital expenditure programs, Karve intends to adjust its capital spending to keep within its cash flow. Based on the above capital expenditure program, Karve expects to exit 2021 with approximately 8,500 boe/d of production. Additionally, the Company currently has 2,500 bbl/d hedged at a weighted average price of \$56.54 CAD per barrel to June 30, 2021.

Karve will be holding our Annual General Meeting ("AGM") on Wednesday May 12, 2020 at 2:00PM via teleconference. Details for both are included in the Management Information Circular that can be found on our website at [www.karveenergy.com](http://www.karveenergy.com).

Enclosed are the Karve Energy Inc. audited consolidated financial statements and MD&A for the year ended December 31, 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](mailto:info@karveenergy.com). We look forward to reporting our progress 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, 2020 and December 31, 2019. It is dated March 24, 2021 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 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 year ended	
	Dec. 31, 2020	Dec. 31, 2019
<b>FINANCIAL</b> (Canadian \$000, except per share and per boe amounts)		
Net (loss) income	(25,784)	23,879
Per share - basic	(0.18)	0.17
Per share - diluted	(0.18)	0.17
Funds flow from operations <sup>(1)</sup>	33,543	77,905
Per share - basic <sup>(1)</sup>	0.24	0.56
Per share - diluted <sup>(1)</sup>	0.24	0.54
Adjusted funds flow from operations <sup>(1)</sup>	34,309	82,488
Per share - basic <sup>(1)</sup>	0.24	0.59
Per share - diluted <sup>(1)</sup>	0.24	0.57
Capital expenditures (before acquisitions and dispositions)	30,996	70,845
Net acquisitions	-	3,742
Total net capital expenditures	30,996	74,587
Adjusted (net debt) <sup>(1)</sup>	(54,297)	(55,993)
Total assets	358,774	383,794
Shares outstanding, weighted average (000s)	140,530	138,787
Shares outstanding, end of period (000s)	140,530	140,530
<b>OPERATIONAL</b>		
Sales volumes		
Oil (bbl/d)	4,845	5,764
NGLs (bbl/d)	301	288
Natural gas (mcf/d)	14,881	16,113
<b>Total (boe/d)</b>	<b>7,626</b>	<b>8,738</b>
Average sales prices (excluding hedging gains and losses)		
Oil (\$/bbl)	41.40	63.54
NGLs (\$/bbl)	26.59	38.20
Natural gas (\$/mcf)	2.16	1.72
<b>Boe basis (\$/boe)</b>	<b>31.56</b>	<b>46.35</b>
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	31.56	46.35
Royalties	(2.39)	(3.66)
Operating expense	(15.17)	(14.57)
Transportation expense	(1.21)	(1.62)
<b>Field netback <sup>(1)</sup></b>	<b>12.79</b>	<b>26.50</b>

(1) Non-GAAP measure, see Page 19 for details.

## 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, 2020 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, 2020.

GROSS RESERVES SUMMARY <sup>(1,2)</sup>					Dec. 31, 2020
		Oil	NGLs	Natural Gas	
Karve interest	% Liquids	Mbbl	Mbbl	MMcf	MBOE <sup>(3)</sup>
Proved developed producing	63%	5,192	377	20,025	8,906
Proved non-producing and undeveloped	79%	14,689	521	24,446	19,284
<b>TOTAL PROVED</b>	<b>74%</b>	<b>19,881</b>	<b>898</b>	<b>44,471</b>	<b>28,190</b>
Probable	72%	8,656	429	21,300	12,635
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>73%</b>	<b>28,537</b>	<b>1,327</b>	<b>65,771</b>	<b>40,825</b>

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2020. Table may not add due to rounding.

(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, 2019 for comparison to December 31, 2020.

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

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2019. Table may not add due to rounding.

(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, 2020 reserve report to the December 31, 2019 reserve report. The reduction in reserves year over year is mainly attributed to the reserve evaluator using lower commodity prices in the December 31, 2020 report compared to the December 31, 2019 reserve report.

GROSS RESERVES COMPARISON <sup>(1,2)</sup>			
	Dec. 31, 2020	Dec. 31, 2019	% Change
Karve interest	MBOE	MBOE	
Proved developed producing	8,906	13,549	-34%
Proved non-producing and undeveloped	19,284	19,465	-1%
<b>TOTAL PROVED</b>	<b>28,190</b>	<b>33,014</b>	<b>-15%</b>
Probable	12,635	11,423	11%
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>40,825</b>	<b>44,437</b>	<b>-8%</b>

(1) Sproule Associates Limited estimated reserves as at December 31, 2020 and December 31, 2019. Table may not add due to rounding.

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

The reserve life index is based on production of 7,180 boe/d for the quarter ended December 31, 2020 (December 31, 2019 – 9,275 boe/d).

RESERVE LIFE INDEX	Dec. 31, 2020 <sup>(1)</sup>	Dec. 31, 2019 <sup>(2)</sup>
Total proved	10.8	9.8
Total proved plus probable	15.6	13.1

(1) Based on production of approximately 7,180 BOE/d for the quarter ended December 31, 2020.

(2) Based on production of approximately 9,275 BOE/d as of December 2019.



The future development capital as at December 31, 2020 as compared to December 31, 2019 is as follows:

<b>FUTURE DEVELOPMENT CAPITAL (\$000s)</b>	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>	<b>% Change</b>
Total proved plus probable	448,275	415,290	8%

Net present values are based on Sproule December 31, 2020 forecast pricing assumptions.

<b>NET PRESENT VALUE, BEFORE TAX<sup>(1,2)</sup></b>	<b>Dec. 31, 2020</b>		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	93,041	101,357	96,240
Proved non-producing and undeveloped	183,871	139,299	105,655
<b>TOTAL PROVED</b>	<b>276,912</b>	<b>240,656</b>	<b>201,895</b>
Probable	222,235	173,500	139,954
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>499,147</b>	<b>414,156</b>	<b>341,849</b>

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2020. Table may not add due to rounding.

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

The net present values below are based on Sproule December 31, 2019 forecast pricing assumptions for comparison to December 31, 2020.

<b>NET PRESENT VALUE, BEFORE TAX<sup>(1,2)</sup></b>	<b>Dec. 31, 2019</b>		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	235,205	225,879	206,581
Proved non-producing and undeveloped	293,999	227,300	177,139
<b>TOTAL PROVED</b>	<b>529,204</b>	<b>453,179</b>	<b>383,720</b>
Probable	293,784	233,943	193,067
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>822,988</b>	<b>687,122</b>	<b>576,787</b>

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2019. Table may not add due to rounding.

(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, 2020 as compared to the value attributed to Karve's reserves as of December 31, 2019. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2020 and December 31, 2019 price deck, respectively), the table below should be used for directional purposes only. Please see the next table where the same pricing assumptions were used for two reserve reports.

<b>NET PRESENT VALUE COMPARISON, BEFORE TAX<sup>(1,2)</sup></b>	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>	<b>% Change</b>
Karve interest (\$000s)	10%	10%	
Proved developed producing	101,357	225,879	-55%
Proved non-producing and undeveloped	139,299	227,300	-39%
<b>TOTAL PROVED</b>	<b>240,656</b>	<b>453,179</b>	<b>-47%</b>
Probable	173,500	233,943	-26%
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>414,156</b>	<b>687,122</b>	<b>-40%</b>

(1) Sproule Associates Limited estimated reserves as at December 31, 2020 and December 31, 2019. Table may not add due to rounding.

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

As shown in the table above, the comparison of the net present values from 2019 to 2020 saw a decrease across all categories. The below table compares the net present values for the 2019 reserve report to the 2020 reserve report using the commodity price assumptions from the 2019 report. As is shown below, if the same pricing assumptions were used, there would be an increase in net present values in the 2020 reserve report.

<b>NET PRESENT VALUE COMPARISON, BEFORE TAX<sup>(1,2)</sup></b>	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>	<b>% Change</b>
Karve interest (\$000s)	10%	10%	
Proved developed producing	172,242	225,879	-24%
Proved non-producing and undeveloped	301,159	227,300	32%
<b>TOTAL PROVED</b>	<b>473,401</b>	<b>453,179</b>	<b>4%</b>
Probable	237,618	233,943	2%
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>711,019</b>	<b>687,122</b>	<b>3%</b>

(1) Sproule Associates Limited estimated reserves as at December 31, 2020 and December 31, 2019 using pricing assumptions from 2019. Table may not add due to rounding.

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

<b>GROSS RESERVES COMPARISON<sup>(1,2)</sup></b>	Dec. 31, 2020	Dec. 31, 2019	% Change
Karve interest	MBOE	MBOE	
Proved developed producing	10,060	13,549	-26%
Proved non-producing and undeveloped	23,469	19,465	21%
<b>TOTAL PROVED</b>	<b>33,529</b>	<b>33,014</b>	<b>2%</b>
Probable	10,913	11,423	-4%
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>44,442</b>	<b>44,437</b>	<b>0%</b>

(1) Sproule Associates Limited estimated reserves as at December 31, 2020 and December 31, 2019 using pricing assumptions from 2019. Table may not add due to rounding.

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

The net present value, after tax, is based on Sproule December 31, 2020 pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2020.

<b>NET PRESENT VALUE, AFTER TAX<sup>(1,2)</sup></b>	Dec. 31, 2020		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	93,041	101,357	96,240
Proved non-producing and undeveloped	173,246	131,122	99,268
<b>TOTAL PROVED</b>	<b>266,287</b>	<b>232,479</b>	<b>195,508</b>
Probable	172,893	134,751	108,857
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>439,180</b>	<b>367,230</b>	<b>304,365</b>

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2020. Table may not add due to rounding.

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

As can be seen below, benchmark pricing used in the 2020 reserve report was between 6-41% lower. As was shown in the previous table, this reduction in benchmark pricing resulted in a reduction in net present values. The approach taken by reserve evaluators is consistent year over year and the pricing set for the report was as at December 31, 2020. Benchmark pricing has subsequently seen significant increases that are more consistent with benchmark pricing used in the 2019 reserve report.

Below are the 2019 and 2020 benchmark commodity prices used by Sproule to calculate the net present value of the Company's reserves:

	Canadian Light Sweet											
	WTI (\$USD/bbl)			(\$CDN/bbl)			Henry Hub (\$USD/MMbtu)			AECO-C Spot (\$CDN/bbl)		
	2019	2020 <sup>(1)</sup>	% Change	2019	2020 <sup>(1)</sup>	% Change	2019	2020 <sup>(1)</sup>	% Change	2019	2020 <sup>(1)</sup>	% Change
<b>2021</b>	65.00	47.17	-38%	78.51	55.76	-41%	3.00	2.83	-6%	2.27	2.78	18%
<b>2022</b>	67.00	50.17	-34%	78.73	59.89	-31%	3.25	2.87	-13%	2.81	2.70	-4%
<b>2023</b>	68.34	53.17	-29%	80.30	63.48	-26%	3.32	2.90	-14%	2.89	2.61	-11%
<b>2024</b>	69.71	54.97	-27%	81.91	65.76	-25%	3.38	2.96	-14%	2.98	2.65	-12%
<b>2025</b>	71.10	56.07	-27%	83.54	67.13	-24%	3.45	3.02	-14%	3.06	2.70	-13%
<b>2026</b>	72.52	57.19	-27%	85.21	68.53	-24%	3.52	3.08	-14%	3.15	2.76	-14%
<b>2027</b>	73.97	58.34	-27%	86.92	69.95	-24%	3.59	3.14	-14%	3.24	2.81	-15%
<b>2028</b>	75.45	59.50	-27%	88.66	71.40	-24%	3.66	3.20	-14%	3.33	2.87	-16%
<b>2029</b>	76.96	60.69	-27%	90.43	72.88	-24%	3.73	3.26	-14%	3.42	2.92	-17%
<b>2030</b>	78.50	61.91	-27%	92.24	74.34	-24%	3.81	3.33	-14%	3.51	2.98	-18%
<b>2031</b>	80.07	63.15	-27%	94.08	75.83	-24%	3.89	3.39	-15%	3.58	3.04	-18%

(1) 2020 benchmark commodity prices are based on the average pricing from Sproule, GLJ and McDaniels.

<b>FINDING, DEVELOPMENT &amp; ACQUISITION COSTS (\$000s, except per boe amounts)</b>	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Capital expenditures (excluding acquisitions/dispositions) <sup>(1)</sup>	29,701	69,516
Change in future development costs (FDC) <sup>(2)</sup>	32,985	110,740
<b>TOTAL</b>	<b>62,686</b>	<b>180,256</b>
Acquisitions (net of dispositions)	-	42,725
<b>TOTAL CAPITAL EXPENDITURES INCLUDING FDC</b>	<b>62,686</b>	<b>222,981</b>

(1) Capital expenditures for the year ended December 31, 2020 exclude decommissioning expenditures of \$766,000.

Year ended December 31, 2019 exclude decommissioning expenditures of \$4.3 million.

(2) FDC as at December 31, 2020 was \$448.3 million (December 31, 2019 - \$415.3 million).



<b>RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)</b>	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Reserve additions <sup>(1)</sup>	(821)	12,386
Acquisitions reserve changes	-	3,708
<b>RESERVE ADDITIONS INCLUDING ACQUISITIONS/DISPOSITIONS</b>	<b>(821)</b>	<b>16,094</b>

(1) For 2020, if reserve additions were to exclude proved plus probable economic factors of 3,433 MBOE then reserve additions would be 2,612 MBOE.

<b>COMPANY METRICS - PROVED PLUS PROBABLE</b>	Dec. 31, 2020	Dec. 31, 2019	Three-Year Average
Finding & development costs (F&D) (\$/boe) <sup>(1)</sup>	Not meaningful <sup>(3)</sup>	14.26	20.47
Finding, development & acquisition costs (\$/boe) <sup>(1)</sup>	Not meaningful <sup>(3)</sup>	13.85	28.49
Operating netback (\$/boe) <sup>(2)</sup>	14.85	29.19	23.51
Recycle ratio - F&D	Not meaningful <sup>(3)</sup>	2.0x	1.1x
Recycle ratio - FD&A	Not meaningful <sup>(3)</sup>	2.1x	0.8x

(1) Non-GAAP measure, see page 19 for details

(2) Recycle ratio is based on 2020 operating netback of \$12.79/boe plus other income of \$2.06/boe (processing and royalty income).

(3) For 2020, if reserve additions were to exclude proved plus probable economic factors of 3,433 MBOE then the proved plus probable F&D as well as FD&A would be \$23.99 and the associated proved plus probable recycle ratio for F&D and FD&A would be 0.6x.

<b>RESERVES RECONCILIATION (MBOE)</b>	Total Proved	Total Proved plus Probable
December 31, 2019	33,014	44,437
Infill drilling and extensions	2,317	3,219
Acquisitions/Dispositions	-	-
Improved recovery - Waterflood	1,242	1,633
Economic Factors	(5,127)	(3,433)
Technical revisions	(465)	(2,240)
Production	(2,791)	(2,791)
<b>DECEMBER 31, 2020</b>	<b>28,190</b>	<b>40,825</b>

## SALES VOLUMES

Sales volumes averaged 7,626 boe/d during the year ended December 31, 2020 compared to 8,738 boe/d for the year ended December 31, 2019. The decrease in sales volumes from the year ended December 31, 2019 is due to a combination of natural declines and a substantial reduction in drilling year over year. During the year ended December 31, 2020, Karve brought on 23 gross (22.84 net) horizontal Viking oil wells while over the same period in 2019, Karve brought on 51 gross (50.5 net) horizontal Viking oil wells. Average Company production is approximately 7,600 boe/d (62% liquids) for the first week of March 2021.

<b>AVERAGE SALES VOLUMES</b>	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Oil (bbl/d)	4,845	5,764
Natural gas liquids (bbl/d)	301	288
Natural gas (mcf/d)	14,881	16,113
<b>TOTAL SALES VOLUMES (boe/d)</b>	<b>7,626</b>	<b>8,738</b>

## SALES PRICES AND REVENUE

For the year ended December 31, 2020, the Company generated total revenue of \$88.1 million (year ended December 31, 2019 - \$147.8 million) on average sales volumes of 7,626 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the year ended December 31, 2020 was \$31.56 compared to \$46.35 for the year ended December 31, 2019. The decrease in average sales price during 2020 is primarily the result of the significant decrease to crude oil prices caused by the global over supply of crude oil and the demand destruction resulting from COVID-19.



<b>KARVE AVERAGE REALIZED PRICE <sup>(1)</sup></b>	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Revenue (\$000s)	88,105	147,809
Oil (\$/bbl)	41.40	63.54
NGLs (\$/bbl)	26.59	38.20
Natural gas (\$/mcf)	2.16	1.72
<b>Karve realized price (\$/boe)</b>	<b>31.56</b>	<b>46.35</b>
<b>AVERAGE BENCHMARK PRICES <sup>(2)</sup></b>		
Crude oil - WTI (\$US/bbl)	39.40	57.02
Crude oil - Canadian light sweet (\$CDN/bbl)	45.39	68.87
Natural gas - AECO-C spot (\$CDN/mcf)	2.24	1.76
Exchange Rate - (\$US/\$CAD)	0.75	0.75

(1) Excludes hedging gains and losses.

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

## 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.

At December 31, 2020, the Company had the following commodity contracts in place:

Type	Term	Basis <sup>(1)</sup>	Volume (Bbl/d)	Swap Price (\$CAD/Bbl) <sup>(1)</sup>	Current Liability (\$000s)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.00	(529)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	58.25	(324)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	55.95	(532)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.50	(483)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.00	(529)
<b>TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021</b>			<b>2,500</b>	<b>56.54</b>	<b>(2,397)</b>

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

At December 31, 2020 the fair value of the financial derivative contracts was a current liability position of \$2.4 million resulting in an unrealized loss of \$2.4 million for the year ended December 31, 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 December 31, 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 \$4.9 million and a \$5.00 USD decrease in WTI would result in an unrealized gain or derivative asset of \$109,000. The Company did not have any commodity contracts in place at December 31, 2019.

As at March 23, 2021 the fair value of the financial derivative contracts was a current derivative liability position of \$7.1 million.

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

(\$000s)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Unrealized (loss) gain on financial derivative contracts	(2,397)	(531)
Realized gain on financial derivative contracts	544	754
<b>(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS</b>	<b>(1,853)</b>	<b>223</b>

The Company had an unrealized loss of \$2.4 million for the year ended December 31, 2020 (December 31, 2019 - \$531,000 unrealized loss). The Company recognized a realized gain of \$544,000 for the year ended December 31, 2020 (December 31, 2019 - \$754,000 realized gain).

On January 25, 2021, the Company entered into a fixed price differential contract, effective March 1, 2021 at a differential price of Mixed Sweet Blend minus \$4.85 USD per barrel. The contract is for a total volume of 306,000 barrels (1,000 barrels per day), with a termination date of December 31, 2021.

On February 9, 2021, the Company entered into a fixed price differential contract, effective April 1, 2021 at a differential price of Mixed Sweet Blend minus \$4.41 USD per barrel. The contract is for a total volume of 137,500 barrels (500 barrels per day), with a termination date of December 31, 2021.





## ROYALTIES

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Royalties	6,660	11,669
Royalties as a % of revenue	7.6%	7.9%
Per boe (\$)	2.39	3.66

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2020 was \$6.7 million (\$2.39 per boe) compared to \$11.7 million (\$3.66 per boe) for the year ended December 31, 2019. For the year ended December 31, 2020, the Company's royalty rate was 7.6% of revenues (year ended December 31, 2019 – 7.9%). The decrease in royalties is due to the lower oil commodity price environment during the year ended December 31, 2020 compared to 2019.

## OPERATING EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Operating expense	42,341	46,471
Per boe (\$)	15.17	14.57

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 \$42.3 million (\$15.17 per boe) during the year ended December 31, 2020 and \$46.5 million (\$14.57 per boe) during the year ended December 31, 2019. The increase in operating expenses per boe during the year ended December 31, 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 year.

## TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Transportation expense	3,366	5,171
Per boe (\$)	1.21	1.62

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 \$3.4 million (\$1.21 per boe) during the year ended December 31, 2020 and \$5.2 million (\$1.62 per boe) for the year ended December 31, 2019. This decrease in transportation expense year over year 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 year ended		For the year ended	
	Dec 31, 2020		Dec 31, 2019	
	\$	\$/boe	\$	\$/boe
Revenue	88,105	31.56	147,809	46.35
Royalties	(6,660)	(2.39)	(11,669)	(3.66)
Operating expense	(42,341)	(15.17)	(46,471)	(14.57)
Transportation expense	(3,366)	(1.21)	(5,171)	(1.62)
<b>FIELD NETBACK (\$)<sup>(1)</sup></b>	<b>35,738</b>	<b>12.79</b>	<b>84,498</b>	<b>26.50</b>

(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, 2020	Dec. 31, 2019
Royalty income	2,538	4,544
Processing fee income	3,003	3,878
Other	207	172
Total other income	5,748	8,594
Per boe (\$)	2.06	2.69

Other income for the year ended December 31, 2020 was \$5.7 million (\$2.06 per boe) and \$8.6 million (\$2.69 per boe) for the year ended December 31, 2019. The other income streams from third parties 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 decrease in royalty income for the year ended December 31, 2020 compared to the year ended December 31, 2019 is due to declining production and lower commodity pricing which generates royalty income.

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 year ended December 31, 2020 compared to the year ended December 31, 2019 is primarily due to lower third-party throughput volumes being processed at Karve operated facilities due to market declines in production, and facility turnarounds completed in the third quarter of 2020.

Other income totalling \$207,000 for the year ended December 31, 2020 (December 31, 2019 - \$172,000) 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, 2020 and December 31, 2019:

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Staff and consulting costs	4,613	8,554
Professional fees	368	607
Office and rent costs	1,739	1,875
Other	1,002	1,340
General and administration expense (gross)	7,722	12,376
Capitalized G&A and overhead recovery	(1,496)	(2,207)
Lease liability reclassification	(597)	(495)
General and administration expense (net)	5,629	9,674
Per boe (\$)	2.02	3.03

General and administrative expenses (net) for the year ended December 31, 2020 were \$5.6 million (\$2.02 per boe) and \$9.7 million (\$3.03 per boe) for the year ended December 31, 2019. This decrease in net G&A is due to significant cost cutting measures in light of the commodity environment and government support received. The Company received \$1.6 million in government grants which was recorded as a \$897,000 reduction to G&A expense and \$734,000 as a reduction to operating expenses.

## 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. 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% 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% to 0.7875% based on the Corporation’s debt to EBITDA ratio.

On June 30, 2020, the secured bank credit facilities were renewed to \$65.0 million, comprised of a \$58.0 million Credit Facility and a \$7.0 million 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% 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% to 1.1875% based on the Corporation’s debt to EBITDA ratio. The next annual review date is May 31, 2021.

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 the 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 2, 2021.

On June 19, 2020, the Corporation issued an irrevocable standby letter of credit in favor of a Nova Gas Transmission Ltd. in the amount of \$230,000, thereby reducing the available bank credit facility drawings by the same amount. Subsequent to year end, the letter of credit was increased to \$340,000. This letter of credit will be redetermined on June 19, 2021.

As at December 31, 2020, \$53.4 million (net of unamortized debt issue costs) (December 31, 2019 - \$57.9 million) was drawn on the Credit Facility and \$5.5 million (December 31, 2019 - \$6.0 million) was drawn on the bank operating loan.

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

(\$000s)	As at Dec. 31, 2020	As at Dec. 31, 2019
Credit Facility	53,500	58,000
Less: unamortized debt issue costs	(126)	(142)
<b>LONG TERM DEBT</b>	<b>53,374</b>	<b>57,858</b>
Bank operating loan	5,513	5,956
<b>TOTAL BANK DEBT</b>	<b>58,887</b>	<b>63,814</b>

Financing expense for the year ended December 31, 2020 and 2019 is comprised of the following:

(\$000s)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Credit facility interest and charges	2,077	1,594
Operating loan interest and charges	93	204
Amortization of debt issue costs	176	256
Interest on lease liability	36	58
<b>FINANCING EXPENSES</b>	<b>2,382</b>	<b>2,112</b>

For the year ended December 31, 2020, the effective interest rate on the credit facility was 4.45% percent. Key covenants of the bank credit facilities include standard business operating covenants. As at December 31, 2020 the Company is in compliance with all covenants.

## SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Share-based compensation - options	3,131	2,556
Share-based compensation - performance warrants	2,593	2,978
Share-based compensation expense	5,724	5,534
Per boe (\$)	2.05	1.74

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, 2020 was \$3.1 million (year ended December 31, 2019 - \$2.6 million) and SBC expense related to performance warrants for the year ended December 31, 2020 was \$2.6 million (year ended December 31, 2019 - \$3.0 million) using the graded vesting method. There were nil stock options exercised during the year ended December 31, 2020.

As at December 31, 2020, 13,848,260 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 December 31, 2020, 10,814,351 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, 2020, DD&A expense decreased to \$50.2 million (\$18.00 per boe) from \$59.4 million (\$18.63 per boe) during the year ended December 31, 2019. This decrease of 15% is primarily due to the 12% reduction in 2020 production compared to 2019.

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Depletion	49,736	58,915
Depreciation and amortization	511	489
Total DD&A (\$)	50,247	59,404
Per boe (\$)	18.00	18.63

## 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, 2020 at 24% (December 31, 2019 – 26.5%).

A reconciliation to the differences is as follows:

(\$000s)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Net income before taxes	(28,738)	23,468
Combined federal and provincial tax rate	24.0%	26.5%
Computed "expected" tax expense (recovery)	(6,897)	6,219
Increase (decrease) in taxes due to:		
Permanent differences	1,374	(1,095)
Change in tax rate	2,507	(2,219)
Other	-	(1,423)
True-up	62	(1,893)
<b>TOTAL INCOME TAX (RECOVERY)</b>	<b>(2,954)</b>	<b>(411)</b>
Current income tax	-	-
Deferred income tax (recovery)	(2,954)	(411)
<b>TOTAL INCOME TAX (RECOVERY)</b>	<b>(2,954)</b>	<b>(411)</b>

The following table summarizes Karve’s net deferred income tax asset at December 31, 2020:

	Balance at Jan. 1, 2020	Recognized in Income (Loss)	Recognized in Other	Balance at Dec. 31, 2020
Non-capital losses	11,608	10,855	-	22,463
Share issue costs	254	255	-	509
PP&E and E&E assets	(9,526)	(8,678)	-	(18,204)
Other	45	522	-	567
<b>TOTAL DEFERRED INCOME TAX ASSET</b>	<b>2,381</b>	<b>2,954</b>	<b>-</b>	<b>5,335</b>

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, 2020, the deferred tax asset was \$5.3 million (as at December 31, 2019 deferred tax asset - \$2.4 million) resulting in a deferred tax recovery for the year ended December 31, 2020 of \$3.1 million (year ended December 31, 2019 – deferred tax recovery of \$411,000). The Company’s non-capital losses expire between 2034 and 2040.



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)	Corporate Acquisition Recognized	Balance at Dec. 31, 2019
Non-capital losses	3,090	641	7,877	11,608
Share issue costs	408	(154)	-	254
PP&E and E&E assets	(15,418)	55	5,837	(9,526)
Other	57	(131)	119	45
<b>TOTAL DEFERRED INCOME TAX ASSET (LIABILITY)</b>	<b>(11,863)</b>	<b>411</b>	<b>13,833</b>	<b>2,381</b>

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

(\$000s)	As at Dec. 31, 2020	As at Dec. 31, 2019
Non-capital losses	97,666	63,128
Canadian exploration expense	201	201
Canadian development expense	120,707	131,431
Canadian oil and gas property expense	92,325	102,418
Capital cost allowance	68,221	82,491
Share issue costs	1,387	2,119
<b>TOTAL TAX POOLS AVAILABLE FOR DEDUCTION</b>	<b>380,507</b>	<b>381,788</b>

## CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the December 31, 2020 consisted of the following:

(\$000s)	For the year ended	
	Dec. 31, 2020	Dec. 31, 2019
Drilling	11,023	13,779
Completions	9,293	18,906
Facilities and well equipment	9,385	36,831
Land	1,129	1,188
Acquisitions	-	3,742
Other	166	141
<b>TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS</b>	<b>30,996</b>	<b>74,587</b>

During the year ended December 31, 2020, the Company drilled 23 gross (22.8 net) wells and completed 23 gross (22.8 net) horizontal Viking oil wells. 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.

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

For the quarter ended	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019
Drilled - Gross (Net)	5 (4.9)	0 (0.0)	0 (0.0)	18 (17.9)	4 (4)
Completed - Gross (Net)	5 (4.9)	7 (6.9)	0 (0.0)	11 (11.0)	15 (14.9)
On production - Gross (Net)	5 (4.9)	7 (6.9)	0 (0.0)	11 (11.0)	15 (14.9)

For the quarter ended	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018
Drilled - Gross (Net) <sup>(1)</sup>	22 (21.9)	0 (0.0)	5 (5.0)	21 (20.5)	52 (49.1)
Completed - Gross (Net)	10 (10.0)	14 (13.7)	12 (11.9)	9 (8.5)	49 (46.1)
On production - Gross (Net)	10 (10.0)	14 (13.7)	12 (11.9)	19 (18.3)	44 (41.2)

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

Since November 2016, the Company drilled a total of 245 gross (239.6 net) and completed and brought on 241 gross (236.5 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)
<b>FAIR VALUE OF NET ASSETS ACQUIRED</b>	<b>19,581</b>

### CONSIDERATION

Issue of common shares	8,798
<b>TOTAL PURCHASE PRICE</b>	<b>8,798</b>
<b>GAIN ON ACQUISITION</b>	<b>(10,783)</b>

The gain on acquisition resulted from deferred tax assets which are required to be recognised at an undiscounted amount and therefore not reflective of fair value.

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.

### 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 \$111,000.

### DECOMMISSIONING LIABILITY

At December 31, 2020, the Company estimated a decommissioning liability of \$21.7 million for the future abandonment and reclamation of Karve's properties (December 31, 2019 – \$19.2 million). \$2.5 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining \$19.2 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 \$176.5 million (\$101.0 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 year ended December 31, 2020 relates to an increase to the credit adjusted discount rate, combined with changes in timing of certain abandonments and reclamations.



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 up to \$4.5 million in SRP funding. To date the Company has received \$251,000 in SRP costs.

## SHARE CAPITAL

(\$000s except for share amounts)	Number	Amount
<b>Common Shares</b>		
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
<b>BALANCE AT DECEMBER 31, 2019 and DECEMBER 31, 2020</b>	<b>140,529,665</b>	<b>225,158</b>

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, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020
Petroleum and natural gas sales	23,521	23,314	13,323	27,947
Funds flow from operations <sup>(1)</sup>	7,786	8,487	4,811	12,459
Adjusted funds flow from operations <sup>(1)</sup>	7,883	8,837	4,900	12,689
<b>AVERAGE SALES VOLUMES</b>				
Oil (bbl/d)	4,539	4,755	4,572	5,520
Natural gas liquids (bbl/d)	292	322	292	299
Natural gas (Mcf/d)	14,095	14,596	15,268	15,577
<b>TOTAL PRODUCTION (BOE/d)</b>	<b>7,180</b>	<b>7,510</b>	<b>7,409</b>	<b>8,415</b>
<b>AVERAGE BENCHMARK PRICES</b>				
Crude oil - WTI (\$US/bbl)	42.66	40.93	27.84	46.17
Crude oil - Canadian light sweet (\$CDN/bbl)	49.17	49.05	31.45	52.02
Natural gas - AECO-C spot (\$CDN/mcf)	2.65	2.27	2.01	2.03
Exchange Rate - (\$US/\$CAD)	0.77	0.75	0.72	0.74
<b>FIELD NETBACK (\$/BOE)</b>				
Revenue	35.61	33.74	19.76	36.50
Royalties	(2.59)	(2.47)	(1.47)	(2.94)
Operating expense	(17.79)	(15.72)	(12.75)	(14.53)
Transportation expense	(1.04)	(1.16)	(1.11)	(1.47)
<b>FIELD NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>14.19</b>	<b>14.39</b>	<b>4.43</b>	<b>17.56</b>
General and administration	(2.07)	(1.70)	(2.04)	(2.24)
Other income	2.36	2.09	1.91	2.00
Interest expense	(0.91)	(0.83)	(0.63)	(0.75)
Realized hedging	(1.64)	(1.16)	3.60	-
<b>CASHFLOW NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>11.93</b>	<b>12.79</b>	<b>7.27</b>	<b>16.57</b>

(1) Non-GAAP measure, see Page 19 for details.



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 <sup>(1)</sup>	19,040	20,300	19,696	18,869
Adjusted funds flow from operations <sup>(1)</sup>	20,532	21,464	21,162	19,330
<b>AVERAGE SALES VOLUMES</b>				
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
<b>TOTAL PRODUCTION (BOE/d)</b>	<b>9,275</b>	<b>9,426</b>	<b>8,134</b>	<b>8,093</b>
<b>AVERAGE BENCHMARK PRICES</b>				
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
<b>FIELD NETBACK (\$/BOE)</b>				
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)
<b>FIELD NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>24.90</b>	<b>25.41</b>	<b>28.93</b>	<b>27.17</b>
General and administration	(3.03)	(2.94)	(3.24)	(2.95)
Other income	2.37	2.43	3.34	2.73
Interest (expense)	(0.57)	(0.61)	(0.44)	(0.41)
Realized hedging	0.41	0.46	-	-
<b>CASHFLOW NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>24.08</b>	<b>24.75</b>	<b>28.59</b>	<b>26.54</b>

(1) Non-GAAP measure, see Page 19 for details.

## NET INCOME (LOSS) SUMMARY

(\$000s, except per boe amounts)	For the year ended Dec. 31, 2020		For the year ended Dec. 31, 2019	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	88,105	31.56	147,809	46.35
Royalties	(6,660)	(2.39)	(11,669)	(3.66)
<b>NET REVENUE</b>	<b>81,445</b>	<b>29.17</b>	<b>136,140</b>	<b>42.69</b>
Other income	5,748	2.06	8,594	2.69
Gain on financial derivative contracts	(1,853)	(0.66)	223	0.07
Gain on acquisition	-	-	10,783	3.38
Loss on investment	-	-	(1,565)	(0.49)
Interest income	-	-	140	0.04
<b>TOTAL REVENUE AND OTHER INCOME</b>	<b>85,340</b>	<b>30.57</b>	<b>154,315</b>	<b>48.38</b>
Operating	42,341	15.17	46,471	14.57
Transportation	3,366	1.21	5,171	1.62
General and administration	5,629	2.02	9,674	3.03
Financing	2,382	0.85	2,112	0.66
Depletion, depreciation and amortization	50,247	18.00	59,404	18.63
Accretion	1,545	0.55	814	0.26
Share-based compensation	5,724	2.05	5,534	1.74
Exploration and evaluation - expiries	2,844	1.02	1,368	0.43
Transaction costs	-	-	299	0.09
<b>(LOSS) INCOME FROM OPERATIONS BEFORE TAXES</b>	<b>(28,738)</b>	<b>(10.30)</b>	<b>23,468</b>	<b>7.35</b>
Deferred income tax recovery	(2,954)	(1.06)	(411)	(0.14)
<b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>	<b>(25,784)</b>	<b>(9.24)</b>	<b>23,879</b>	<b>7.49</b>





## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2020 are as follows:

(\$000s)	2021	2022	Thereafter	Total
Operating leases	118	-	-	118
Pipeline transportation	1,449	985	1,005	3,439
<b>TOTAL COMMITMENTS</b>	<b>1,567</b>	<b>985</b>	<b>1,005</b>	<b>3,557</b>

## 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, 2020	Dec. 31, 2019
Share-based compensation benefit	3,085	2,575
Salaries and benefits	1,676	3,182
<b>TOTAL KEY MANAGEMENT COMPENSATION</b>	<b>4,761</b>	<b>5,757</b>

### b) Other Related Party Transactions

PrivateCo was a company with some common directors with Karve. On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of \$1.0 million and the Karve staff resigned from the PrivateCo Board of Directors (NOTE 8). 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 from PrivateCo, 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, 2020, there were 140,529,665 common shares outstanding (December 31, 2019 – 140,529,665).

As at March 24, 2021, the date of this MD&A, there were 140,529,665 common shares, 14,048,260 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, 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.

## CHANGES IN ACCOUNTING POLICY

### Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions with the grant are met. Grants related to assets are recorded as a reduction to the asset's carrying value and are depreciated over the

useful life of the asset. Claims under such government grant programs related to income are recorded as a deduction of the related expense.

## **SUBSEQUENT EVENTS**

On January 25, 2021, the Company entered into a fixed price differential contract, effective March 1, 2021 at a differential price of Mixed Sweet Blend minus \$4.85 USD per barrel. The contract is for a total volume of 306,000 barrels (1,000 barrels per day), with a termination date of December 31, 2021.

On February 9, 2021, the Company entered into a fixed price differential contract, effective April 1, 2021 at a differential price of Mixed Sweet Blend minus \$4.41 USD per barrel. The contract is for a total volume of 137,500 barrels (500 barrels per day), with a termination date of December 31, 2021.

Subsequent to December 31, 2020, 200,000 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, 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 year ended	
	Dec. 31, 2020	Dec. 31, 2019
<b>Cash flow from continuing operations</b>	42,236	71,004
Change in non-cash working capital from operating activities	(8,693)	6,901
<b>FUNDS FLOW FROM OPERATIONS</b>	<b>33,543</b>	<b>77,905</b>
Transaction costs	-	299
Decommissioning expenditures	766	4,284
<b>ADJUSTED FUNDS FLOW FROM OPERATIONS</b>	<b>34,309</b>	<b>82,488</b>

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.

**CORPORATE INFORMATION**

**HEAD OFFICE**

Karve Energy Inc.  
1700, 205 5th Avenue SW  
Calgary, Alberta T2P 2V7  
(587) 393-8301

**BANKERS**

ATB Financial  
600, 444 7 AVE SW  
Calgary, Alberta T2P 0X8  
Candian Imperial Bank of Commerce  
9th Floor, Bankers Hall East Tower, 855-2nd Street SW  
Calgary, Alberta T2P 4J7  
Scotiabank  
Suite 1700, 225 6th Ave SW  
Calgary, Alberta T2P 1N2

**RESERVE ENGINEERS**

Sproule Associates Limited  
900, 140 4 AVE SW  
Calgary, Alberta T2P 3N3

**LEGAL COUNSEL**

Stikeman Elliot LLP  
888, 3 Street SW  
Calgary, Alberta T2P 5C5

**AUDITORS**

PricewaterhouseCoopers LLP  
3100, 111 5 AVE SW  
Calgary, Alberta T2P 5L3

**TRANSFER AGENT**

Odyssey Trust Company  
1230, 300 5th Avenue SW  
Calgary, Alberta T2P 3C4

<sup>A</sup> Denotes member of the Audit Committee.

<sup>R</sup> Denotes member of the Reserves Committee.

<sup>C</sup> Denotes member of the Compensation Committee.

**DIRECTORS**

Donald Engle<sup>A C</sup>  
Chairman, Independent Businessman  
Bob Chaisson  
Karve Energy Inc.  
Howard Crone<sup>A R</sup>  
Independent Businessman  
James (Pep) Lough<sup>A C</sup>  
Independent Businessman  
Steven Smith<sup>A</sup>  
Independent Businessman  
Daryl Gilbert<sup>R</sup>  
JOG Capital Corp.  
Dave Pearce<sup>R C</sup>  
Azimuth Capital Management  
Mitch Putnam<sup>R C</sup>  
32 Degrees Capital

**OFFICERS**

Bob Chaisson  
Chief Executive Officer  
Derek Kreba  
President  
Ken McNeill  
Executive Vice President, Corporate Development  
Shane Helwer  
Vice President, Finance & Chief Financial Officer  
Silas Ehlers  
Vice President, Exploration  
Justin Crawford  
Vice President, Operations  
Clifford Brown  
Vice President, Engineering  
Sony Gill  
Corporate Secretary

**FOR MORE INFORMATION, PLEASE CONTACT:**

Bob Chaisson  
Chief Executive Officer  
587-393-8308  
bob.chaisson@karveenergy.com

Shane Helwer  
Vice President, Finance & Chief Financial Officer  
587-393-8302  
shane.helwer@karveenergy.com