MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2021 AND MARCH 31, 2020

LETTER TO OUR SHAREHOLDERS **May 12, 2021**

Dear Shareholder:

We are pleased to update you on Karve's progress since our March 24, 2021 letter to shareholders.

In the first quarter of 2021 oil prices recovered and began to stabilize from the pricing uncertainty caused by the COVID-19 pandemic in 2020. Despite the global industry challenges that Karve has had to face, the Company has operated efficiently and executed a flexible and disciplined capital allocation strategy to maintain its strong financial position. The Company's current production is 7,200 boe/d.

In the first quarter of 2021, the Company drilled, completed and brought on production 11 gross (11.0 net) horizontal wells. The Company incurred capital expenditures for the three months ended March 31, 2021 of $12.2 million. Since November 2016, the Company drilled a total of 256 gross (250.6 net) and completed and brought on 252 gross (247.5 net) oil wells on production.

For the three months ended March 31, 2021, the Company produced an average of 6,465 boe/d (67% liquids) and reported a field operating netback of $23.78 per boe. Production and cash flow in the quarter was lower than anticipated due to extremely cold periods for most of the month of February 2021. However, due to improved pricing, the Company's field operating netback increased 68% from the fourth quarter of 2020. Despite the lower production due to cold weather, the Company generated adjusted funds flow from operations of $8.5 million (net of hedging losses of $3.7MM) which is an 8% increase from the three months ended December 31, 2020.

With the recent increase in commodity prices in 2021, Karve is planning a 2021 capital expenditure program of $74.1 million. The capital program consists of $55 million to drill and complete 54 horizontal Viking oil wells, $12.6 million on waterflood, $3.7 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 $4.8 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.

Through these evolving and volatile times, Karve continues to maintain a flexible and disciplined capital allocation strategy, with a focus on maintaining a strong financial position. Karve has 2,500 bbl/d hedged at a price of $56.54 CAD per barrel to June 30, 2021. In addition, the Company entered into an MSW ("mixed sweet blend") hedge for 1,500 bbl/d at minus $4.70 CAD per barrel to December 31, 2021. In early May, Karve purchased Put options, providing a floor for 1,000 bbl/d for the second half of 2021 at $60.00 CAD WTI.

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.

Enclosed are the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2021. 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 and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2021 to March 31, 2021. It is dated May 12, 2021 and should be read in conjunction with the unaudited consolidated financial statements for the three ended March 31, 2021 and the audited consolidated financial statements for the year ended December 31, 2020. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

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

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Mar. 31, 2021	Mar. 31, 2020
Net loss	(4,838)	(104)
Per share - basic	(0.03)	-
Per share - diluted	(0.03)	-
Funds flow from operations (1)	8,076	12,459
Per share - basic (1)	0.06	0.09
Per share - diluted (1)	0.06	0.09
Adjusted funds flow from operations (1)	8,546	12,689
Per share - basic (1)	0.06	0.09
Per share - diluted (1)	0.06	0.09
Capital expenditures (before acquisitions and dispositions)	12,245	18,996
Adjusted (net debt) (1)	(58,655)	(62,638)
Total assets	362,148	382,633
Shares outstanding, weighted average (000s)	140,530	140,530
Shares outstanding, end of period (000s)	140,530	140,530
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	4,120	5,520
NGLs (bbl/d)	229	299
Natural gas (mcf/d)	12,695	15,577
Total (boe/d)	**6,465**	**8,415**
Average sales prices (excluding hedging gains and losses)		
Oil ($/bbl)	62.28	47.95
NGLs ($/bbl)	48.22	31.59
Natural gas ($/mcf)	3.02	2.12
Boe basis ($/boe)	**47.32**	**36.50**
Field netback ($/boe excluding hedging gains and losses)		
Sales price	47.32	36.50
Royalties	(3.61)	(2.94)
Operating expense	(19.06)	(14.53)
Transportation expense	(0.87)	(1.47)
Field netback (1)	**23.78**	**17.56**

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

SALES VOLUMES

Sales volumes averaged 6,465 boe/d during the three months ended March 31, 2021 compared to 8,415 boe/d for the three months ended March 31, 2020. The decrease in sales volumes compared to the three months ended March 31, 2020 is due to a combination of natural declines and a substantial reduction in drilling period over period. During the period from April 1, 2020 to March 31, 2021, Karve maintained financial discipline by reducing its capital expenditure program and brought on 23 gross (22.8 net) horizontal Viking oil wells while over the period from April 1, 2019 to March 31, 2020, Karve brought on 52 gross (50.2 net) horizontal Viking oil wells. Average Company production is approximately 7,200 boe/d (62% liquids) for the first week of May 2021.

	For the three months ended	
	Mar. 31, 2021	Mar. 31, 2020
Sales volumes		
Oil (bbl/d)	4,120	5,520
NGLs (bbl/d)	229	299
Natural gas (mcf/d)	12,695	15,577
Total (boe/d)	**6,465**	**8,415**

SALES PRICES AND REVENUE

For the three months ended March 31, 2021, the Company generated total revenue of $27.5 million (three months ended March 31, 2020 - $27.9 million) on average sales volumes of 6,465 boe/d. Revenue is recorded before transportation expenses. The slight decrease in revenue period over period is due to the increase in average sales price, offset by lower production for the three months ended March 31, 2021. The average sales price per boe for the three months ended March 31, 2021 was $47.32 compared to $36.50 for the three months ended March 31, 2020. The increase in average sales price during the three months ended March 31, 2021 is due to pricing and demand increases as the recovery from the COVID-19 pandemic continues.

	For the three months ended	
KARVE AVERAGE REALIZED PRICE (1)	Mar. 31, 2021	Mar. 31, 2020
Revenue ($000s)	27,535	27,947
Oil ($/bbl)	62.28	47.95
NGLs ($/bbl)	48.22	31.59
Natural gas ($/mcf)	3.02	2.12
Karve realized price ($/boe)	**47.32**	**36.50**
AVERAGE BENCHMARK PRICES (2)		
Crude oil - WTI ($US/bbl)	57.84	46.17
Crude oil - Canadian light sweet ($CDN/bbl)	68.62	52.02
Natural gas - AECO-C spot ($CDN/mcf)	3.13	2.03
Exchange Rate - ($US/$CAD)	0.79	0.74

(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 March 31, 2021, the Company had the following commodity contracts in place:

Type	Term	Basis [1]	Volume (Bbl/d)	Swap Price ($CAD/Bbl)[1]	Current Liability ($000s)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	58.25	(726)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	55.95	(830)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.50	(806)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.00	(829)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.00	(829)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021			**2,500**	**56.54**	**(4,020)**

(1) Nymex WTI monthly average in $CAD.

Type	Term	Basis	Volume (Bbl/d)	Swap Price ($USD/Bbl)	Current Liability ($000s)
Fixed price differential	Mar. 1/21 - Dec. 31/21	MSW	1,000	(4.85)	(493)
Fixed price differential	Apr. 1/21 - Dec. 31/21	MSW	500	(4.40)	(169)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021			**1,500**	**(4.70)**	**(662)**

At March 31, 2021 the fair value of the financial derivative contracts was a current liability position of $4.7 million resulting in an unrealized loss of $2.3 million for the three months ended March 31, 2021 (three months ended March 31, 2020 – unrealized gain of $4.4 million). 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 March 31, 2021 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 of $3.4 million and a derivative liability of $5.8 million. A $5.00 USD decrease in WTI would result in an unrealized loss of $1.1 million or a derivative liability of $3.5 million.

Subsequent to March 31, 2021, the Company entered into the following derivative contract:

Type	Term	Basis [1]	Volume (Bbl/d)	Sold Put Price ($CAD/Bbl)
Put option	Jul. 1/21 - Dec. 31/21	WTI	1,000	60.00
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,000**	**60.00**

(1) Nymex WTI monthly average in $CAD.

As at May 11, 2021 the fair value of the financial derivative contracts was a current derivative liability position of $5.2 million.

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

	For the three months ended	
($000s)	Mar. 31, 2021	Mar. 31, 2020
Unrealized (loss) gain on financial derivative contracts	(2,285)	4,393
Realized (loss) on financial derivative contracts	(3,761)	-
(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**(6,046)**	**4,393**

The Company recognized a realized loss of $3.8 million for the three months ended March 31, 2021 (three months ended March 31, 2020 - $nil).

ROYALTIES

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2021	Mar. 31, 2020
Royalties	2,101	2,252
Royalties as a % of revenue	7.6%	8.1%
Per boe ($)	3.61	2.94

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2021 was $2.1 million ($3.61 per boe) compared to $2.3 million ($2.94 per boe) for the three months ended March 31, 2020. For the three months ended March 31, 2021, the Company's royalty rate was 7.6% of revenues (three months ended March 31, 2020 –

8.1%). The decrease in royalties is due to lower production volumes and offset by higher average pricing during the first quarter of 2021.

OPERATING EXPENSE

($000s, except per boe amounts)	For the three months ended Mar. 31, 2021	Mar. 31, 2020
Operating expense	11,090	11,127
Per boe ($)	19.06	14.53

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 $11.1 million ($19.06 per boe) during the three months ended March 31, 2021 and $11.1 million ($14.53 per boe) during the three months ended March 31, 2020. The majority of the Company's operating costs are fixed in nature therefore operating expenses are consistent period over period. The increase in operating expenses per boe is due to the reduction in production levels during the first quarter of 2021 compared to 2020.

TRANSPORTATION EXPENSE

($000s, except per boe amounts)	For the three months ended Mar. 31, 2021	Mar. 31, 2020
Transportation expense	508	1,128
Per boe ($)	0.87	1.47

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 $508,000 ($0.87 per boe) during the three months ended March 31, 2021 and $1.1 million ($1.47 per boe) for the three months ended March 31, 2021. This decrease in transportation expense period over period is primarily due to lower production volumes and 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:

	For the three months ended Mar. 31, 2021		For the three months ended Mar. 31, 2020	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	27,535	47.32	27,947	36.50
Royalties	(2,101)	(3.61)	(2,252)	(2.94)
Operating expense	(11,090)	(19.06)	(11,127)	(14.53)
Transportation expense	(508)	(0.87)	(1,128)	(1.47)
FIELD NETBACK ($) (1)	**13,836**	**23.78**	**13,440**	**17.56**

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

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

OTHER INCOME

($000s, except per boe amounts)	For the three months ended Mar. 31, 2021	Mar. 31, 2020
Royalty income	873	723
Processing fee income	663	786
Other	37	136
Total other income	1,573	1,645
Per boe ($)	2.70	2.15

Other income for the three months ended March 31, 2021 was $1.6 million ($2.70 per boe) and $1.6 million ($2.15 per boe) for the three months ended March 31, 2020. 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 increase in royalty income for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 is due to the increase in commodity prices 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 three months ended March 31, 2021 compared to the three months ended March 31, 2020 is primarily due to lower third-party throughput volumes being processed at Karve operated facilities due to market declines in production.

Other income totalling $37,000 for the three months ended March 31, 2021 (three months ended March 31, 2020 - $136,000) 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 three months ended March 31, 2021 and March 31, 2020:

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2021	Mar. 31, 2020
Staff and consulting costs	2,374	1,590
Professional fees	97	102
Office and rent costs	435	473
Other	238	232
General and administration expense (gross)	3,144	2,397
Capitalized G&A and overhead recovery	(460)	(544)
Lease liability reclassfication	(164)	(138)
General and administration expense (net)	2,520	1,715
Per boe ($)	4.33	2.24

General and administrative expenses (net) for the three months ended March 31, 2021 were $2.5 million ($4.33 per boe) and $1.7 million ($2.24 per boe) for the three months ended March 31, 2020. This increase in net G&A is due to the payment of staff bonuses offset by significant cost cutting measures that began in March 2020 and government support received. For the three months ended March 31, 2021, the Company received $329,000 million in government grants which was recorded as a $223,000 reduction to G&A expense and $106,000 as a reduction to operating expenses.

OPERATING LOAN AND LONG TERM DEBT

The Company has secured bank credit facilities of $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 and shown as long term debt on the Company's balance sheet. The operating loan is shown as a current liability. The Credit Facility and operating loan 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.

As at March 31, 2021, $56.4 million (net of unamortized debt issue costs) (December 31, 2020 - $53.4 million) was drawn on the Credit Facility and $3.8 million (December 31, 2020 - $5.5 million) was drawn on the operating loan.

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. The letter of credit was increased to $340,000 on February 5, 2021. Subsequent to March 31, 2021, the letter of credit was further increased to $400,000. This letter of credit will be redetermined on June 19, 2021.

Long term debt and bank operating loan as at March 31, 2021 and December 31, 2020 is as follows:

($000s)	As at Mar. 31, 2021	As at Dec. 31, 2020
Credit Facility	56,500	53,500
Less: unamortized debt issue costs	(104)	(126)
LONG TERM DEBT	**56,396**	**53,374**
Operating loan	3,798	5,513
TOTAL BANK DEBT	**60,194**	**58,887**

Financing expense for the three months ended March 31, 2021 and 2020 is comprised of the following:

	For the three months ended	
($000s)	Mar. 31, 2021	Mar. 31, 2020
Credit facility interest and charges	565	552
Operating loan interest and charges	22	26
Amortization of debt issue costs	22	74
Interest on lease liability	8	9
FINANCING EXPENSES	**617**	**661**

For the three months ended March 31, 2021, the effective interest rate on the credit facility was 4.3% percent (three months ended March 31, 2020 – 3.9%). Key covenants of the bank credit facilities include standard business operating covenants. As at March 31, 2021, the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2021	Mar. 31, 2020
Share-based compensation - options	349	822
Share-based compensation - performance warrants	331	758
Share-based compensation expense	680	1,580
Per boe ($)	1.17	2.06

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

SBC expense related to stock options for the three months ended March 31, 2021 was $349,000 (three months ended March 31, 2020 – 822,000) and SBC expense related to performance warrants for the three months ended March 31, 2021 was $331,000 million (three months ended March 31, 2020 - $758,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended March 31, 2021 or 2020.

As at March 31, 2021 14,048,260 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 $0.88 per option and $0.47 per warrant.

At March 31, 2021, 10,914,351 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 three months ended March 31, 2021, DD&A expense decreased to $10.5 million ($18.09 per boe) from $13.5 million ($17.58 per boe) during the three months ended March 31, 2020. This decrease of 22% in DD&A expense is primarily due to the 30% reduction in 2021 production compared to 2020, offset by a higher depletable capital base.

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2021	Mar. 31, 2020
Depletion	10,396	13,344
Depreciation and amortization	130	121
Total DD&A ($)	10,526	13,465
Per boe ($)	18.09	17.58

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended March 31, 2021 consisted of the following:

	For the three months ended	
($000s)	Mar. 31, 2021	Mar. 31, 2020
Drilling	5,266	7,937
Completions	4,302	5,142
Facilities and well equipment	2,457	5,784
Land	220	133
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**12,245**	**18,996**

During the three months ended March 31, 2021, the Company drilled 11 gross (11.0 net) wells and completed 11 gross (11.0 net) oil wells. During the three months ended March 31, 2020, the Company drilled 18 gross (17.9 net) wells and completed 11 gross (11.0 net) horizontal Viking oil wells.

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

For the quarter ended	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020
Drilled - Gross (Net) (1)	11 (11.0)	6 (5.9)	0 (0.0)	0 (0.0)	18 (17.9)
Completed - Gross (Net)	11 (11.0)	5 (4.9)	7 (6.9)	0 (0.0)	11 (11.0)
On production - Gross (Net)	11 (11.0)	5 (4.9)	7 (6.9)	0 (0.0)	11 (11.0)

For the quarter ended	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018
Drilled - Gross (Net)	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.

Since November 2016, the Company drilled a total of 256 gross (250.6 net) and completed and brought on 252 gross (247.5 net) oil wells on production.

DECOMMISSIONING LIABILITY

At March 31, 2021, the Company estimated a decommissioning liability of $21.3 million for the future abandonment and reclamation of Karve's properties (December 31, 2020 – $21.7 million). $2.3 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining $18.9 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 $177.1 million ($101.3 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 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2020 – 11%) and an inflation rate of 2% (December 31, 2020 – 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 $4.8 million in SRP funding. To date the Company has received $786,000 in SRP costs (December 31, 2020 - $251,000).

SHARE CAPITAL

($000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2018	137,269,270	216,208
Issued common shares	3,243,729	8,909
Issued on exercise of options and performance warrants	16,666	27
Allocation of contributed surplus - exercise of options and performance warrants	-	14
BALANCE AT DECEMBER 31, 2019, DECEMBER 31, 2020 and MARCH 31, 2021	**140,529,665**	**225,158**

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended ($000s)	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020
Petroleum and natural gas sales	27,535	23,521	23,314	13,323
Funds flow from operations [1]	8,076	7,786	8,487	4,811
Adjusted funds flow from operations [1]	8,546	7,883	8,837	4,900
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,120	4,539	4,755	4,572
Natural gas liquids (bbl/d)	229	292	322	292
Natural gas (Mcf/d)	12,695	14,095	14,596	15,268
TOTAL PRODUCTION (BOE/d)	**6,465**	**7,180**	**7,510**	**7,409**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	57.84	42.66	40.93	27.84
Crude oil - Canadian light sweet ($CDN/bbl)	68.62	49.17	49.05	31.45
Natural gas - AECO-C spot ($CDN/mcf)	3.13	2.65	2.27	2.01
Exchange Rate - ($US/$CAD)	0.79	0.77	0.75	0.72
FIELD NETBACK ($/BOE)				
Revenue	47.32	35.61	33.74	19.76
Royalties	(3.61)	(2.59)	(2.47)	(1.47)
Operating expense	(19.06)	(17.79)	(15.72)	(12.75)
Transportation expense	(0.87)	(1.04)	(1.16)	(1.11)
FIELD NETBACK ($/BOE) [1]	**23.78**	**14.19**	**14.39**	**4.43**
General and administration	(4.33)	(2.07)	(1.70)	(2.04)
Other income	2.70	2.36	2.09	1.91
Interest expense	(1.01)	(0.91)	(0.83)	(0.63)
Realized hedging	(6.46)	(1.64)	(1.16)	3.60
CASHFLOW NETBACK ($/BOE) [1]	**14.68**	**11.93**	**12.79**	**7.27**

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

For the quarter ended ($000s)	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun 30, 2019
Petroleum and natural gas sales	27,947	39,176	38,535	35,450
Funds flow from operations (1)	12,459	19,040	20,300	19,696
Adjusted funds flow from operations (1)	12,689	20,532	21,464	21,162
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,520	5,965	6,045	5,316
Natural gas liquids (bbl/d)	299	348	317	277
Natural gas (Mcf/d)	15,577	17,774	18,386	15,247
TOTAL PRODUCTION (BOE/d)	**8,415**	**9,275**	**9,426**	**8,134**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	46.17	56.96	56.47	59.84
Crude oil - Canadian light sweet ($CDN/bbl)	52.02	66.77	69.26	72.55
Natural gas - AECO-C spot ($CDN/mcf)	2.03	2.42	0.95	1.05
Exchange Rate - ($US/$CAD)	0.74	0.76	0.76	0.75
FIELD NETBACK ($/BOE)				
Revenue	36.50	45.91	44.44	47.89
Royalties	(2.94)	(3.65)	(3.51)	(3.93)
Operating expense	(14.53)	(15.49)	(13.97)	(13.93)
Transportation expense	(1.47)	(1.87)	(1.55)	(1.10)
FIELD NETBACK ($/BOE) (1)	**17.56**	**24.90**	**25.41**	**28.93**
General and administration	(2.24)	(3.03)	(2.94)	(3.24)
Other income	2.00	2.37	2.43	3.34
Interest expense	(0.75)	(0.57)	(0.61)	(0.44)
Realized hedging	-	0.41	0.46	-
CASHFLOW NETBACK ($/BOE) (1)	**16.57**	**24.08**	**24.75**	**28.59**

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

NET LOSS SUMMARY

	For the three months eneded		For the three months eneded	
		Mar. 31, 2021		Mar. 31, 2020
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	27,535	47.32	27,947	36.50
Royalties	(2,101)	(3.61)	(2,252)	(2.94)
NET REVENUE	**25,434**	**43.71**	**25,695**	**33.56**
Other income	1,573	2.70	1,645	2.15
(Loss) gain on financial derivative contracts	(6,046)	(10.39)	4,393	5.73
TOTAL REVENUE AND OTHER INCOME	**20,961**	**36.02**	**31,733**	**41.44**
Operating	11,090	19.06	11,127	14.53
Transportation	508	0.87	1,128	1.47
General and administration	2,520	4.33	1,715	2.24
Financing	617	1.06	661	0.86
Depletion, depreciation and amortization	10,526	18.09	13,465	17.58
Accretion	596	1.02	384	0.50
Share-based compensation	680	1.17	1,580	2.06
Exploration and evaluation - expiries	507	0.87	915	1.21
(LOSS) INCOME FROM OPERATIONS BEFORE TAXES	**(6,083)**	**(10.45)**	**758**	**0.99**
Deferred income tax (recovery) expense	(1,245)	(2.14)	862	1.13
NET LOSS AND COMPREHENSIVE LOSS	**(4,838)**	**(8.31)**	**(104)**	**(0.14)**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2021 are as follows:

($000s)	2021	2022	Therafter	Total
Operating leases	68	-	-	68
Pipeline transportation	1,092	985	1,005	3,082
TOTAL COMMITMENTS	1,160	985	1,005	3,150

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at March 31, 2021, there were 140,529,665 common shares outstanding (December 31, 2020 – 140,529,665).

As at May 12, 2021, the date of this MD&A, there were 140,529,665 common shares, 13,898,260 stock options and 32,067,500 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 meets 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 March 31, 2021, 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

Subsequent to March 31, 2021, the Company entered into the following derivative contract:

Type	Term	Basis [1]	Volume (Bbl/d)	Sold Put Price ($CAD/Bbl)
Put option	Jul. 1/21 - Dec. 31/21	WTI	1,000	60.00
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,000**	**60.00**

(1) Nymex WTI monthly average in $CAD.

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 March 31, 2021.

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:

	For the three months ended	
($000s)	Mar. 31, 2021	Mar. 31, 2020
Cash flow from continuing operations	10,879	25,650
Change in non-cash working capital from operating activities	(2,803)	(13,191)
FUNDS FLOW FROM OPERATIONS	**8,076**	**12,459**
Transaction costs	-	-
Decommissioning expenditures	470	230
ADJUSTED FUNDS FLOW FROM OPERATIONS	**8,546**	**12,689**

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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