



UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Canadian \$000s)	As at Sept. 30, 2020	As at Dec. 31, 2019
ASSETS		
Current Assets		
Trade and other receivables (NOTE 4)	9,612	17,990
Prepays and deposits (NOTE 5)	5,940	5,295
TOTAL CURRENT ASSETS	15,552	23,285
Property, plant and equipment (NOTE 8 & 9)		
Exploration and evaluation (NOTE 9)	311,746	334,881
Right of use asset (NOTE 10)	21,658	22,837
Deferred income tax	164	410
TOTAL ASSETS	355,386	383,794
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 6)	15,666	15,464
Operating loan (NOTE 12)	279	5,956
Derivative Liability (NOTE 18)	432	-
Lease liability (NOTE 11)	312	529
Decommissioning liability (NOTE 13)	909	1,128
TOTAL CURRENT LIABILITIES	17,598	23,077
Long term debt (NOTE 12)		
Lease liability (NOTE 11)	54,887	57,858
Decommissioning liability (NOTE 13)	-	188
TOTAL LIABILITIES	82,319	99,178
SHAREHOLDERS' EQUITY		
Share capital (NOTE 14)	225,158	225,158
Contributed surplus (NOTE 14)	26,971	22,224
Accumulated earnings	20,938	37,234
TOTAL SHAREHOLDERS' EQUITY	273,067	284,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	355,386	383,794

COMMITMENTS (NOTE 17)

SUBSEQUENT EVENTS (NOTE 22)

The accompanying notes are an integral part of these interim financial statements.

Approved on behalf of the Board of Directors:

Signed "Donald A. Engle"

Signed "James C. Lough"

Donald A. Engle
Chairman of the Board

James C. Lough
Director

**CONSOLIDATED STATEMENTS OF NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)**

(Canadian \$000s, except per share amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
REVENUE				
Petroleum and natural gas sales (NOTE 20)	23,314	38,535	64,584	108,633
Royalties	(1,707)	(3,044)	(4,952)	(8,556)
NET REVENUE	21,607	35,491	59,632	100,077
Other income (NOTE 15)	1,379	2,114	4,277	6,572
(Loss) gain on financial derivative contracts (NOTE 18)	(93)	430	1,194	430
Gain on acquisition (NOTE 8)	-	10,783	-	10,783
Gain on investment (NOTE 7)	-	1,000	-	(1,565)
Interest income	-	16	-	25
TOTAL REVENUE AND OTHER INCOME	22,893	49,834	65,103	116,322
EXPENSES				
Operating	10,863	12,113	30,589	33,256
Transportation	804	1,343	2,678	3,573
General and administration	1,172	2,547	4,261	7,088
Depletion, depreciation and amortization (NOTE 9, 10 & 13)	12,533	16,729	37,884	44,763
Financing (NOTE 12)	612	639	1,758	1,421
Accretion (NOTE 13)	408	210	1,151	640
Share-based compensation (NOTE 16)	1,604	1,359	4,747	4,123
Exploration and evaluation - expiries (NOTE 9)	510	463	2,215	1,094
Transaction costs (NOTE 8)	-	291	-	299
NET (LOSS) INCOME BEFORE TAX EXPENSE	(5,613)	14,140	(20,180)	20,065
TAX EXPENSE				
Deferred income tax (recovery) expense	(1,183)	1,043	(3,884)	1,658
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME	(4,430)	13,097	(16,296)	18,407
(LOSS) INCOME PER SHARE (\$) (NOTE 14)				
Basic	(0.03)	0.09	(0.12)	0.13
Diluted	(0.03)	0.09	(0.12)	0.12

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Canadian \$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
SHARE CAPITAL				
Balance, beginning of period	225,158	216,319	225,158	216,208
Issuance of share capital, net of issue costs (NOTE 14)	-	8,798	-	8,909
Issue of common shares under option plans (NOTE 16)	-	41	-	41
BALANCE, END OF PERIOD	225,158	225,158	225,158	225,158
CONTRIBUTED SURPLUS				
Balance, beginning of period	25,367	22,063	22,224	19,299
Share-based compensation (NOTE 16)	1,604	1,359	4,747	4,123
Options and performance warrants exercised (NOTE 14)	-	(13)	-	(13)
BALANCE, END OF PERIOD	26,971	23,409	26,971	23,409
EARNINGS				
Balance, beginning of period	25,368	18,665	37,234	13,355
Net (loss) income and comprehensive (loss) income	(4,430)	13,097	(16,296)	18,407
BALANCE, END OF PERIOD	20,938	31,762	20,938	31,762

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Canadian \$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net (loss) income and comprehensive (loss) income	(4,430)	13,097	(16,296)	18,407
ITEMS NOT AFFECTING CASH:				
Depletion, depreciation and amortization (NOTE 9, 10 & 13)	12,533	16,729	37,884	44,763
Accretion expense (NOTE 13)	408	210	1,151	640
Exploration and evaluation (NOTE 9)	510	463	2,215	1,094
Unrealized loss (gain) on foreign exchange	64	(4)	(9)	(4)
Share-based compensation (NOTE 16)	1,604	1,359	4,747	4,123
Gain on investment (NOTE 7)	-	(1,000)	-	1,565
Gain on acquisition (NOTE 8)	-	(10,783)	-	(10,783)
Unrealized (gain) loss on financial derivatives (NOTE 18)	(711)	(30)	432	(30)
Deferred income tax expense (recovery)	(1,183)	1,043	(3,884)	1,658
Non-cash financing expense (NOTE 12)	42	89	186	224
Decommissioning expenditures (NOTE 13)	(350)	(873)	(669)	(2,792)
FUNDS FLOW FROM OPERATIONS	8,487	20,300	25,757	58,865
Change in non-cash working capital (NOTE 20)	(275)	(1)	11,910	(3,136)
CASH FLOW FROM OPERATING ACTIVITIES	8,212	20,299	37,667	55,729
INVESTING ACTIVITIES				
Exploration and evaluation (NOTE 9)	(836)	(253)	(1,263)	(1,056)
Property, plant and equipment (NOTE 9)	(4,053)	(21,839)	(23,198)	(55,339)
Acquisitions (NOTE 8)	-	(1,109)	-	(1,228)
Cash from corporate acquisition (NOTE 8)	-	965	-	965
Other long-term asset (NOTE 7)	-	1,000	-	1,000
Change in non-cash working capital (NOTE 20)	1,441	4,578	(3,966)	(2,507)
CASH FLOW USED FOR INVESTING ACTIVITIES	(3,448)	(16,658)	(28,427)	(58,165)
FINANCING ACTIVITIES				
Issued common shares (NOTE 14)	-	27	-	27
Operating line (NOTE 12)	(1,608)	(2,303)	(5,677)	(6,110)
Financing lease expense (NOTE 11)	(156)	(130)	(433)	(356)
Repayment of bank debt on corporate acquisition (NOTE 8)	-	(31,150)	-	(31,150)
Long term debt (NOTE 12)	(3,000)	33,000	(3,130)	42,900
Change in non-cash working capital (NOTE 20)	-	-	-	210
CASH FLOW (USED FOR) FROM FINANCING ACTIVITIES	(4,764)	(556)	(9,240)	5,521
Increase in cash and cash equivalents	-	3,085	-	3,085
Cash and cash equivalents, beginning of period	-	-	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	3,085	-	3,085

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

These interim consolidated financial statements are as at September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019. Tabular amounts in thousands of Canadian dollars, unless otherwise stated. Amounts in text are in Canadian dollars unless otherwise stated.

1. REPORTING ENTITY

Karve Energy Inc. (“Karve” or the “Company”) is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and 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 statements of the Company are comprised of Karve and its wholly-owned subsidiary “DTC Energy Inc.” which was incorporated under the laws of the Province of Alberta.

Karve’s head office is located at Suite 1700, 205 5 Avenue SW, Calgary Alberta, T2P 2V7.

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

The consolidated financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of financial statements.

The financial statements were approved and authorized for issue by Karve’s Board of Directors on November 10, 2020.

Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for the revaluation to fair value of certain financial assets and financial liabilities, as required under IFRS. The financial statements are measured and presented in Canadian dollars as the functional currency of the Company.

All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those in the December 31, 2019 audited financial statements, except for income taxes. Income taxes for interim periods are accrued using the income tax rate that would be applicable to the expected annual net (loss) income.

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Actual results may differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in NOTE 2 of the December 31, 2019 audited consolidated financial statements.

3. UPDATE TO SIGNIFICANT ACCOUNTING POLICIES

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.

4. TRADE AND OTHER RECEIVABLES

(\$000s)	As at Sept. 30, 2020	As at Dec. 31, 2019
Trade	8,741	16,814
Joint venture	1,413	1,680
Allowance for doubtful accounts	(542)	(504)
TRADE AND OTHER RECEIVABLES	9,612	17,990

In determining the recoverability of receivables, the Company uses the ECL model and considers the age of the outstanding receivable and the credit worthiness of the counterparties. During the nine months ended September 30, 2020, the Company recorded an additional joint venture provision of \$38,000 (December 31, 2019 - \$504,000). All remaining joint venture receivables were deemed collectible using the ECL model.

Of the Company's accounts receivable at September 30, 2020, approximately 52% was receivable from two oil marketers (22% and 30%). At December 31, 2019, approximately 54% was receivable from two oil marketers (39% and 15%). Receivables outstanding greater than ninety days at September 30, 2020 was \$1.2 million (December 31, 2019 - \$2.3 million).

5. PREPAIDS AND DEPOSITS

(\$000s)	As at Sept. 30, 2020	As at Dec. 31, 2019
Prepays	5,842	5,197
Deposits	98	98
PREPAIDS AND DEPOSITS	5,940	5,295

6. TRADE AND OTHER PAYABLES

(\$000s)	As at Sept. 30, 2020	As at Dec. 31, 2019
Trade	9,349	7,689
Accrued	5,113	5,871
Royalties	691	1,102
GST	111	399
Joint venture	402	403
TRADE AND OTHER PAYABLES	15,666	15,464

7. OTHER LONG-TERM ASSET

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

(\$000s)	As at Sept. 30, 2020	As at Dec. 31, 2019
Balance, beginning of period	-	2,565
Investment in PrivateCo	-	(2,565)
Equity share of loss	-	-
BALANCE, END OF PERIOD	-	-

The investment in PrivateCo was written down to nil in early 2019. On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of \$1.0 million. As such, the Company realized a 2019 gain on investment of \$1.0 million.

8. ACQUISITIONS

The Company accounts for business combinations using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

High Ground Energy Inc. Acquisition

On July 15, 2019, the Company acquired all the issued and outstanding common shares of High Ground Energy Inc. (“High Ground”) 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 with expansion of the Company’s waterflood project on acquired lands.

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

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

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

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

Other Miscellaneous Acquisitions

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

9. CAPITAL ASSETS

The following table reconciles movement of Petroleum and natural gas (“P&NG”) assets, corporate assets, and exploration and evaluation (“E&E”) assets during the period:

	Petroleum and Natural Gas Assets	Corporate Assets	Total Property, Plant and Equipment	Exploration & Evaluation Assets
COST (\$000s)				
BALANCE AT DECEMBER 31, 2018	337,618	733	338,351	23,213
Additions	69,584	83	69,667	1,178
Acquisitions (NOTE 8)	44,645	-	44,645	-
Transfers to (from) P&NG/E&E assets	187	-	187	(187)
Change in decommissioning provision (NOTE 13)	6,625	-	6,625	-
Expiries	-	-	-	(1,367)
BALANCE AT DECEMBER 31, 2019	458,659	816	459,475	22,837
Additions	23,032	166	23,198	1,263
Transfers to (from) P&NG/E&E assets	227	-	227	(227)
Change in decommissioning provision (NOTE 13)	(8,871)	-	(8,871)	-
Expiries	-	-	-	(2,215)
BALANCE AT SEPTEMBER 30, 2020	473,047	982	474,029	21,658
ACCUMULATED DD&A (\$000s)				
BALANCE AT DECEMBER 31, 2018	65,399	119	65,518	-
Depletion, depreciation and amortization	58,915	161	59,076	-
BALANCE AT DECEMBER 31, 2019	124,314	280	124,594	-
Depletion, depreciation and amortization	37,554	135	37,689	-
BALANCE AT SEPTEMBER 30, 2020	161,868	415	162,283	-
NET CARRYING AMOUNT, DECEMBER 31, 2019	334,345	536	334,881	22,837
NET CARRYING AMOUNT, SEPTEMBER 30, 2020	311,179	567	311,746	21,658

Petroleum and Natural Gas Assets

At September 30, 2020, future development and production costs of \$368.3 million (December 31, 2019 - \$415.3 million) are included in costs subject to depletion.

General and administration costs capitalized by the Company during the nine months ended September 30, 2020 were \$418,000 (nine months ended September 30, 2019 - \$861,000).

The Company assessed for indicators of impairment and there were no indicators of impairment as at September 30, 2020 or at December 31, 2019.

Exploration and Evaluation

Exploration and evaluation assets consist of the Company's undeveloped land, seismic, geological and geophysical costs and exploration projects that are pending the determination of technical feasibility.

The Company assessed for indicators of impairment and there were no indicators of impairment as at September 30, 2020 or at December 31, 2019.

10. RIGHT OF USE ASSETS

The following table reconciles the movement of right of use assets during the period:

(\$000s)	
Balance at December 31, 2019	738
Additions	-
BALANCE AT SEPTEMBER 30, 2020	738
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2019	(328)
Depreciation and amortization	(246)
BALANCE AT SEPTEMBER 30, 2020	(574)
NET CARRYING AMOUNT, SEPTEMBER 30, 2020	164

11. LEASE LIABILITY

The company has lease liabilities for office space. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease liabilities were measured at a discounted value of lease payments using a weighted average incremental borrowing rate of 5% at January 1, 2019.

(\$000s)	
Balance at December 31, 2019	717
Interest expense	28
Lease payments	(433)
BALANCE AT SEPTEMBER 30, 2020	312

	As at Sept. 30, 2020	As at Dec. 31, 2019
Lease liability - current	312	529
Lease liability - long term	-	188
TOTAL LEASE LIABILITY AT SEPTEMBER, 2020	312	717

Undiscounted cash outflows related to lease liabilities are:

(\$000s)	Within 1 year	1 to 5 years	Total
Lease payments	328	-	328

12. OPERATING LOAN AND LONG TERM DEBT

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

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

On September 2, 2020, the Corporation issued an irrevocable standby letter of credit in favor of the Saskatchewan - Ministry of Energy and Resources in the amount of \$551,000, thereby reducing 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.

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

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

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

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

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

For the nine months ended September 30, 2020, the effective interest rate on the credit facility was 4.47 percent (nine months ended September 30, 2019 – 4.89 percent).

13. DECOMMISSIONING LIABILITY

At the end of the operating life of the Company's facilities and properties and upon retirement of its oil and natural gas assets, decommissioning costs will be incurred by the Company to abandon and reclaim the wells and facilities. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities and the discount rate applied in measuring the liability. The liability, the related asset and the expense are impacted by estimates with respect to the costs and timing of decommissioning.

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$194.7 million (\$100.8 million undiscounted, uninflated), which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2060. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2019 – 8%) and an inflation rate of 2% (December 31, 2019 – 2%). The change in estimate for the nine months ended September 30, 2020 relates to an increase to the credit adjusted discount rate. The change in estimate for the year ended December 31, 2019 relates to a change in the estimated timing of abandonment and reclamation expenses.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program ("SRP") whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. The SRP will run from May 1, 2020 to March 31, 2022. Pursuant to the SRP, the Company was approved for \$2.5 million in SRP funding. To date the Company has incurred \$51,000 in SRP costs and is included in the "Decommissioning liabilities settled during the period" in the table below, with an off-setting credit to depletion, depreciation and amortization in the consolidated statement of (loss) income and comprehensive (loss) income.



The following table shows changes in the decommissioning liability:

(\$000s)	As at	As at
	Sept. 30, 2020	Dec. 31, 2019
Balance, beginning of period	19,183	12,494
Decommissioning liabilities incurred during the period	170	90
Decommissioning liabilities acquired through acquisitions (NOTE 8)	-	3,534
Decommissioning liabilities settled during the period	(669)	(4,284)
Decommissioning liabilities settled during the period through SRP	(51)	-
Accretion expense during the period	1,151	814
Change in estimate	(9,041)	6,535
BALANCE, END OF PERIOD	10,743	19,183
Decommissioning liability - current	909	1,128
Decommissioning liability - long term	9,834	18,055
TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD	10,743	19,183

14. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

b) Issued and Outstanding Common Shares

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

c) Contributed Surplus

(\$000s)	As at	As at
	Sept. 30, 2020	Dec. 31, 2019
Balance, beginning of period	22,224	19,299
Share-based compensation - options	2,493	2,556
Share-based compensation - warrants	2,254	2,978
Options exercised	-	(2,596)
Transfer to share capital on exercise of options and performance warrants	-	(13)
BALANCE, END OF PERIOD	26,971	22,224

d) Per Share Amounts

(\$000s except per share amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Net (loss) income for the period	(4,430)	13,097	(16,296)	18,407
Weighted average number of shares - basic	140,529,665	138,199,231	140,529,665	139,990,180
Dilutive impact of share-based compensation plans	-	10,618,825	-	10,618,825
Weighted average number of shares - diluted	140,529,665	148,818,056	140,529,665	150,609,005
Net (loss) income per share - basic	(0.03)	0.09	(0.12)	0.13
Net (loss) income per share - diluted	(0.03)	0.09	(0.12)	0.12

At September 30, 2020, 8,799,335 stock options and 12,560,000 performance warrants were excluded from the fully diluted calculation as they are anti-dilutive.

15. OTHER INCOME

The following table presents the composition of amounts included in Other Income in the consolidated statements of net (loss) income and comprehensive (loss) income:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Royalty income	648	1,092	1,894	3,482
Processing fee income	643	996	2,166	2,945
Other	88	26	217	145
TOTAL OTHER INCOME	1,379	2,114	4,277	6,572

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests.

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities.

Other income relates to net foreign exchange, road use income, seismic licensing income, and contract operating income.

16. SHARE-BASED COMPENSATION

The following table summarizes the Company's share-based compensation:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
Share-based compensation - options	843	586	2,493	1,847
Share-based compensation - performance warrants	761	773	2,254	2,276
TOTAL SHARE-BASED COMPENSATION	1,604	1,359	4,747	4,123

a) Stock Options

Effective June 15, 2016, the Company adopted a new stock option plan under which officers, management, employees, directors and consultants of the Company are eligible to receive grants. Under the stock option plan, which was approved by the Board of Directors, the granted stock options vest to the grantee over a three-year period, the grantee has the right to exercise the stock options for seven years from the date of the grant and the stock options terminate 30 days following the termination of the grantee's employment. All stock options vest and may be exercisable in the event of a change of control or initial public offering. The maximum number of outstanding stock options under the plan is limited to 10% of the common shares outstanding. Stock option grants and the option exercise price are set by the Board of Directors at the time of grant. On November 6, 2019, an extension of 2 years to the expiry date (from 5 years to 7 years) for options outstanding was approved by the board and was subsequently approved by the Shareholders on May 13, 2020.

Share-based compensation expense related to stock options during the three months ended September 30, 2020 was \$843,000 (three months ended September 30, 2019 - \$586,000).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2018 through to September 30, 2020:

	Number	Wtd. Avg.
		Exercise Price (\$)
Balance at December 31, 2018	13,442,260	1.57
Granted	3,908,499	2.26
Forfeited	(611,334)	2.16
Exercised	(3,055,165)	1.40
BALANCE AT DECEMBER 31, 2019	13,684,260	1.78
Granted	150,000	2.25
Forfeited	(86,000)	1.84
BALANCE AT SEPTEMBER 30, 2020	13,748,260	1.79

There were no stock options exercised during the nine months ended September 30, 2020. As at September 30, 2020, 9,338,884 stock options were exercisable. There were 3,055,165 stock options exercised during the year ended December 31, 2019 and 7,191,533 stock options were exercisable at December 31, 2019.



The range of exercise prices of the outstanding options and weighted average contractual life remaining as at September 30, 2020 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
\$0.85	2.70	2,320,976	2,320,976
\$1.00 - \$1.99	2.80	1,667,357	1,667,357
\$2.00 - \$3.00	4.80	9,759,927	5,350,551
	4.20	13,748,260	9,338,884

b) Performance Warrants

There were no performance warrants issued by the Board of Directors during the nine months ended September 30, 2020 (year ended December 31, 2019 – nil).

The performance warrants entitle the holder to purchase one common share of the Company and have the following vesting dates and exercise prices:

	2016 Issuance	2017 Issuance
Warrants granted	16,125,000	17,937,500
Issue date	\$1.50	\$3.00
First anniversary	\$1.70	\$3.40
Second anniversary	\$1.90	\$3.80
Third anniversary	\$2.10	\$4.20
Fourth anniversary	\$2.30	\$4.60

The right to exercise the performance warrants is subject to a performance event taking place which includes the occurrence of any of the following (i) the Company raising a minimum of \$25.0 million through a private placement, excluding the securities issued as part of the recapitalization that occurred in June 2016 (ii) the occurrence of an initial public offering on a recognized Canadian or U.S. stock exchange, or (iii) a change of control. Only vested performance warrants based on the schedule above will become exercisable if the Company achieves performance event (i). In the event of performance event (ii) and (iii), all performance warrants outstanding which have not vested or become exercisable in accordance with their terms shall vest and become exercisable immediately. On November 6, 2019, an extension of 2 years to the expiry date (from 5 years to 7 years) for performance warrants was approved by the board and was subsequently approved by the Shareholders on May 13, 2020.

Share-based compensation expense related to performance warrants during the three months ended September 30, 2020 was \$761,000 (three months ended September 30, 2019 - \$773,000).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2018 through to September 30, 2020:

	Number	Wtd. Avg. Exercise Price
BALANCE AT December 31, 2018	32,485,500	2.88
Forfeited	(356,000)	3.67
BALANCE AT DECEMBER 31, 2019	32,129,500	2.87
Forfeited	(62,000)	3.80
BALANCE AT SEPTEMBER 30, 2020	32,067,500	2.87

There were no performance warrants exercised during the nine months ended September 30, 2020 (year ended December 31, 2019 - nil) and 6,460,000 performance warrants were exercisable at September 30, 2020 and December 31, 2019

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at September 30, 2020 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
\$1.50 to \$2.99	2.81	15,700,000	6,460,000
\$3.00 to \$3.99	3.99	9,820,500	-
\$4.00 to \$4.60	3.99	6,547,000	-
	3.41	32,067,500	6,460,000

17. COMMITMENTS

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

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

18. FINANCIAL INSTRUMENTS

The Company has exposure to credit, liquidity, interest, and foreign currency risk from its use of financial instruments. Further qualitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Karve's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

a) Fair Value of Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, deposits, derivative assets (liabilities), trade and other payables, operating loan, and long term debt.

There are three levels of fair value by which a financial instrument can be classified:

Level 1 - Quoted prices in active markets for identical assets and liabilities such as traded securities on a registered exchange where there are a sufficient frequency and volume of transactions to provide ongoing pricing information.

Level 2 - Inputs other than quoted prices that are observable for the asset and liability either directly and indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and

Level 3 - Inputs that are not based on observable market data.

The fair values of the derivative contracts used for risk management as at September 30, 2020 were measured using level 2 observable inputs, including quoted prices received from financial institutions based on published forward price curves as at the measurement date, using the remaining contracted oil and natural gas volumes.

The fair value of cash and cash equivalents, trade and other receivables, deposits, and trade and other payables approximate their carrying amounts due to their short-term maturities. The fair value of the amounts drawn on the operating loan and long term debt is equal to its carrying amount as the facilities bear interest at floating rates and credit spreads that are indicative of market rates.



The following table summarizes Karve's non-derivative financial instruments at amortized cost at September 30, 2020:

(\$000s)	Amortized cost	Total fair value
Assets		
Trade and other receivables	9,612	9,612
Deposits	98	98
	9,710	9,710
Liabilities		
Trade and other payables	15,666	15,666
Operating loan	279	279
Long term debt	54,887	54,887
	70,832	70,832

The following table summarizes Karve's non-derivative financial instruments at amortized cost at December 31, 2019:

(\$000s)	Amortized cost	Total fair value
Assets		
Trade and other receivables	17,990	17,990
Deposits	98	98
	18,088	18,088
Liabilities		
Trade and other payables	15,464	15,464
Operating loan	5,956	5,956
Long term debt	57,858	57,858
	79,278	79,278

b) Risk Associated with Financial Assets and Liabilities

Commodity Price Risk

Due to the volatile nature of natural gas and oil commodity prices, the Company is exposed to adverse consequences if commodity prices decline. The Company is exposed to commodity price movements as part of its operations, particularly in relation to the prices received for its oil and gas production. Oil and gas is sensitive to numerous worldwide factors, many of which are beyond the Company's control. Changes in global supply and demand fundamentals in the oil and gas market and geopolitical events can significantly affect oil and gas prices. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company's oil production is sold under short-term contracts, exposing it to the risk of near-term price movements depending on marketing conditions, it is the Company's policy to hedge a portion of its crude oil sales through the use of financial derivative contracts. The Company does not apply hedge accounting to these contracts.

At September 30, 2020, 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	Jul. 1/20 - Dec. 31/20	WTI	1,000	45.10	(1,041)
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	55.25	99
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	54.00	21
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	54.95	79
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	55.30	101
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2020			3,000	51.62	(741)
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	58.25	218
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.50	63
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	56.00	17
Fixed price swap	Jan. 1/21 - June 30/21	WTI	500	55.95	11
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021			2,000	56.68	309

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

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

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

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

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

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that bank debt is at a floating or short-term rate of interest in relation to interest expense on its long term debt and operating loan facility. The Credit Facility and operating line incur interest based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 1.75 and 4.75 percent depending on the type of borrowing and the Company's debt to EBITDA ratio, and is subject to an annual standby fee on the undrawn portion. As at September 30, 2020, \$58.0 million (December 31, 2019 - \$58.0 million) was drawn on the Credit facility (\$54.9 million – net of amortized debt issue costs). Currently the Company has not entered into any agreements to manage this risk. An increase (decrease) in the interest rate by 1% would result in an increase (decrease) to net loss before tax of \$139,000 for the three months ended September 30, 2020 (three months ended September 30, 2019 - \$145,000).

Liquidity Risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt, and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. Given the global measures put into place to limit the spread of a novel strain of the coronavirus ("COVID-19"), the ability to forecast cash flows is challenging (Note 19).



A contractual maturity analysis for the Company's financial liabilities as at September 30, 2020 is as follows:

(\$000s)	Within 1 year	1 to 5 years	Total
Trade and other payables	15,666	-	15,666
Operating loan	279	-	279
Long term debt	-	54,887	54,887
TOTAL	15,945	54,887	70,832

19. CAPITAL MANAGEMENT

a) Capital Base

In order to continue the Company's future exploration and development program, the Company must maintain a strong capital base to enable access to equity and debt markets. The Company continually monitors the risk/reward profile of its exploration and development projects and the economic indicators in the market including commodity prices, interest rates and foreign exchange rates. After considering these factors, revisions to the Company's capital budget is made upon the approval of the Board of Directors.

The Company considers shareholders' capital and net debt/adjusted positive working capital (excluding derivative assets and current portion decommissioning liability) as components of its capital base. The Company can access or increase capital through the issuance of shares, through bank borrowings (based on reserves) and by building cash reserves by reducing its capital expenditure program.

The following table represents the net capital of the Company:

(\$000s)	As at Sept. 30, 2020	As at Dec. 31, 2019
Shareholders' capital	273,067	284,616
Total current assets	15,552	23,285
Trade and other payables	(15,666)	(15,464)
Operating loan	(279)	(5,956)
Long term debt	(54,887)	(57,858)
NET DEBT	(55,280)	(55,993)
CAPITAL BASE	217,787	228,623

The Company monitors its capital based primarily on its Net debt to annualized funds flow ratio. Net debt and annualized funds flow are non-GAAP measures. Net debt is defined as long term debt plus any net working capital deficiency excluding derivative contract asset/liability, current portion of decommissioning liability, and current portion of lease liability. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital for the Company's most recent quarter, multiplied by four. To facilitate the management and control its' capital base, the Company prepares annual operating and capital expenditure budgets. The budgets are updated when critical factors change. These include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and Company specific factors or assumptions such as the Company's drilling results and its production profile. The Company's Board of Directors approves the budget and changes thereto. At September 30, 2020, the Company had net debt of \$55.3 million (December 31, 2019 – \$55.9 million).

The Company's share capital is not subject to external restrictions, but the Company does have key covenants of the credit facilities that include standard business operating covenants. As at September 30, 2020, the Company is in compliance with all covenants.

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

transportation capacity constraints, and the effects of the Coronavirus (COVID-19), preparation of financial forecasts is challenging.

20. SUPPLEMENTAL INFORMATION

The following table presents the composition of changes in non-cash working capital and the allocation to operating and investing activities:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2020	Sept. 30, 2019	Sept. 30, 2020	Sept. 30, 2019
CHANGES IN NON-CASH WORKING CAPITAL:				
Trade and other receivables (NOTE 4)	(1,046)	(125)	8,387	(5,918)
Prepays and deposits (NOTE 5)	(68)	73	(645)	(921)
Trade and other payables (NOTE 6)	2,280	4,629	202	1,406
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	1,166	4,577	7,944	(5,433)
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:				
Operating activities	(275)	(1)	11,910	(3,136)
Investing activities	1,441	4,578	(3,966)	(2,507)
Financing activities	-	-	-	210
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	1,166	4,577	7,944	(5,433)

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

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

21. RELATED PARTY DISCLOSURES

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 7). For the period from January 1, 2019 to July 18, 2019, the Company received a total of \$1.9 million of gas processing income and royalty income (year ended December 31, 2018 - \$1.9 million) from PrivateCo, based on standard third-party agreements.

22. SUBSEQUENT EVENTS

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