



**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2021 and SEPTEMBER 30, 2020**



LETTER TO OUR SHAREHOLDERS

November 10, 2021

Dear Shareholder:

We are pleased to update you on Karve's progress since our August 11, 2021 letter to shareholders.

In the third quarter of 2021, Karve improved its already strong operational and financial performance through the sale of royalty interests and higher commodity prices. On August 25, 2021, the Company closed a divestiture of a majority of its royalty income assets, effective July 1, 2021, for net proceeds of \$34.1 million (after closing adjustments). These funds were primarily used to substantially reduce Karve's bank debt. The disposed assets included 275 gross sections of fee title lands and 130 gross sections of gross overriding royalty ("GORR") lands excluding fee title and GORR lands within the Karve core Viking properties. The annualized fee income associated with the disposed assets based on income from the first six months of 2021 was approximately \$4.4 million (disposition transacted at approximately an 8 times cash flow multiple).

With strengthening commodity prices in the third quarter of 2021, the Company recorded \$24.5 million in adjusted funds flow from operations which is an increase of 102% in adjusted funds flow from operations compared to the second quarter of 2021 and 178% increase compared to the third quarter of 2020. For the three months ended September 30, 2021, the Company reported an increase to field operating netback of 29% (\$37.46 per boe compared to \$29.04 per boe in the second quarter of 2021). With this higher cashflow and the proceeds of the royalty disposition, Karve was able to reduce its net debt by \$30.5 million from \$53.2 million as at June 30, 2021 to \$22.7 million as at September 30, 2021.

In the third quarter of 2021, Karve produced an average of 7,324 boe/d (68% liquids) and drilled 30 gross (30.0 net) horizontal wells and completed and brought on production 29 gross (29.0 net) wells. Since November 2016, the Company has drilled a total of 291 gross (285.6 net) and completed and brought on 281 gross (276.5 net) oil wells on production.

Through the remainder of 2021, Karve will continue to execute on a flexible and disciplined capital allocation strategy to maintain its strong financial position and balance sheet. The Company's current production is 8,300 boe/d (70% liquids).

Based on current commodity prices in 2021, Karve expects its 2021 capital expenditure program to be \$72.9 million. The capital program consists of \$56.7 million to drill and complete 57 horizontal Viking oil wells, \$5.4 million on waterflood, \$8.9 million on facilities and \$1.9 million on asset retirement obligations, which includes \$500,000 to fund an emissions reduction program. The asset retirement obligation spending includes the abandonment of additional wells due to the Company qualifying for up to \$5.1 million with the federal site rehabilitation program. Consistent with previous capital expenditure programs, Karve intends to ensure that its capital spending is kept within its cash flow. Based on the above capital expenditure program, Karve expects to exit 2021 with approximately 8,500 boe/d of production.

Enclosed are the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three and nine months ended September 30, 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 September 30, 2021. It is dated November 10, 2021 and should be read in conjunction with the unaudited consolidated financial statements for the three and nine months ended September 30, 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 month ended | | For the nine months ended | |
|---|---------------------------|----------------|---------------------------|----------------|
| FINANCIAL (Canadian \$000, except per share and per boe amounts) | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Net income (loss) | 30,769 | (4,430) | 28,339 | (16,296) |
| Per share - basic | 0.22 | (0.03) | 0.20 | (0.12) |
| Per share - diluted | 0.21 | (0.03) | 0.19 | (0.12) |
| Funds flow from operations ⁽¹⁾ | 23,709 | 8,487 | 43,270 | 25,757 |
| Per share - basic ⁽¹⁾ | 0.17 | 0.06 | 0.31 | 0.18 |
| Per share - diluted ⁽¹⁾ | 0.16 | 0.06 | 0.30 | 0.18 |
| Adjusted funds flow from operations ⁽¹⁾ | 24,532 | 8,837 | 45,225 | 26,426 |
| Per share - basic ⁽¹⁾ | 0.17 | 0.06 | 0.32 | 0.19 |
| Per share - diluted ⁽¹⁾ | 0.17 | 0.06 | 0.31 | 0.19 |
| Capital expenditures (before acquisitions and dispositions) | 27,211 | 4,889 | 45,487 | 24,461 |
| Net acquisitions (dispositions) | (34,095) | - | (34,095) | - |
| Total net capital expenditures | (6,884) | 4,889 | 11,392 | 24,461 |
| Adjusted (net debt) ⁽¹⁾ | (22,661) | (55,280) | (22,661) | (55,280) |
| Total assets | 371,280 | 355,386 | 371,280 | 355,386 |
| Shares outstanding, weighted average (000s) | 140,530 | 140,530 | 140,530 | 140,530 |
| Shares outstanding, end of period (000s) | 140,530 | 140,530 | 140,530 | 140,530 |
| OPERATIONAL | | | | |
| Sales volumes | | | | |
| Oil (bbl/d) | 4,683 | 4,755 | 4,370 | 4,948 |
| NGLs (bbl/d) | 310 | 322 | 275 | 304 |
| Natural gas (mcf/d) | 13,988 | 14,596 | 13,495 | 15,145 |
| Total (boe/d) | 7,324 | 7,510 | 6,894 | 7,776 |
| Average sales prices (excluding hedging gains and losses) | | | | |
| Oil (\$/bbl) | 79.88 | 44.90 | 72.30 | 39.77 |
| NGLs (\$/bbl) | 60.10 | 28.78 | 53.95 | 24.68 |
| Natural gas (\$/mcf) | 3.24 | 2.10 | 3.09 | 2.07 |
| Boe basis (\$/boe) | 59.81 | 33.74 | 54.03 | 30.31 |
| Field netback (\$/boe excluding hedging gains and losses) | | | | |
| Sales price | 59.81 | 33.74 | 54.03 | 30.31 |
| Royalties | (5.06) | (2.47) | (4.46) | (2.32) |
| Operating expense | (16.33) | (15.72) | (18.19) | (14.36) |
| Transportation expense | (0.96) | (1.16) | (0.95) | (1.26) |
| Field netback ⁽¹⁾ | 37.46 | 14.39 | 30.43 | 12.37 |

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

SALES VOLUMES

Sales volumes averaged 7,324 boe/d during the three months ended September 30, 2021 compared to 7,510 boe/d for the three months ended September 30, 2020. The slight decrease in sales volumes compared to the three months ended September 30, 2020 is due to natural declines as there was a reduction in drilling in 2020. The production from the 30 gross wells drilled in the third quarter of 2021 was not yet fully realized in Q3 2021 production as these wells were drilled and brought on production throughout the quarter. Average Company production was approximately 8,300 boe/d (70% liquids) for the first week of November 2021.

| | For the three month ended | | For the nine months ended | |
|----------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Sales volumes | | | | |
| Oil (bbl/d) | 4,683 | 4,755 | 4,370 | 4,948 |
| NGLs (bbl/d) | 310 | 322 | 275 | 304 |
| Natural gas (mcf/d) | 13,988 | 14,596 | 13,495 | 15,145 |
| Total (boe/d) | 7,324 | 7,510 | 6,894 | 7,776 |

SALES PRICES AND REVENUE

For the three months ended September 30, 2021, the Company generated total revenue of \$40.3 million (three months ended September 30, 2020 - \$23.3 million) on average sales volumes of 7,324 boe/d. Revenue is recorded before transportation expenses. The increase in revenue period over period is due to the substantial increase in average oil and natural gas sales prices, slightly offset by lower production for the three months ended September 30, 2021. The average sales price per boe for the three months ended September 30, 2021 was \$59.81 compared to \$33.74 for the three months ended September 30, 2020.

| | For the three month ended | | For the nine months ended | |
|--|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| KARVE AVERAGE REALIZED PRICE ⁽¹⁾ | | | | |
| Revenue (\$000s) | 40,303 | 23,314 | 101,682 | 64,584 |
| Oil (\$/bbl) | 79.88 | 44.90 | 72.30 | 39.77 |
| NGLs (\$/bbl) | 60.10 | 28.78 | 53.95 | 24.68 |
| Natural gas (\$/mcf) | 3.24 | 2.10 | 3.09 | 2.07 |
| Karve realized price (\$/boe) | 59.81 | 33.74 | 54.03 | 30.31 |
| AVERAGE BENCHMARK PRICES ⁽²⁾ | | | | |
| Crude oil - WTI (\$US/bbl) | 70.56 | 40.93 | 64.82 | 38.31 |
| Crude oil - Canadian light sweet (\$CDN/bbl) | 84.18 | 49.05 | 76.37 | 44.18 |
| Natural gas - AECO-C spot (\$CDN/mcf) | 3.59 | 2.27 | 3.27 | 2.10 |
| Exchange Rate - (\$US/\$CAD) | 0.79 | 0.75 | 0.80 | 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 September 30, 2021, the Company had the following commodity contracts in place:

| Type | Term | Basis ⁽¹⁾ | Volume (Bbl/d) | Sold Put Price (\$CAD/Bbl) | Current Liability (\$000s) |
|--|------------------------|----------------------|----------------|-------------------------------|----------------------------------|
| Put option | Jul. 1/21 - Dec. 31/21 | WTI | 2,000 | 60.00 | (245) |
| TOTAL VOLUME AND WEIGHTED AVERAGE PRICE | | | 2,000 | 60.00 | (245) |

(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) | (197) |
| Fixed price differential | Apr. 1/21 - Dec. 31/21 | MSW | 500 | (4.40) | (72) |
| TOTAL VOLUME AND WEIGHTED AVERAGE PRICE | | | 1,500 | (4.70) | (269) |

| | | | | | |
|--|------------------------|-----|--------------|--------------|--------------|
| Fixed price swap | Oct. 1/21 - Dec. 31/21 | WTI | 1,000 | 90.50 | (363) |
| Fixed price swap | Oct. 1/21 - Dec. 31/21 | WTI | 500 | 90.50 | (176) |
| TOTAL VOLUME AND WEIGHTED AVERAGE PRICE | | | 1,500 | 90.50 | (539) |

| | | | | | |
|--|------------------------|-----|--------------|--------------|----------------|
| Fixed price swap | Jan. 1/22 - Dec. 31/22 | WTI | 500 | 82.75 | (1,106) |
| Fixed price swap | Jan. 1/22 - Dec. 31/22 | WTI | 500 | 83.25 | (1,015) |
| Fixed price swap | Jan. 1/22 - Dec. 31/22 | WTI | 500 | 85.50 | (606) |
| Fixed price swap | Jan. 1/22 - Dec. 31/22 | WTI | 500 | 85.50 | (625) |
| TOTAL VOLUME AND WEIGHTED AVERAGE PRICE | | | 2,000 | 84.25 | (3,352) |

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

At September 30, 2021 the fair value of the financial derivative contracts was a liability position of \$4.4 million resulting in an unrealized loss of \$3.8 million for the three months ended September 30, 2021 (three months ended September 30, 2020 – unrealized gain of \$711,000). 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, 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 \$9.4 million for the three months ended September 30, 2021 and a derivative liability of \$10.0 million. A \$5.00 USD decrease in WTI would result in an unrealized gain of \$1.3 million for the three months ended September 30, 2021 or a derivative asset of \$693,000.

As at November 9, 2021 the fair value of the financial derivative contracts was a derivative liability position of \$9.4 million.

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

| (\$000s) | For the three months ended | | For the nine months ended | |
|--|----------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Unrealized (loss) gain on financial derivative contracts | (3,827) | 711 | (2,008) | (432) |
| Realized (loss) gain on financial derivative contracts | (363) | (804) | (9,970) | 1,626 |
| (LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS | (4,190) | (93) | (11,978) | 1,194 |

The Company recognized a realized loss of \$363,000 for the three months ended September 30, 2021 (three months ended September 30, 2020 – realized loss \$804,000).

ROYALTIES

| (\$000s, except per boe amounts) | For the three month ended | | For the nine months ended | |
|----------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Royalties | 3,409 | 1,707 | 8,392 | 4,952 |
| Royalties as a % of revenue | 8.5% | 7.3% | 8.3% | 7.7% |
| Per boe (\$) | 5.06 | 2.47 | 4.46 | 2.32 |

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended September 30, 2021 was \$3.4 million (\$5.06 per boe) compared to \$1.7 million (\$2.47 per boe) for the three months ended September 30, 2020.



For the three months ended September 30, 2021, the Company's royalty rate was 8.5% of revenues (three months ended September 30, 2020 – 7.3%). The increase in royalties is due to higher average commodity prices during the third quarter of 2021.

OPERATING EXPENSE

| (\$000s, except per boe amounts) | For the three month ended | | For the nine months ended | |
|----------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Operating expense | 11,001 | 10,863 | 34,234 | 30,589 |
| Per boe (\$) | 16.33 | 15.72 | 18.19 | 14.36 |

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 \$11.0 million (\$16.33 per boe) during the three months ended September 30, 2021 and \$10.9 million (\$15.72 per boe) during the three months ended September 30, 2020. The majority of the Company's operating costs are fixed in nature. The increase in operating expenses for the nine month period are due to the gradual return to normalized field operations in 2021. During the three months ended September 30, 2020 the Company implemented cost cutting measures and deferred some repairs and maintenance due to the deterioration of commodity pricing. The return to regular scheduled repairs and maintenance programs, combined with a slight reduction in production levels during the three months ended September 30, 2021, has resulted in an increase of operating expenses and operating expense per boe.

TRANSPORTATION EXPENSE

| (\$000s, except per boe amounts) | For the three month ended | | For the nine months ended | |
|----------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Transportation expense | 647 | 804 | 1,787 | 2,678 |
| Per boe (\$) | 0.96 | 1.16 | 0.95 | 1.26 |

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 \$647,000 (\$0.96 per boe) during the three months ended September 30, 2021 and \$804,000 (\$1.16 per boe) for the three months ended September 30, 2020. 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 may lead to variability in transportation expense.

FIELD NETBACK

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

| (\$000s, except per boe amounts) | For the three months ended | | For the three months ended | |
|---|----------------------------|--------------|----------------------------|--------------|
| | Sept. 30, 2021 | | Sept. 30, 2020 | |
| | \$ | \$/boe | \$ | \$/boe |
| Revenue | 40,303 | 59.81 | 23,314 | 33.74 |
| Royalties | (3,409) | (5.06) | (1,707) | (2.47) |
| Operating expense | (11,001) | (16.33) | (10,863) | (15.72) |
| Transportation expense | (647) | (0.96) | (804) | (1.16) |
| FIELD NETBACK (\$)⁽¹⁾ | 25,246 | 37.46 | 9,940 | 14.39 |

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

| (\$000s, except per boe amounts) | For the nine months ended | | For the nine months ended | |
|---|---------------------------|--------------|---------------------------|--------------|
| | Sept. 30, 2021 | | Sept. 30, 2020 | |
| | \$ | \$/boe | \$ | \$/boe |
| Revenue | 101,682 | 54.03 | 64,584 | 30.31 |
| Royalties | (8,392) | (4.46) | (4,952) | (2.32) |
| Operating expense | (34,234) | (18.19) | (30,589) | (14.36) |
| Transportation expense | (1,787) | (0.95) | (2,678) | (1.26) |
| FIELD NETBACK (\$)⁽¹⁾ | 57,269 | 30.43 | 26,365 | 12.37 |

(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 month ended | | For the nine months ended | |
|----------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Royalty income | 857 | 648 | 3,072 | 1,894 |
| Processing fee income | 985 | 643 | 2,533 | 2,166 |
| Other | 74 | 88 | 158 | 217 |
| Total other income | 1,916 | 1,379 | 5,763 | 4,277 |
| Per boe (\$) | 2.84 | 2.00 | 3.06 | 2.01 |

Other income for the three months ended September 30, 2021 was \$1.9 million (\$2.84 per boe) and \$1.4 million (\$2.00 per boe) for the three months ended September 30, 2020. The other income streams from third parties relate mostly 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. On August 25, 2021, the Company closed a divestiture of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments). See Page 10 – Dispositions. The increase in royalty income for the three months ended September 30, 2021 compared to the three months ended September 30, 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 increase in processing fee income for the three months ended September 30, 2021 compared to the three months ended September 30, 2020 is primarily due to higher third-party throughput volumes being processed at Karve operated facilities.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three months ended September 30, 2021 and September 30, 2020:

| (\$000s, except per boe amounts) | For the three month ended | | For the nine months ended | |
|--|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Staff and consulting costs | 1,737 | 931 | 5,736 | 3,490 |
| Professional fees | 114 | 51 | 300 | 290 |
| Office and rent costs | 297 | 448 | 995 | 1,297 |
| Other | 264 | 250 | 738 | 743 |
| General and administration expense (gross) | 2,412 | 1,680 | 7,769 | 5,820 |
| Capitalized G&A and overhead recovery | (698) | (352) | (1,510) | (1,127) |
| Lease liability reclassification | - | (156) | (164) | (432) |
| General and administration expense (net) | 1,714 | 1,172 | 6,095 | 4,261 |
| Per boe (\$) | 2.54 | 1.70 | 3.24 | 2.00 |

General and administrative expenses (net) for the three months ended September 30, 2021 were \$1.7 million (\$2.54 per boe) and \$1.2 million (\$1.70 per boe) for the three months ended September 30, 2020. This increase is due to the gradual return to normalized operations from the significant cost cutting measures that began in March 2020 and higher government support received in 2020. For the three months ended September 30, 2021, the Company did not receive any government support (three months ended September 30, 2020 - \$651,000). The government support received in the three month ended September 30, 2020 was recorded as \$347,000 reduction to G&A expense and \$304,000 as a reduction to operating expenses.

OPERATING LOAN AND LONG TERM DEBT

As at September 30, 2021, the Company had secured bank credit facilities of \$65.0 million, comprised of a \$58.0 million Credit Facility and a \$7.0 million operating loan.

On October 8, 2021, the Company’s credit facility was redetermined to \$55.0 million, comprised of a \$48.0 million Credit Facility and \$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 is 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 27, 2022.

As at September 30, 2021, \$26.8 million (net of unamortized debt issue costs) (December 31, 2020 - \$53.4 million) was drawn on the Credit Facility and nil (December 31, 2020 - \$5.5 million) was drawn on the operating loan. In the third quarter of 2021, the Company paid down \$28.5 million on its credit facility.

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, 2022.

On September 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 and a further increase to \$400,000 on April 6, 2021. This letter of credit will be redetermined on September 19, 2022.

Long term debt and bank operating loan as at September 30, 2021 and December 31, 2020 is as follows:

| (\$000s) | As at Sept. 30, 2021 | As at Dec. 31, 2020 |
|------------------------------------|-------------------------|------------------------|
| Credit Facility | 27,000 | 53,500 |
| Less: unamortized debt issue costs | (167) | (126) |
| LONG TERM DEBT | 26,833 | 53,374 |
| Bank operating loan | - | 5,513 |
| TOTAL BANK DEBT | 26,833 | 58,887 |

Financing expense for the three months ended September 30, 2021 and September 30, 2020 is comprised of the following:

| (\$000s) | For the three month ended | | For the nine months ended | |
|--------------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Credit facility interest and charges | 507 | 559 | 1,678 | 1,491 |
| Operating loan interest and charges | 31 | 11 | 55 | 81 |
| Amortization of debt issue costs | 39 | 32 | 89 | 158 |
| Interest on lease liability | 10 | 10 | 27 | 28 |
| FINANCING EXPENSES | 587 | 612 | 1,849 | 1,758 |

For the three months ended September 30, 2021, the effective interest rate on the credit facility was 4.17% percent (three months ended September 30, 2020 – 4.11%). Key covenants of the bank credit facilities include standard business operating covenants. As at September 30, 2021, the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

| (\$000s, except per boe amounts) | For the three month ended | | For the nine months ended | |
|---|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Share-based compensation - options | 340 | 843 | 1,063 | 2,493 |
| Share-based compensation - performance warrants | 319 | 761 | 985 | 2,254 |
| Share-based compensation expense | 659 | 1,604 | 2,048 | 4,747 |
| Per boe (\$) | 0.98 | 2.32 | 1.09 | 2.23 |

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

SBC expense related to stock options for the three months ended September 30, 2021 was \$340,000 (three months ended September 30, 2020 – \$843,000) and SBC expense related to performance warrants for the three months ended September 30, 2021 was \$319,000 (three months ended September 30, 2020 - \$761,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended September 30, 2021 or 2020.

As at September 30, 2021, 13,748,260 stock options and 31,917,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was \$1.79 per option and \$2.87 per warrant. The weighted average fair value of stock options and performance warrants outstanding was \$0.87 per option and \$0.47 per warrant.

At September 30, 2021, 10,761,574 stock options and 6,460,000 performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the three months ended September 30, 2021, DD&A expense decreased to \$11.7 million (\$17.43 per boe) from \$12.5 million (\$18.14 per boe) during the three months ended September 30, 2020. The decrease in DD&A expense is primarily due to a higher offset from the Site Rehabilitation Program (“SRP”) expenses of \$841,000 for the three months ended September 30, 2021 (three months ended September 30, 2020 – \$51,000).

| (\$000s, except per boe amounts) | For the three month ended | | For the nine months ended | |
|----------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Depletion | 11,648 | 12,403 | 32,650 | 37,502 |
| Depreciation and amortization | 95 | 130 | 323 | 382 |
| Total DD&A (\$) | 11,743 | 12,533 | 32,973 | 37,884 |
| Per boe (\$) | 17.43 | 18.14 | 17.52 | 17.78 |

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended September 30, 2021 consisted of the following:

| (\$000s) | For the three month ended | | For the nine months ended | |
|--|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Drilling | 11,974 | 610 | 20,240 | 8,623 |
| Completions | 9,701 | 2,470 | 14,193 | 7,652 |
| Facilities and well equipment | 5,418 | 1,142 | 10,576 | 7,087 |
| Land | 109 | 667 | 438 | 933 |
| Dispositions | (34,095) | - | (34,095) | - |
| Other | 9 | - | 40 | 166 |
| TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS | (6,884) | 4,889 | 11,392 | 24,461 |

During the three months ended September 30, 2021, the Company drilled 30 gross (30.0 net) wells and completed and brought on production 29 gross (29.0 net) wells. During the three months ended September 30, 2020, the Company drilled nil gross (nil net) wells and completed 7 gross (6.9 net) horizontal Viking oil wells.

For the three months ended September 30, 2021, the Company spent \$394,000 in decommissioning expenditures (three months ended September 30, 2020 - \$350,000) which is presented as a reduction in funds flow from operations and received \$841,000 in SRP costs for the three months ended September 30, 2021 (three months ended September 30, 2020 – \$51,000) which is presented as a reduction to depletion expense.

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

| For the quarter ended | Sept. 30, 2021 | Jun. 30, 2021 | Mar. 31, 2021 | Dec. 31, 2020 | Sept. 30, 2020 |
|--------------------------------------|----------------|---------------|---------------|---------------|----------------|
| Drilled - Gross (Net) ⁽¹⁾ | 30 (30.0) | 5 (5.0) | 11 (11.0) | 6 (5.9) | 0 (0.0) |
| Completed - Gross (Net) | 29 (29.0) | 0 (0.0) | 11 (11.0) | 5 (4.9) | 7 (6.9) |
| On production - Gross (Net) | 29 (29.0) | 0 (0.0) | 11 (11.0) | 5 (4.9) | 7 (6.9) |

| For the quarter ended | Jun. 30, 2020 | Mar. 31, 2020 | Dec. 31, 2019 | Sept. 30, 2019 | Jun. 30, 2019 |
|-----------------------------|---------------|---------------|---------------|----------------|---------------|
| Drilled - Gross (Net) | 0 (0.0) | 18 (17.9) | 4 (4) | 22 (21.9) | 0 (0.0) |
| Completed - Gross (Net) | 0 (0.0) | 11 (11.0) | 15 (14.9) | 10 (10.0) | 14 (13.7) |
| On production - Gross (Net) | 0 (0.0) | 11 (11.0) | 15 (14.9) | 10 (10.0) | 14 (13.7) |

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

Since November 2016, the Company drilled a total of 291 gross (285.6 net) and completed and brought on 281 gross (276.5 net) oil wells on production.

DISPOSITIONS

On August 25, 2021, the Company sold of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments). The disposition was effective July 1, 2021. Transaction costs related to the disposition totalled \$429,000. The disposed assets included 275 gross sections of fee title lands and 130 gross sections of gross overriding royalty (“GORR”) lands excluding fee title and GORR lands within the Karve core Viking properties. The annualized fee income associated with the disposed assets based on income from the first six months of 2021 was approximately \$4.4 million (disposition transacted at approximately an 8 times cash flow multiple). The estimated carrying value of the assets disposed and gain on disposition are summarized below:

| (\$000s) | |
|---|---------------|
| Property, plant and equipment | 777 |
| CARRYING VALUE OF NET ASSETS DISPOSED | 777 |
| CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS | 34,095 |
| GAIN ON DISPOSITION | 33,318 |

DECOMMISSIONING LIABILITY

At September 30, 2021, the Company estimated a decommissioning liability of \$19.4 million for the future abandonment and reclamation of Karve’s properties (December 31, 2020 – \$21.7 million). A current liability of \$3.5 million is recognized as management intends to decommission certain wells within the next 12 months and the remaining \$15.9 million of estimated decommissioning liability is recognized 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’s estimated its total future undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$179.8 million (\$102.6 million undiscounted, uninflated), which will be incurred over the remaining life of the assets with the majority of costs estimated 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 from 8% in 2019 to 11% in 2020, combined with changes in forecasted 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. Pursuant to the SRP, the Company was approved for up to \$5.1 million in SRP funding. To date the Company has received \$2.9 million in SRP funding (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 | - | 14 |
| BALANCE AT DECEMBER 31, 2019 and DECEMBER 31, 2020 and SEPTEMBER 30, 2021 | 140,529,665 | 225,158 |

SUPPLEMENTARY QUARTERLY INFORMATION

| For the quarter ended (\$000s) | Sept. 30, 2021 | Jun. 30, 2021 | Mar. 31, 2021 | Dec. 31, 2020 |
|--|----------------|---------------|---------------|---------------|
| Petroleum and natural gas sales | 40,303 | 33,844 | 27,535 | 23,521 |
| Funds flow from operations ⁽¹⁾ | 23,709 | 11,485 | 8,076 | 7,786 |
| Adjusted funds flow from operations ⁽¹⁾ | 24,532 | 12,147 | 8,546 | 7,883 |
| AVERAGE SALES VOLUMES | | | | |
| Oil (bbl/d) | 4,683 | 4,300 | 4,120 | 4,539 |
| Natural gas liquids (bbl/d) | 310 | 285 | 229 | 292 |
| Natural gas (Mcf/d) | 13,988 | 13,788 | 12,695 | 14,095 |
| TOTAL PRODUCTION (BOE/d) | 7,324 | 6,883 | 6,465 | 7,180 |
| AVERAGE BENCHMARK PRICES | | | | |
| Crude oil - WTI (\$US/bbl) | 70.56 | 66.03 | 57.84 | 42.66 |
| Crude oil - Canadian light sweet (\$CDN/bbl) | 84.18 | 76.29 | 68.62 | 49.17 |
| Natural gas - AECO-C spot (\$CDN/mcf) | 3.59 | 3.07 | 3.13 | 2.65 |
| Exchange Rate - (\$US/\$CAD) | 0.79 | 0.81 | 0.79 | 0.77 |
| FIELD NETBACK (\$/BOE) | | | | |
| Revenue | 59.81 | 54.03 | 47.32 | 35.61 |
| Royalties | (5.06) | (4.60) | (3.61) | (2.59) |
| Operating expense | (16.33) | (19.38) | (19.06) | (17.79) |
| Transportation expense | (0.96) | (1.01) | (0.87) | (1.04) |
| FIELD NETBACK (\$/BOE) ⁽¹⁾ | 37.46 | 29.04 | 23.78 | 14.19 |
| General and administration | (2.54) | (2.97) | (4.33) | (2.07) |
| Other income | 2.84 | 3.63 | 2.70 | 2.36 |
| Interest expense | (0.80) | (0.98) | (1.01) | (0.91) |
| Realized hedging | (0.54) | (9.33) | (6.46) | (1.64) |
| CASHFLOW NETBACK (\$/BOE) ⁽¹⁾ | 36.42 | 19.39 | 14.68 | 11.93 |

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

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

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



NET INCOME (LOSS) SUMMARY

| (\$000s, except per boe amounts) | For the three months ended Sept. 30, 2021 | | For the three months ended Sept. 30, 2020 | |
|--|--|---------------|--|---------------|
| | \$ | \$/boe | \$ | \$/boe |
| Petroleum and natural gas sales | 40,303 | 59.81 | 23,314 | 33.74 |
| Royalties | (3,409) | (5.06) | (1,707) | (2.47) |
| NET REVENUE | 36,894 | 54.75 | 21,607 | 31.27 |
| Other income | 1,916 | 2.84 | 1,379 | 2.00 |
| (Loss) on financial derivative contracts | (4,190) | (6.22) | (93) | (0.13) |
| Gain on disposition of property, plant and equipment | 33,318 | 49.45 | - | - |
| TOTAL REVENUE AND OTHER INCOME | 67,938 | 100.82 | 22,893 | 33.14 |
| Operating | 11,001 | 16.33 | 10,863 | 15.72 |
| Transportation | 647 | 0.96 | 804 | 1.16 |
| General and administration | 1,714 | 2.54 | 1,172 | 1.70 |
| Financing | 587 | 0.87 | 612 | 0.89 |
| Depletion, depreciation and amortization | 11,743 | 17.43 | 12,533 | 18.14 |
| Accretion | 596 | 0.88 | 408 | 0.59 |
| Share-based compensation | 659 | 0.98 | 1,604 | 2.32 |
| Exploration and evaluation - expiries | 601 | 0.89 | 510 | 0.74 |
| Transaction costs | 429 | 0.64 | - | - |
| INCOME (LOSS) FROM OPERATIONS BEFORE TAXES | 39,961 | 59.30 | (5,613) | (8.12) |
| Deferred income tax (recovery) | 9,192 | 13.64 | (1,183) | (1.71) |
| NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) | 30,769 | 45.66 | (4,430) | (6.41) |

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at September 30, 2021 are as follows:

| (\$000s) | 2021 | 2022 | Thereafter | Total |
|--------------------------|------------|--------------|--------------|--------------|
| Operating leases | 26 | 78 | - | 104 |
| Pipeline transportation | 365 | 985 | 1,005 | 2,355 |
| TOTAL COMMITMENTS | 391 | 1,063 | 1,005 | 2,459 |

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at September 30, 2021, there were 140,529,665 common shares outstanding (December 31, 2020 – 140,529,665).

As at November 10, 2021, the date of this MD&A, there were 140,529,665 common shares, 13,768,260 stock options and 31,917,500 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.

At September 30, 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.

OFF BALANCE SHEET ARRANGEMENTS

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

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

| (\$000s) | For the three month ended | | For the nine months ended | |
|--|---------------------------|----------------|---------------------------|----------------|
| | Sept. 30, 2021 | Sept. 30, 2020 | Sept. 30, 2021 | Sept. 30, 2020 |
| Cash flow from continuing operations | 19,983 | 8,212 | 37,041 | 37,667 |
| Change in non-cash working capital from operating activities | 3,726 | 275 | 6,229 | (11,910) |
| FUNDS FLOW FROM OPERATIONS | 23,709 | 8,487 | 43,270 | 25,757 |
| Transaction costs | 429 | - | 429 | - |
| Decommissioning expenditures | 394 | 350 | 1,526 | 669 |
| ADJUSTED FUNDS FLOW FROM OPERATIONS | 24,532 | 8,837 | 45,225 | 26,426 |

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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^R Denotes member of the Reserves Committee.
^C Denotes member of the Compensation Committee.

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