KARVE ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2019 and JUNE 30, 2018

August 7, 2019

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

On July 15, 2019, the Company acquired all outstanding shares and the assumption of debt of High Ground Energy Inc. ("High Ground" or the "Acquisition"). The Acquisition adds sweet, light oil-weighted Viking assets which are contiguous to Karve's existing core area at Monitor, including approximately 2,000 BOE/d of production (52% liquids). The Acquisition increases Karve's dominant footprint in the Alberta Viking and enables near term expansion of the Company's waterflood project on acquired lands. Pro forma production is approximately 10,100 BOE/d (63% liquids). As part of the Acquisition, Karve is assuming net debt of $32.5 million as well as issuing 3.2 million common shares of Karve at an estimated fair value of $2.75 per Karve share for a total acquisition cost of $41.3 million.

In the second quarter of 2019, Karve produced an average of 8,134 BOE/d (69% liquids). In the quarter, Karve completed a total of 14 gross (13.7 net) horizontal wells through breakup that were previously drilled but not completed. Since the end of the second quarter, we have recommenced drilling and expect to have 15 gross (15.0 net) wells drilled and 10 gross (10.0 net) wells completed by the end of August. From November 2016 to June 30, 2019, Karve has drilled and brought a total of 193 gross (187.9 net) horizontal Viking oil wells on production.

Comparing second quarter operating expenses year over year, per BOE operating expenses have continued to decrease from $15.87 in the second quarter of 2018 to $13.93 in the second quarter of 2019 (12% reduction). Karve anticipates a number of synergistic opportunities within the Acquisition lands and will continue to optimize pro forma operating expenses in the coming months.

In light of more volatile commodity prices and differentials, Karve has decided to reduce its capital program to approximately match expected cash flow for 2019. The 2019 capital program now includes the drilling of 30 gross (29.9 net) and completing of 52 gross (51.3 net) horizontal Viking oil wells for $44.4 million. This is down from original plans to drill 48 gross (47.6 net) and complete 70 gross (69.0 net) horizontal Viking oil wells. The remaining $35.6 million of capital will be spent on waterflood, facility and abandonment initiatives. Karve is optimistic about the additional waterflood potential on its lands, including on its Acquisition lands and has expanded its waterflood capital program.

You will find enclosed the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three and six months ended June 30, 2019. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2019 to June 30, 2019 ("six months ended June 30, 2019"). It is dated August 7, 2019 and should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2019 and the audited consolidated financial statements for the year ended December 31, 2018. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

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

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended		For the six months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net income	5,359	4,629	5,310	10,060
Per share - basic	0.04	0.03	0.04	0.07
Per share - diluted	0.04	0.03	0.04	0.07
Funds flow from operations (1)	19,696	19,698	38,565	42,067
Per share - basic (1)	0.14	0.14	0.28	0.31
Per share - diluted (1)	0.13	0.13	0.26	0.28
Adjusted funds flow from operations (1)	21,162	21,812	40,492	45,299
Per share - basic (1)	0.15	0.16	0.29	0.33
Per share - diluted (1)	0.14	0.15	0.27	0.31
Capital expenditures (before acquisitions and dispositions)	15,218	16,870	34,303	42,552
Net acquisitions (dispositions)	119	(29,295)	119	(29,295)
Total net capital expenditures	15,337	(12,425)	34,422	13,257
Adjusted positive working capital (net debt) (1)	(21,166)	34,063	(21,166)	34,063
Total assets	325,593	265,604	325,593	265,604
Shares outstanding, weighted average (000s)	137,289	137,199	137,308	137,199
Shares outstanding, end of period (000s)	137,314	137,199	137,314	137,199
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	5,316	5,697	5,520	5,952
NGLs (bbl/d)	277	523	242	471
Natural gas (mcf/d)	15,247	24,032	14,113	23,384
Total (boe/d)	**8,134**	**10,225**	**8,114**	**10,320**
Average sales prices (excluding hedging gains and losses)				
Oil ($/bbl)	67.60	74.08	63.82	68.79
NGLs ($/bbl)	37.83	60.46	38.86	57.75
Natural gas ($/mcf)	1.29	1.37	1.82	1.83
Boe basis ($/boe)	**47.89**	**47.59**	**47.73**	**46.44**
Field netback ($/boe excluding hedging gains and losses)				
Sales price	47.89	47.59	47.73	46.44
Royalties	(3.93)	(2.86)	(3.75)	(2.62)
Operating expense	(13.93)	(15.87)	(14.40)	(15.88)
Transportation expense	(1.10)	(1.87)	(1.52)	(1.54)
Field netback (1)	**28.93**	**26.99**	**28.06**	**26.40**

(1) Non-GAAP measure, see page 15 for details.

SALES VOLUMES

Sales volumes averaged 8,134 boe/d during the three months ended June 30, 2019 compared to 10,225 boe/d for the three months ended June 30, 2018. The decrease in sales volumes from the three months ended June 30, 2018 is due to the disposition of non-core shallow Viking natural gas and Mannville oil assets in the second quarter of 2018. This decrease was offset by the Alliance acquisition which closed on October 31, 2018, and bringing 93 gross (89.1 net) horizontal wells on production during the period from April 1, 2018 to June 30, 2019.

	For the three months ended		For the six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Sales volumes				
Oil (bbl/d)	5,316	5,697	5,520	5,952
NGLs (bbl/d)	277	523	242	471
Natural gas (mcf/d)	15,247	24,032	14,113	23,384
Total (boe/d)	**8,134**	**10,225**	**8,114**	**10,320**

Average Company production is approximately 10,100 boe/d (66% liquids) for the first week of August 2019, which includes 2,000 boe/d of production from the Acquisition that closed on July 15, 2019.

SALES PRICES AND REVENUE

For the three months ended June 30, 2019, the Company generated total revenue of $35.5 million (three months ended June 30, 2018 - $44.3 million) on average sales volumes of 8,134 boe/d. Revenue is recorded before transportation expenses. Despite lower oil prices in the second quarter of 2019, the average sales price per boe remained consistent for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 due to a change in the Company's sales product mix due to the closing of the disposition on June 14, 2018 of non-core natural gas weighted assets.

	For the three months ended		For the six months ended	
KARVE AVERAGE REALIZED PRICE (1)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue ($000s)	35,450	44,283	70,098	86,758
Oil ($/bbl)	67.60	74.08	63.82	68.79
NGLs ($/bbl)	37.83	60.46	38.86	57.75
Natural gas ($/mcf)	1.29	1.37	1.82	1.83
Karve realized price ($/boe)	**47.89**	**47.59**	**47.73**	**46.44**
AVERAGE BENCHMARK PRICES (2)				
Crude oil - WTI ($US/bbl)	59.84	67.88	57.33	65.38
Crude oil - Canadian light sweet ($CDN/bbl)	72.55	77.82	69.74	73.96
Natural gas - AECO-C spot ($CDN/mcf)	1.05	1.20	1.86	1.63
Exchange Rate - ($US/$CAD)	0.75	0.77	0.75	0.77

(1) Excludes hedging gains and losses.

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

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

DERIVATIVE CONTRACTS

From time to time, the Company may hedge a portion of its crude oil sales through the use of financial derivative contracts. In accordance with standard industry practice, financial derivative contracts are marked to market.

At June 30, 2019, the Company did not have any commodity contracts in place.

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Realized loss on financial derivative contracts	-	(1,230)	-	(1,983)
Unrealized loss on financial derivative contracts	-	(685)	-	(2,914)
LOSS ON FINANCIAL DERIVATIVE CONTRACTS	**-**	**(1,915)**	**-**	**(4,897)**

ROYALTIES

($000s, except per boe amounts)	For the three months ended June 30, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018
Royalties	2,907	2,664	5,512	4,892
Royalties as a % of revenue	8.2%	6.0%	7.9%	5.6%
Per boe ($)	3.93	2.86	3.75	2.62

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended June 30, 2019 was $2.9 million ($3.93 per boe) compared to $2.7 million ($2.86 per boe) for the three months ended June 30, 2018. For the three months ended June 30, 2019, the Company's royalty rate was 8.2% of revenues (three months ended June 30, 2018 – 6.0%). The increase in royalty rate relates to higher oil crown royalties as a number of low decline horizontal oil Viking wells that have come off royalty holiday. The Company expects its royalty rate to increase slowly over time.

OPERATING EXPENSE

($000s, except per boe amounts)	For the three months ended June 30, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018
Operating expense	10,312	14,767	21,143	29,662
Per boe ($)	13.93	15.87	14.40	15.88

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 $10.3 million ($13.93 per boe) during the three months ended June 30, 2019 and $14.8 million ($15.87 per boe) during the three months ended June 30, 2018. Despite the 2018 disposition when lower operating cost natural gas was sold, operating expenses per boe decreased during the three months ended June 30, 2019 compared to the three months ended June 30, 2018 from $15.87 per boe to $13.93 per boe due to operating efficiencies gained over the past year. In the future, as more horizontal oil wells come on production, the operating expense per boe is expected to continue to decrease due to the fixed nature of a considerable portion of the expenses which will be allocated over increasing production volumes and efficiencies in operating the assets over time.

TRANSPORTATION EXPENSE

($000s, except per boe amounts)	For the three months ended June 30, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018
Transportation expense	811	1,738	2,230	2,872
Per boe ($)	1.10	1.87	1.52	1.54

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 $811,000 ($1.10 per boe) during the three months ended June 30, 2019 and $1.7 million ($1.87 per boe) for the three months ended June 30, 2018. The decrease during the three months ended June 30, 2019 compared to the three months ended June 30, 2018 is due to lower oil trucking costs as the Company pipeline connects more of its production.

FIELD NETBACK

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

($000s, except per boe amounts)	For the three months ended June 30, 2019 $	$/boe	For the three months ended June 30, 2018 $	$/boe
Revenue	35,450	47.89	44,283	47.59
Royalties	(2,907)	(3.93)	(2,664)	(2.86)
Operating expense	(10,312)	(13.93)	(14,767)	(15.87)
Transportation expense	(811)	(1.10)	(1,738)	(1.87)
FIELD NETBACK ($) (1)	**21,420**	**28.93**	**25,114**	**26.99**

(1) Non-GAAP measure, see page 15 for details.

($000s, except per boe amounts)	For the six months ended June 30, 2019 $	$/boe	For the six months ended June 30, 2018 $	$/boe
Revenue	70,098	47.73	86,758	46.44
Royalties	(5,512)	(3.75)	(4,892)	(2.62)
Operating expense	(21,143)	(14.40)	(29,662)	(15.88)
Transportation expense	(2,230)	(1.52)	(2,872)	(1.54)
FIELD NETBACK ($) (1)	**41,213**	**28.06**	**49,332**	**26.40**

(1) Non-GAAP measure, see page 15 for details.

OTHER INCOME

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Royalty income	1,417	830	2,391	1,568
Processing fee income	989	998	1,949	1,786
Other	64	260	118	317
Total other income	2,470	2,088	4,458	3,671
Per boe ($)	3.34	2.24	3.04	1.97

Other income for the three months ended June 30, 2019 was $2.5 million ($3.34 per boe) and $2.1 million ($2.24 per boe) for the three months ended June 30, 2018. The other income streams relate to processing fee income, royalty income, and other income.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests which were acquired in the Provost Acquisition. The increase in royalty income is in conjunction with the disposition that closed on June 14, 2018, in which the Company retained fee title land.

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 is a result of Karve retaining key infrastructure in the disposition that closed on June 14, 2018 and entering into processing agreements for third party production.

Other income totalling $64,000 for the three months ended June 30, 2019 (three months ended June 30, 2018 - $260,000) relates to road use income, seismic licensing income, and contract operating income.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three months ended June 30, 2019 and June 30, 2018:

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Staff and consulting costs	1,986	2,669	4,017	4,296
Professional fees	307	188	384	409
Office and rent costs	401	617	835	1,030
Other	278	364	550	566
General and administration expense (gross)	2,972	3,837	5,786	6,301
Capitalized G&A and overhead recovery	(464)	(335)	(1,019)	(1,176)
Lease liability reclassifciation	(113)	-	(226)	-
General and administration expense (net)	2,395	3,502	4,541	5,125
Per boe ($)	3.24	3.76	3.09	2.74

General and administrative expenses (net) for the three months ended June 30, 2019 were $2.4 million ($3.24 per boe) and $3.5 million ($3.76 per boe) for the three months ended June 30, 2018. The decrease in gross G&A during the three months ended June 30, 2019 compared to the three months ended June 30, 2018 is due to less staff related to the disposition of non-core shallow Viking assets. The increase in capitalized G&A and overhead recovery relates to increased capital spending for the three months ended June 30, 2019 compared to June 30, 2018.

OPERATING LOAN AND LONG TERM DEBT

On December 3, 2018 the Corporation secured bank credit facilities of $100.0 million comprised of $90.0 million syndicated committed facility ("Credit Facility") and a $10.0 million operating loan (previously a $25.0 million revolving operating demand facility). The Credit Facility is a committed 364 days + 1 year and extendible annually. The Credit Facility and operating loan incur interest based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 0.50 and 3.50 percent depending on the type of borrowing and the Corporation's debt to EBITDA ratio. The Corporation is also subject to a standby fee of 0.3375 percent to 0.7875 percent depending on the Corporation's debt to EBITDA ratio. The next annual review date is May 31, 2020.

As at June 30, 2019, $24.7 million (net of unamortized debt issue costs) was drawn on the Credit Facility and $2.3 million was drawn on the operating loan.

Long term debt as at June 30, 2019 and December 31, 2018 is as follows:

($000s)	As at Jun. 30, 2019	As at Dec. 31, 2018
Credit facility	25,000	15,000
Less: unamortized debt issue costs	(263)	(269)
LONG TERM DEBT	**24,737**	**14,731**
Operating loan	2,303	6,109
CARRYING VALUE OF BANK DEBT	**27,040**	**20,840**

Financing expense for the three months ended June 30, 2019 and 2018 is comprised of the following:

	For the three months ended		For the six months ended	
($000s)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Credit facility interest and charges	265	-	522	-
Operating loan interest and charges	68	-	125	-
Amortization of debt issue costs	87	-	106	-
Interest on lease liability	15	-	29	-
FINANCING EXPENSES	**435**	**-**	**782**	**-**

For the six months ended June 30, 2019, the effective interest rate on the credit facility was 4.32 percent. Key covenants of the bank credit facilities include standard business operating covenants. As at June 30, 2019 the Company is in compliance with all covenants.

Subsequent to June 30, 2019, the Company assumed $32.5 million of net debt from the acquisition of High Ground Energy Inc.

SHARE-BASED COMPENSATION EXPENSE

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Share-based compensation - options	595	1,234	1,260	2,498
Share-based compensation - performance warrants	742	811	1,504	1,632
Share based compensation expense	1,337	2,045	2,764	4,130
Per boe ($)	1.81	2.20	1.88	2.21

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 June 30, 2019 was $595,000 (three months ended June 30, 2018 - $1.2 million) and SBC expense related to performance warrants for the three months ended June 30, 2019 was $742,000 (three months ended June 30, 2018 - $811,000) using the graded vesting method.

As at June 30, 2019, 13,500,592 stock options and 32,360,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.58 per option and $2.88 per warrant. The weighted average fair value of stock options and performance warrants outstanding was $0.77 per option and $0.47 per warrant.

At June 30, 2019, 7,172,603 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 June 30, 2019, depletion expense increased to $14.5 million (three months ended June 30, 2018 - $10.4 million) due to increases in net carrying value, and future development costs, offset by the disposition of non-core assets that closed on June 14, 2018. Depletion expense per boe increased during the three months ended June 30, 2019, due to the significant increase in net carrying value and future development costs from higher weighted oil reserves.

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Depletion	14,173	10,375	27,789	20,405
Depreciation and amortization	123	11	245	22
Total DD&A ($)	14,296	10,386	28,034	20,427
Per boe ($)	19.31	11.16	19.09	10.94

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended June 30, 2019 consisted of the following:

	For the three months ended		For the six months ended	
($000s)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Drilling	821	5,993	2,512	13,776
Completions	4,447	4,787	9,018	15,322
Facilities and well equipment	9,249	5,384	21,825	12,468
Geological and geophysical	3	24	55	24
Land	694	544	812	823
Acquistions	119	1,360	119	1,360
Dispositions	-	(30,655)	-	(30,655)
Office equipment	4	138	81	139
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**15,337**	**(12,425)**	**34,422**	**13,257**

During the three months ended June 30, 2019, the Company completed 14 gross (13.7 net) horizontal Viking oil wells. During the three months ended June 30, 2018, the Company drilled 12 gross (11.5 net) wells and completed 9 gross (8.9 net) horizontal Viking oil wells.

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

For the quarter ended	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018
Drilled - Gross (Net)	0 (0.0)	5 (5.0)	21 (20.5)	52 (49.1)	12 (11.5)
Completed - Gross (Net)	14 (13.7)	12 (11.9)	9 (8.5)	49 (46.1)	9 (8.9)
On production - Gross (Net)	14 (13.7)	12 (11.9)	19 (18.3)	44 (41.2)	4 (4.0)

For the quarter ended	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Drilled - Gross (Net)	25 (25.0)	23 (22.1)	25 (24.8)	8 (7.9)	14 (13.9)
Completed - Gross (Net)	24 (23.8)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)
On production - Gross (Net)	24 (23.8)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)

Since November 2016, the Company drilled a total of 195 gross (189.9 net) and completed 192 gross (186.9 net) horizontal Viking oil wells to June 30, 2019.

ACQUISITION OF OIL AND GAS ASSETS

Alliance Acquisition

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

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

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

Other Miscellaneous Acquisitions

On April 11, 2019, the Company closed a minor acquisition to acquire additional working interest in oil and gas assets in the Company's core area for total consideration of $111,000, subject to customary closing adjustments. The effective date of the acquisition is Feb 1, 2019. The consideration was paid through issuance of 44,445 common shares of the Company.

($000s)	
Property, plant and equipment	119
Decommissioning liabilities	(8)
FAIR VALUE OF NET ASSETS ACQUIRED	**111**
CONSIDERATION	
Common share issuance	111
TOTAL PURCHASE PRICE	**111**

Throughout 2018, the Company acquired various working interests, land, light oil producing properties, royalty interests, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

($000s)	
Property, plant and equipment	1,432
Decommissioning liabilities	(22)
FAIR VALUE OF NET ASSETS ACQUIRED	**1,410**
CONSIDERATION	
Cash	1,410
TOTAL PURCHASE PRICE	**1,410**

DISPOSITION

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

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

($000s)	
Property, plant and equipment (NOTE 12)	40,855
Exploration and evaluation assets (NOTE 13)	228
Decommissioning liabilities (NOTE 15)	(13,284)
Net working capital	2,856
CARRYING VALUE OF NET ASSETS DISPOSED	**30,655**
CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS	**30,655**

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

OTHER LONG-TERM ASSET

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

($000s)	As at Jun. 30, 2019	As at Dec. 31, 2018
Balance, beginning of period	2,565	-
Investment in PrivateCo	-	3,000
Equity share of loss	(2,565)	(435)
BALANCE, END OF PERIOD	**-**	**2,565**

The net loss of PrivateCo for the six months ended June 30, 2019 was $8.3 million. The investment in PrivateCo was previously valued at nil. On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of $1.0 million.

DECOMMISSIONING LIABILITY

At June 30, 2019, the Company estimated a decommissioning liability of $11.0 million for the future abandonment and reclamation of Karve's properties (June 30, 2018 – $8.9 million). $1.6 million is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $9.4 million of estimated decommissioning liability is presented as a long-term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $172.9 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2058. The estimated future cash flows have been discounted using a credit adjusted rate of 8% and an inflation rate of 2%.

SHARE CAPITAL

($000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2017	137,199,270	216,061
Issued on exercise of options and performance warrants	70,000	113
Allocation of contributed surplus - exercise of options and performance warrants	-	34
BALANCE AT DECEMBER 31, 2018	**137,269,270**	**216,208**
Issued common shares	44,445	111
BALANCE AT JUNE 30, 2019	**137,313,715**	**216,319**

During the three months ended June 30, 2019 the Company issued 44,445 common shares at $2.50 per common share to fund a minor acquisition (three months ended June 30, 2018 – nil).

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended ($000s)	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018
Petroleum and natural gas sales	35,450	34,648	25,807	37,335
Funds flow from operations [(1)]	19,696	18,869	7,058	20,690
Adjusted funds flow from operations [(1)]	21,162	19,330	8,384	21,933
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,316	5,727	6,278	4,807
Natural gas liquids (bbl/d)	277	205	268	291
Natural gas (Mcf/d)	15,247	12,966	13,194	13,359
TOTAL PRODUCTION (BOE/d)	**8,134**	**8,093**	**8,745**	**7,325**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	59.84	54.81	58.81	69.46
Crude oil - Canadian light sweet ($CDN/bbl)	72.55	66.92	48.27	75.64
Natural gas - AECO-C spot ($CDN/mcf)	1.11	2.62	1.62	1.28
Exchange Rate - ($US/$CAD)	0.75	0.75	0.76	0.77
FIELD NETBACK ($/BOE)				
Revenue	47.89	47.57	32.08	55.41
Royalties	(3.93)	(3.58)	(2.60)	(4.77)
Operating expense	(13.93)	(14.87)	(15.33)	(15.50)
Transportation expense	(1.10)	(1.95)	(3.89)	(1.71)
FIELD NETBACK ($/BOE) [(1)]	**28.93**	**27.17**	**10.26**	**33.43**
General and administration	(3.24)	(2.95)	(2.57)	(2.91)
Other income	3.34	2.73	2.67	4.01
Interest income (expense)	(0.44)	(0.41)	0.03	0.08
Realized hedging	-	-	(0.88)	(2.06)
CASHFLOW NETBACK ($/BOE) [(1)]	**28.59**	**26.54**	**9.51**	**32.55**

(1) Non-GAAP measure, see page 15 for details.

For the quarter ended ($000s)	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017
Petroleum and natural gas sales	44,283	42,475	38,464	18,133
Funds flow from (used for) operations [(1)]	19,698	22,368	19,022	4,654
Adjusted funds flow from operations [(1)]	21,812	23,486	19,896	6,521
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,697	6,210	5,700	3,283
Natural gas liquids (bbl/d)	523	419	412	226
Natural gas (Mcf/d)	24,032	22,729	23,792	12,553
TOTAL PRODUCTION (BOE/d)	**10,225**	**10,417**	**10,078**	**5,602**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	67.88	62.91	55.27	48.18
Crude oil - Canadian light sweet ($CDN/bbl)	77.82	70.09	65.68	57.15
Natural gas - AECO-C spot ($CDN/mcf)	1.20	2.06	1.72	1.61
Exchange Rate - ($US/$CAD)	0.77	0.79	0.79	0.80
FIELD NETBACK ($/BOE)				
Revenue	47.59	45.31	41.49	35.18
Royalties	(2.86)	(2.38)	(2.31)	(2.37)
Operating expense	(15.87)	(15.89)	(14.64)	(17.29)
Transportation expense	(1.87)	(1.21)	(1.30)	(1.60)
FIELD NETBACK ($/BOE) [(1)]	**26.99**	**25.83**	**23.24**	**13.92**
General and administration	(3.71)	(1.68)	(3.77)	(3.50)
Other income	2.24	1.69	1.97	1.43
Interest income	0.04	0.01	0.03	0.06
Realized hedging	(1.32)	(0.80)	-	0.64
CASHFLOW NETBACK ($/BOE) [(1)]	**24.24**	**25.05**	**21.47**	**12.55**

(1) Non-GAAP measure, see page 15 for details.

NET INCOME SUMMARY

($000s, except per boe amounts)	For the three months ended June 30, 2019 $	$/boe	For the three months ended June 30, 2018 $	$/boe
Petroleum and natural gas sales	35,450	24.14	44,283	47.59
Royalties	(2,907)	(1.98)	(2,664)	(2.86)
NET REVENUE	**32,543**	**22.16**	**41,619**	**44.73**
Other income	2,470	1.68	2,088	2.24
Loss on financial derivative contracts	-	-	(1,915)	(2.06)
Loss on investment	-	-	(1,354)	(1.46)
Interest income	-	-	39	0.04
TOTAL REVENUE AND OTHER INCOME	**35,013**	**23.84**	**40,477**	**43.49**
Operating	10,312	7.02	14,767	15.87
Transportation	811	0.55	1,738	1.87
General and administration	2,395	1.63	3,502	3.76
Financing	435	0.30	-	-
Depletion, depreciation and amortization	14,296	9.73	10,386	11.16
Accretion	252	0.17	347	0.37
Share-based compensation	1,337	0.91	2,045	2.20
Exploration and evaluation - expiries	197	0.13	156	0.17
Transaction costs	8	0.01	336	0.36
INCOME FROM OPERATIONS BEFORE TAXES	**4,970**	**3.39**	**7,200**	**7.73**
Current income tax expense	-	-	743	0.80
Deferred income tax recovery	(389)	(0.26)	1,828	1.96
NET INCOME AND COMPREHENSIVE INCOME	**5,359**	**3.65**	**4,629**	**4.97**

Included in the deferred tax recovery of $389,000 for the three months ended June 30, 2019, is a recovery of $2.0 million due to decrease in the Alberta provincial tax rates that was enacted in the second quarter of 2019.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at June 30, 2019 are as follows:

($000s)	2019	2020	2021	2022	Therafter	Total
Operating leases	48	48	-	-	-	96
Pipeline transportation	1,152	1,481	1,449	985	1,005	6,072
TOTAL ANNUAL COMMITMENTS	**1,200**	**1,529**	**1,449**	**985**	**1,005**	**6,168**

RELATED PARTY DISCLOSURES

For the six months ended June 30, 2019, the Company received a total of $1.7 million of gas processing income and royalty income (six months ended June 30, 2018 - nil) from PrivateCo. PrivateCo is a company with some common directors with Karve. Gas processing income and royalty income are based on standard third party agreements. As at June 30, 2019, $2.3 million is included in the Company's accounts receivable for final statement of adjustments, gas processing income, and royalty income for amounts due from PrivateCo (year ended December 31, 2018 - $2.4 million). Refer to Note 25(b) - Subsequent Events.

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at June 30, 2019, there were 137,313,715 common shares outstanding (June 30, 2018 - 137,199,270).

As at August 7, 2019, the date of this MD&A, there were 140,529,665 common shares, 13,467,260 stock options and 32,360,500 performance warrants outstanding.

LIQUIDITY

The Company relies on operating cash flows, debt, and equity issuances to fund its capital requirements and provide liquidity. From time to time, the Company may access capital markets to meets its capital programs. Future liquidity depends primarily on cash flow generated from operations, bank credit facilities and the ability to access equity markets.

SUBSEQUENT EVENTS

a) Acquisition of High Ground Energy Inc.

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 $32.5 million, including 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 adds sweet, light oil-weighted Viking assets which are contiguous to Karve’s existing core area at Monitor, including approximately 2,000 boe/d of production (52% liquids). The Acquisition increases Karve’s dominant footprint in the Alberta Viking and enables near term expansion of the Company’s waterflood project on acquired lands.

b) Sale of Investment in PrivateCo.

On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of $1.0 million. The investment in PrivateCo was previously written down to nil.

c) Minor Acquisition

On July 4, 2019, the Company acquired additional working interest and royalty interest in oil and gas assets in the Company’s core area for total cash consideration of $1.1 million, subject to customary closing adjustments. The effective date of the acquisition was June 1, 2019.

CHANGES IN ACCOUNTING POLICY

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

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

At the date of transition, the Company recognized a lease liability of $1.1 million in respect of long-term minimum commitments associated with corporate office lease arrangements under IFRS 16. The net balance sheet impact on transition was $738,000 due to the derecognition of a $416,000 deferred lease liability previously recognized on the balance sheet under IAS 37, now recognized under IFRS 16. The previously recognized deferred lease liability is netted against the right of use asset. Under previous IFRS standards, office lease arrangements were recognized as general and administrative expenses as incurred. Karve is the lessee for substantially all in-scope office lease arrangements. At January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated right of use asset. In this case, no impairment assessment was performed under IAS 36 Impairment of Assets.

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

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

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

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.

All leases have been treated 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 June 30, 2019.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ materially from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Company to implement its strategic initiatives, the availability and price of energy commodities, government and regulatory decisions, plant availability, competitive factors in the oil and gas industry and prevailing economic conditions in the regions the Company operates. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements are as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Company has relied upon in the past will continue to be available to the Company on terms favorable to the Company and that future economic and operating conditions will not limit the Company's access to debt and equity markets. Forward-looking statements in respect of the costs anticipated being associated with the acquisition of oil and gas properties are based upon assumptions that future acquisition costs will not significantly increase from past acquisitions. Many of these factors, expectations and assumptions are based on management's knowledge and experience in the industry and on public disclosure of industry participants and analysts related to anticipated exploration and development programs, the effect of changes to regulatory, taxation and royalty regimes. The Company believes that the material factors, expectations and assumptions reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

Forward-looking statements involving significant risks and uncertainties should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements. The Company cannot assure investors that actual results will be consistent with the forward-looking statements and readers are cautioned not to place undue reliance on them.

The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of the risk factors set forth below and elsewhere in this document; general economic conditions in Canada; changes in the level of capital expenditures, volatility in market prices for oil and natural gas, risks inherent in the Company's ability to acquire any economic interest in certain oil and gas assets and then to generate sufficient cash flow from operations to meet its current and future obligations, the Company's ability to access external sources of debt and equity capital, changes in legislation and the regulatory environment, including uncertainties with respect to uncertainties in weather and temperature affecting the duration of the oilfield drilling activities, competition, sourcing, pricing and availability of oil field services, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel, liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations, credit risk to which the Company is exposed in the conduct of its business, and changes to the royalty regimes applicable to entities.

Although forward-looking statements contained in this MD&A are based upon what the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are expressly qualified by this cautionary statement. Unless otherwise required by law, Karve does not intend, or assume any obligation, to update these forward-looking statements.

BARRELS OF OIL EQUIVALENT

The term referred to herein in respect of barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this MD&A are derived from converting gas to oil in the ratio of six thousand cubic feet to one barrel of oil. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

NON-GAAP MEASUREMENTS

The MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. The reconciliation between cash flow from operating activities and funds flow from operations can be found in the statement of cash flows in the annual financial statements and is presented before the change in non-cash operating working capital.

The Company reconciles funds flow from (used for) operations and adjusted funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:

	For the three months ended		For the six months ended	
($000s)	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cash flow from continuing operations	19,801	18,447	35,430	41,179
Change in non-cash working capital from operating activities	(105)	1,251	3,135	888
FUNDS FLOW FROM OPERATIONS	**19,696**	**19,698**	**38,565**	**42,067**
Transaction costs	8	336	8	336
Decommissioning expenditures	1,458	1,778	1,919	2,896
ADJUSTED FUNDS FLOW FROM OPERATIONS	**21,162**	**21,812**	**40,492**	**45,299**

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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