MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2021 and JUNE 30, 2020

LETTER TO OUR SHAREHOLDERS August 11, 2021

Dear Shareholder:

We are pleased to update you on Karve's progress since our May 12, 2021 letter to shareholders.

In the second quarter of 2021, commodity prices continued to improve and stabilize from the pricing uncertainty caused by the COVID-19 pandemic in 2020. This resulted in an increase of 42% in funds flow from operations in Q2 2021 compared to the first quarter of 2021 and a reduction of net debt of $5.4 million to $53.2 million. Karve continues to execute on a flexible and disciplined capital allocation strategy to maintain its strong financial position. The Company's current production is 7,200 boe/d (66% liquids).

Karve produced an average of 6,883 boe/d (67% liquids) in the three months ended June 30, 2021 and drilled 5 gross (5.0 net) horizontal wells which were completed and brought on production in July 2021. In the second quarter of 2021, the Company generated $12.1 million in adjusted funds flow from operations and incurred capital expenditures of $6.0 million. Since November 2016, the Company drilled a total of 261 gross (255.6 net) and completed and brought on 252 gross (247.5 net) oil wells on production.

For the three months ended June 30, 2021, the Company reported an increase to field operating netback of 22% ($29.04 per boe compared to $23.78 per boe in the first quarter of 2021).

Based on current commodity prices in 2021, Karve is planning a 2021 capital expenditure program of $72.2 million. The capital program consists of $54.6 million to drill and complete 54 horizontal Viking oil wells, $7.3 million on waterflood, $8.1 million on facilities and $1.6 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 $5.1 million with the federal site rehabilitation program. Consistent with previous capital expenditure programs, Karve intends to adjust its capital spending to keep within its cash flow. Based on the above capital expenditure program, Karve expects to exit 2021 with approximately 8,500 boe/d of production.

Enclosed are the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three and six months ended June 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 June 30, 2021. It is dated August 11, 2021 and should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 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 six months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net income (loss)	2,408	(11,762)	(2,430)	(11,866)
Per share - basic	0.02	(0.08)	(0.02)	(0.08)
Per share - diluted	0.02	(0.08)	(0.02)	(0.08)
Funds flow from operations (1)	11,485	4,811	19,561	17,270
Per share - basic (1)	0.08	0.03	0.14	0.12
Per share - diluted (1)	0.08	0.03	0.14	0.12
Adjusted funds flow from operations (1)	12,147	4,900	20,693	17,589
Per share - basic (1)	0.09	0.03	0.15	0.13
Per share - diluted (1)	0.09	0.03	0.15	0.13
Capital expenditures (before acquisitions and dispositions)	6,031	576	18,276	19,572
Adjusted (net debt) (1)	(53,231)	(58,624)	(53,231)	(58,624)
Total assets	356,563	361,452	356,563	361,452
Shares outstanding, weighted average (000s)	140,530	140,530	140,530	140,530
Shares outstanding, end of period (000s)	140,530	140,530	140,530	140,530
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	4,300	4,572	4,211	5,046
NGLs (bbl/d)	285	292	257	295
Natural gas (mcf/d)	13,788	15,268	13,244	15,423
Total (boe/d)	**6,883**	**7,409**	**6,675**	**7,912**
Average sales prices (excluding hedging gains and losses)				
Oil ($/bbl)	73.46	24.50	68.02	37.33
NGLs ($/bbl)	51.74	13.04	50.18	22.43
Natural gas ($/mcf)	2.99	2.00	3.00	2.06
Boe basis ($/boe)	**54.03**	**19.76**	**50.80**	**28.66**
Field netback ($/boe excluding hedging gains and losses)				
Sales price	54.03	19.76	50.80	28.66
Royalties	(4.60)	(1.47)	(4.12)	(2.25)
Operating expense	(19.38)	(12.75)	(19.23)	(13.70)
Transportation expense	(1.01)	(1.11)	(0.94)	(1.30)
Field netback (1)	**29.04**	**4.43**	**26.51**	**11.41**

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

SALES VOLUMES

Sales volumes averaged 6,883 boe/d during the three months ended June 30, 2021 compared to 7,409 boe/d for the three months ended June 30, 2020. The decrease in sales volumes compared to the three months ended June 30, 2020 is due to a combination of natural declines and a substantial reduction in wells drilled. During the period from July 1, 2020 to June 30, 2021, Karve maintained financial discipline by reducing its capital expenditure program and brought on 23 gross (22.8 net) horizontal Viking oil wells while over the period from July 1, 2019 to June 30, 2020, Karve brought on 36 gross (35.9 net) horizontal Viking oil wells. Average Company production was approximately 7,200 boe/d (66% liquids) for the first week of August 2021.

	For the three month ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Sales volumes				
Oil (bbl/d)	4,300	4,572	4,211	5,046
NGLs (bbl/d)	285	292	257	295
Natural gas (mcf/d)	13,788	15,268	13,244	15,423
Total (boe/d)	**6,883**	**7,409**	**6,675**	**7,912**

SALES PRICES AND REVENUE

For the three months ended June 30, 2021, the Company generated total revenue of $33.8 million (three months ended June 30, 2020 - $13.3 million) on average sales volumes of 6,883 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, offset by lower production for the three months ended June 30, 2021. The average sales price per boe for the three months ended June 30, 2021 was $54.03 compared to $19.76 for the three months ended June 30, 2020.

	For the three month ended		For the six months ended	
KARVE AVERAGE REALIZED PRICE (1)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue ($000s)	33,844	13,323	61,379	41,270
Oil ($/bbl)	73.46	24.50	68.02	37.33
NGLs ($/bbl)	51.74	13.04	50.18	22.43
Natural gas ($/mcf)	2.99	2.00	3.00	2.06
Karve realized price ($/boe)	**54.03**	**19.76**	**50.80**	**28.66**
AVERAGE BENCHMARK PRICES (2)				
Crude oil - WTI ($US/bbl)	66.03	27.84	61.94	37.01
Crude oil - Canadian light sweet ($CDN/bbl)	76.29	31.45	72.46	41.74
Natural gas - AECO-C spot ($CDN/mcf)	3.07	2.01	3.10	2.02
Exchange Rate - ($US/$CAD)	0.81	0.72	0.80	0.73

(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 June 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	(418)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021			**2,000**	**60.00**	**(418)**

(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)	(141)
Fixed price differential	Apr. 1/21 - Dec. 31/21	MSW	500	(4.40)	(19)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE - 2021			**1,500**	**(4.70)**	**(160)**

At June 30, 2021 the fair value of the financial derivative contracts was a current liability position of $578,000 resulting in an unrealized gain of $4.1 million for the three months ended June 30, 2021 (three months ended June 30, 2020 – unrealized loss of $5.5 million). The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at June 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 gain of $3.2 million and a derivative liability of $1.5 million. A $5.00 USD decrease in WTI would result in an unrealized gain of $5.0 million or a derivative asset of $311,000.

As at August 10, 2021 the fair value of the financial derivative contracts was a current derivative liability position of $570,000.

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

	For the three month ended		For the six months ended	
($000s)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Unrealized gain (loss) on financial derivative contracts	4,104	(5,536)	1,819	(1,143)
Realized (loss) gain on financial derivative contracts	(5,846)	2,430	(9,607)	2,430
(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**(1,742)**	**(3,106)**	**(7,788)**	**1,287**

The Company recognized a realized loss of $5.8 million for the three months ended June 30, 2021 (three months ended June 30, 2020 – realized gain $2.4 million).

ROYALTIES

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Royalties	2,882	993	4,983	3,245
Royalties as a % of revenue	8.5%	7.5%	8.1%	7.9%
Per boe ($)	4.60	1.47	4.12	2.25

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended June 30, 2021 was $2.9 million ($4.60 per boe) compared to $1.0 million ($1.47 per boe) for the three months ended June 30, 2020. For the three months ended June 30, 2021, the Company's royalty rate was 8.5% of revenues (three months ended June 30, 2020 – 7.5%). The increase in royalties is due to higher average commodity prices during the second quarter of 2021.

OPERATING EXPENSE

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Operating expense	12,143	8,599	23,233	19,726
Per boe ($)	19.38	12.75	19.23	13.70

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 $12.1 million ($19.38 per boe) during the three months ended June 30, 2021 and $8.6 million ($12.75 per boe) during the three months ended June 30, 2020. The majority of the

Company's operating costs are fixed in nature. The increase in operating expenses year over year are due to the gradual return to normalized field operations in 2021 compared to the lower operating expenses recognized for the three months ended June 30, 2020 as the Company implemented cost cutting measures and deferral of repairs and maintenance due to the deterioration of commodity pricing. For the three months ended June 30, 2021, the Company has returned to regular scheduled repairs and maintenance programs and have also seen a large increase in Alberta power prices in the first six months of 2021 compared to same period in 2020. This resulted in an increase of operating expenses and operating expense per boe due to the reduction in production levels during the second quarter of 2021 compared to 2020.

TRANSPORTATION EXPENSE

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Transportation expense	632	746	1,140	1,874
Per boe ($)	1.01	1.11	0.94	1.30

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 $632,000 ($1.01 per boe) during the three months ended June 30, 2021 and $746,000 ($1.11 per boe) for the three months ended June 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:

	For the three months ended June 30, 2021		For the three months ended June 30, 2020	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	33,844	54.03	13,323	19.76
Royalties	(2,882)	(4.60)	(993)	(1.47)
Operating expense	(12,143)	(19.38)	(8,599)	(12.75)
Transportation expense	(632)	(1.01)	(746)	(1.11)
FIELD NETBACK ($) (1)	**18,187**	**29.04**	**2,985**	**4.43**

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

	For the six months ended June 30, 2021		For the six months ended June 30, 2020	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	61,379	50.80	41,270	28.66
Royalties	(4,983)	(4.12)	(3,245)	(2.25)
Operating expense	(23,233)	(19.23)	(19,726)	(13.70)
Transportation expense	(1,140)	(0.94)	(1,874)	(1.30)
FIELD NETBACK ($) (1)	**32,023**	**26.51**	**16,425**	**11.41**

(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

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Royalty income	1,342	523	2,215	1,246
Processing fee income	885	737	1,548	1,523
Other	47	(7)	84	129
Total other income	2,274	1,253	3,847	2,898
Per boe ($)	3.63	1.86	3.18	2.01

Other income for the three months ended June 30, 2021 was $2.3 million ($3.63 per boe) and $1.3 million ($1.86 per boe) for the three months ended June 30, 2020. The other income streams from third parties relate to processing fee income, royalty income and other income.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests. The increase in royalty income for the three months ended June 30, 2021 compared to the three months ended June 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 June 30, 2021 compared to the three months ended June 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 June 30, 2021 and June 30, 2020:

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Staff and consulting costs	1,625	969	3,999	2,559
Professional fees	89	137	186	239
Office and rent costs	263	376	698	849
Other	236	261	474	493
General and administration expense (gross)	2,213	1,743	5,357	4,140
Capitalized G&A and overhead recovery	(352)	(231)	(812)	(775)
Lease liability reclassfication	-	(138)	(164)	(276)
General and administration expense (net)	1,861	1,374	4,381	3,089
Per boe ($)	2.97	2.04	3.63	2.15

General and administrative expenses (net) for the three months ended June 30, 2021 were $1.9 million ($2.97 per boe) and $1.4 million ($2.04 per boe) for the three months ended June 30, 2020. This increase is due to the gradual return to normalized operation from the significant cost cutting measures that began in March 2020 and higher government support received in 2020. For the three months ended June 30, 2021, the Company received $362,000 (three months ended June 30, 2020 - $636,000) in government grants which was recorded as a $250,000 reduction to G&A expense and $112,000 as a reduction to operating expenses (three months ended June 30, 2020 - $321,000 and $314,000 respectively).

OPERATING LOAN AND LONG TERM DEBT

The Company has secured bank credit facilities of $65.0 million, comprised of a $58.0 million Credit Facility and a $7.0 million operating loan. The full facility is conforming. The Credit Facility is a committed 364 days + 1 year and extendible upon agreement annually and shown as long term debt on the Company's balance sheet. The operating loan is shown as a current liability. The Credit Facility and operating loan incur interest based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 1.75% and 4.75% depending on the type of borrowing and the Corporation's debt to EBITDA ratio. The Company is also subject to a standby fee of 0.6875% to 1.1875% based on the Corporation's debt to EBITDA ratio. The next annual review date is May 27, 2022.

As at June 30, 2021, $55.3 million (net of unamortized debt issue costs) (December 31, 2020 - $53.4 million) was drawn on the Credit Facility and $1.0 million (December 31, 2020 - $5.5 million) was drawn on the operating loan.

On September 2, 2020, the Corporation issued an irrevocable standby letter of credit in favor of the Saskatchewan - Ministry of Energy and Resources in the amount of $551,000, thereby reducing the available bank credit facility drawings by the same amount. This letter of credit represents a security deposit for the Corporation's Licensee Liability Rating ("LLR") with the Saskatchewan government and will be redetermined on September 2, 2021.

On June 19, 2020, the Corporation issued an irrevocable standby letter of credit in favor of a Nova Gas Transmission Ltd. in the amount of $230,000, thereby reducing the available bank credit facility drawings by the same amount. The letter of credit was increased to $340,000 on February 5, 2021 and a further increase to $400,000 on April 6, 2021. This letter of credit will be redetermined on June 19, 2022.

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

($000s)	As at June 30, 2021	As at Dec. 31, 2020
Credit Facility	55,500	53,500
Less: unamortized debt issue costs	(205)	(126)
LONG TERM DEBT	**55,295**	**53,374**
Bank operating loan	1,027	5,513
TOTAL BANK DEBT	**56,322**	**58,887**

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

	For the three month ended		For the six months ended	
($000s)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Credit facility interest and charges	606	380	1,171	932
Operating loan interest and charges	2	44	24	70
Amortization of debt issue costs	28	52	50	126
Interest on lease liability	9	9	17	18
FINANCING EXPENSES	**645**	**485**	**1,262**	**1,146**

For the three months ended June 30, 2021, the effective interest rate on the credit facility was 4.30% percent (three months ended June 30, 2020 – 2.80%). Key covenants of the bank credit facilities include standard business operating covenants. As at June 30, 2021, the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Share-based compensation - options	374	828	723	1,650
Share-based compensation - performance warrants	335	735	666	1,493
Share-based compensation expense	709	1,563	1,389	3,143
Per boe ($)	1.13	2.32	1.15	2.18

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, 2021 was $374,000 (three months ended June 30, 2020 – $828,000) and SBC expense related to performance warrants for the three months ended June 30, 2021 was $335,000 (three months ended June 30, 2020 - $735,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended June 30, 2021 or 2020.

As at June 30, 2021, 13,898,260 stock options and 32,067,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.79 per option and $2.87 per warrant. The weighted average fair value of stock options and performance warrants outstanding was $0.87 per option and $0.47 per warrant.

At June 30, 2021, 10,831,018 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, 2021, DD&A expense decreased to $10.7 million ($17.09 per boe) from $11.9 million ($17.63 per boe) during the three months ended June 30, 2020. The decrease in DD&A expense is primarily due to the offset of the Site Rehabilitation Program ("SRP") expenses of $1.3 million for the three months ended June 30, 2021 (three months ended June 30, 2020 – nil).

	For the three month ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Depletion	10,606	11,756	21,002	25,099
Depreciation and amortization	98	130	228	252
Total DD&A ($)	10,704	11,886	21,230	25,351
Per boe ($)	17.09	17.63	17.57	17.61

CAPITAL EXPENDITURES & ACQUISITIONS

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

	For the three month ended		For the six months ended	
($000s)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Drilling	3,000	76	8,266	8,013
Completions	190	40	4,492	5,182
Facilities and well equipment	2,701	161	5,158	5,945
Land	109	133	329	266
Other	31	166	31	166
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**6,031**	**576**	**18,276**	**19,572**

During the three months ended June 30, 2021, the Company drilled 5 gross (5.0 net) wells which were completed and brought on production in July 2021. During the three months ended June 30, 2020, the Company did not drill or complete any wells.

For the three months ended June 30, 2021, the Company spent $662,000 in decommissioning expenditures (three months ended June 30, 2020 - $89,000) which is presented as a reduction in funds flow from operations and received $1.3 million in SRP costs for the three months ended June 30, 2021 (three months ended June 30, 2020 – nil) 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	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020
Drilled - Gross (Net) (1)	5 (5.0)	11 (11.0)	6 (5.9)	0 (0.0)	0 (0.0)
Completed - Gross (Net)	0 (0.0)	11 (11.0)	5 (4.9)	7 (6.9)	0 (0.0)
On production - Gross (Net)	0 (0.0)	11 (11.0)	5 (4.9)	7 (6.9)	0 (0.0)

For the quarter ended	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Drilled - Gross (Net)	18 (17.9)	4 (4)	22 (21.9)	0 (0.0)	5 (5.0)
Completed - Gross (Net)	11 (11.0)	15 (14.9)	10 (10.0)	14 (13.7)	12 (11.9)
On production - Gross (Net)	11 (11.0)	15 (14.9)	10 (10.0)	14 (13.7)	12 (11.9)

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

Since November 2016, the Company drilled a total of 261 gross (255.6 net) and completed and brought on 252 gross (247.5 net) oil wells on production.

DECOMMISSIONING LIABILITY

At June 30, 2021, the Company estimated a decommissioning liability of $20.0 million for the future abandonment and reclamation of Karve's properties (December 31, 2020 – $21.7 million). A current liability of $4.2 million is recognized as management intends to decommission certain wells within the next 12 months and the remaining $15.8 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 estimates its total future undiscounted amount of cash flows required to settle its decommissioning liability is approximately $177.3 million ($101.4 million undiscounted, uninflated), which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2020 – 11%) and an inflation rate of 2% (December 31, 2020 – 2%). The change in estimate for the year ended December 31, 2020 relates to an increase to the credit adjusted discount rate from 8% in 2019 to 11% in 2020, combined with changes in timing of certain abandonments and reclamations.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program ("SRP") whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. Pursuant to the SRP, the Company was approved for up to $5.1 million in SRP funding. To date the Company has received $2.0 million in SRP costs (December 31, 2020 - $251,000).

SHARE CAPITAL

($000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2018	137,269,270	216,208
Issued common shares	3,243,729	8,909
Issued on exercise of options and performance warrants	16,666	27
Allocation of contributed surplus - exercise of options and performance warrants	-	14
BALANCE AT DECEMBER 31, 2019, DECEMBER 31, 2020 and JUNE 30, 2021	**140,529,665**	**225,158**

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended ($000s)	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020
Petroleum and natural gas sales	33,844	27,535	23,521	23,314
Funds flow from operations (1)	11,485	8,076	7,786	8,487
Adjusted funds flow from operations (1)	12,147	8,546	7,883	8,837
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,300	4,120	4,539	4,755
Natural gas liquids (bbl/d)	285	229	292	322
Natural gas (Mcf/d)	13,788	12,695	14,095	14,596
TOTAL PRODUCTION (BOE/d)	**6,883**	**6,465**	**7,180**	**7,510**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	66.03	57.84	42.66	40.93
Crude oil - Canadian light sweet ($CDN/bbl)	76.29	68.62	49.17	49.05
Natural gas - AECO-C spot ($CDN/mcf)	3.07	3.13	2.65	2.27
Exchange Rate - ($US/$CAD)	0.81	0.79	0.77	0.75
FIELD NETBACK ($/BOE)				
Revenue	54.03	47.32	35.61	33.74
Royalties	(4.60)	(3.61)	(2.59)	(2.47)
Operating expense	(19.38)	(19.06)	(17.79)	(15.72)
Transportation expense	(1.01)	(0.87)	(1.04)	(1.16)
FIELD NETBACK ($/BOE) (1)	**29.04**	**23.78**	**14.19**	**14.39**
General and administration	(2.97)	(4.33)	(2.07)	(1.70)
Other income	3.63	2.70	2.36	2.09
Interest expense	(0.98)	(1.01)	(0.91)	(0.83)
Realized hedging	(9.33)	(6.46)	(1.64)	(1.16)
CASHFLOW NETBACK ($/BOE) (1)	**19.39**	**14.68**	**11.93**	**12.79**

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

For the quarter ended ($000s)	June 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019
Petroleum and natural gas sales	13,323	27,947	39,176	38,535
Funds flow from operations [1]	4,811	12,459	19,040	20,300
Adjusted funds flow from operations [1]	4,900	12,689	20,532	21,464
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,572	5,520	5,965	6,045
Natural gas liquids (bbl/d)	292	299	348	317
Natural gas (Mcf/d)	15,268	15,577	17,774	18,386
TOTAL PRODUCTION (BOE/d)	**7,409**	**8,415**	**9,275**	**9,426**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	27.84	46.17	56.96	56.47
Crude oil - Canadian light sweet ($CDN/bbl)	31.45	52.02	66.77	69.26
Natural gas - AECO-C spot ($CDN/mcf)	2.01	2.03	2.42	0.95
Exchange Rate - ($US/$CAD)	0.72	0.74	0.76	0.76
FIELD NETBACK ($/BOE)				
Revenue	19.76	36.50	45.91	44.44
Royalties	(1.47)	(2.94)	(3.65)	(3.51)
Operating expense	(12.75)	(14.53)	(15.49)	(13.97)
Transportation expense	(1.11)	(1.47)	(1.87)	(1.55)
FIELD NETBACK ($/BOE) [1]	**4.43**	**17.56**	**24.90**	**25.41**
General and administration	(2.04)	(2.24)	(3.03)	(2.94)
Other income	1.91	2.00	2.37	2.43
Interest expense	(0.63)	(0.75)	(0.57)	(0.61)
Realized hedging	3.60	-	0.41	0.46
CASHFLOW NETBACK ($/BOE) [1]	**7.27**	**16.57**	**24.08**	**24.75**

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

NET INCOME (LOSS) SUMMARY

	For the three months ended Jun. 30, 2021		For the three months ended Jun. 30, 2020	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	33,844	54.03	13,323	19.76
Royalties	(2,882)	(4.60)	(993)	(1.47)
NET REVENUE	**30,962**	**49.43**	**12,330**	**18.29**
Other income	2,274	3.63	1,253	1.86
(Loss) on financial derivative contracts	(1,742)	(2.78)	(3,106)	(4.61)
TOTAL REVENUE AND OTHER INCOME	**31,494**	**50.28**	**10,477**	**15.54**
Operating	12,143	19.38	8,599	12.75
Transportation	632	1.01	746	1.11
General and administration	1,861	2.97	1,374	2.04
Financing	645	1.03	485	0.72
Depletion, depreciation and amortization	10,704	17.09	11,886	17.63
Accretion	596	0.95	359	0.53
Share-based compensation	709	1.13	1,563	2.32
Exploration and evaluation - expiries	850	1.36	790	1.17
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	**3,354**	**5.36**	**(15,325)**	**(22.73)**
Deferred income tax (recovery)	946	1.52	(3,563)	(5.28)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**2,408**	**3.84**	**(11,762)**	**(17.45)**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

($000s)	2021	2022	Therafter	Total
Operating leases	17	-	-	17
Pipeline transportation	731	985	1,005	2,721
TOTAL COMMITMENTS	748	985	1,005	2,738

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

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

As at August 11, 2021, the date of this MD&A, there were 140,529,665 common shares, 13,898,260 stock options and 32,067,500 performance warrants outstanding.

LIQUIDITY

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

The current challenging economic climat e may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At June 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. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for a recovery in such prices, pipeline and transportation capacity constraints, and the effects of the Coronavirus (COVID-19), preparation of financial forecasts is challenging.

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 June 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:

	For the three month ended		For the six months ended	
($000s)	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Cash flow from continuing operations	6,179	3,805	17,058	29,455
Change in non-cash working capital from operating activities	5,306	1,006	2,503	(12,185)
FUNDS FLOW FROM OPERATIONS	**11,485**	**4,811**	**19,561**	**17,270**
Transaction costs	-	-	-	-
Decommissioning expenditures	662	89	1,132	319
ADJUSTED FUNDS FLOW FROM OPERATIONS	**12,147**	**4,900**	**20,693**	**17,589**

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The MD&A contains other terms such as field netback and adjusted positive working capital (net debt) which are not recognized measures under IFRS. Management believes these measures are useful supplemental information. Field netback is the amount of revenues received on a per unit of production basis after the royalties, operating costs, and transportation costs are deducted and used to assess profitability on a per boe basis. Adjusted positive working capital represents current assets less current liabilities (excluding derivative assets (liabilities), current portion of decommissioning liability and current portion of lease liability and is used to assess efficiency, liquidity and the general financial strength of the Company. Net debt is defined as long term debt plus any net working capital deficiency excluding derivative contract asset/liability and current portion of decommissioning liability. Adjusted funds flow from operations represents funds flow from (used for operations) excluding transaction costs and decommissioning expenditures and is used to assess cash flows adjusted for non-routine, discretionary expenditures. Readers are cautioned however, that these measures should not be construed as an alternative to other terms such as current and long-term debt or net earnings in accordance with IFRS as measures of performance. The Company's method of calculating these measures may differ from other companies, and accordingly, such measures may not be comparable to measures used by other companies.

CORPORATE INFORMATION

HEAD OFFICE

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

BANKERS

ATB Financial
600, 444 7 AVE SW
Calgary, Alberta T2P 0X8

Candian Imperial Bank of Commerce
9th Floor, Bankers Hall East Tower, 855-2nd Street SW
Calgary, Alberta T2P 4J7

Scotiabank
Suite 1700, 225 6th Ave SW
Calgary, Alberta T2P 1N2

RESERVE ENGINEERS

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

LEGAL COUNSEL

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

AUDITORS

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

TRANSFER AGENT

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

DIRECTORS

Donald Engle[A C]
Chairman, Independent Businessman

Bob Chaisson
Karve Energy Inc.

Howard Crone[A R]
Independent Businessman

James (Pep) Lough[A C]
Independent Businessman

Steven Smith[A]
Independent Businessman

Daryl Gilbert[R]
JOG Capital Corp.

Dave Pearce[R C]
Azimuth Capital Management

Mitch Putnam[R C]
32 Degrees Capital

OFFICERS

Bob Chaisson
Chief Executive Officer

Derek Kreba
President

Ken McNeill
Executive Vice President, Corporate Development

Shane Helwer
Vice President, Finance & Chief Financial Officer

Silas Ehlers
Vice President, Exploration

Justin Crawford
Vice President, Operations

Clifford Brown
Vice President, Engineering

Sony Gill
Corporate Secretary

[A] Denotes member of the Audit Committee.
[R] Denotes member of the Reserves Committee.
[C] Denotes member of the Compensation Committee.

FOR MORE INFORMATION, PLEASE CONTACT:

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

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