MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2020 and MARCH 31, 2019

LETTER TO OUR SHAREHOLDERS **May 13, 2020**

Dear Shareholder:

In light of the unprecedented events including the COVID-19 pandemic and the dramatic decrease in crude oil prices, the Company voluntarily reduced its production by 800 boe/d to 8,200 boe/d with over 800 boe/d currently shut-in (productive capacity of over 9,000 boe/d). For the volumes that are currently producing, Karve is currently able to sell the majority of its crude oil for a positive cash flow netback for the second quarter of 2020. Karve has also reduced its operating expense by over 11% and lowered its gross G&A expense by over 34%. Through these unprecedented events, Karve continues to be well positioned and flexible to change given the uncertain economic environment. Karve's asset base is largely comprised of low decline pressure supported production that has low sustaining capital requirements. This is beneficial to managing through uncertain and volatile commodity price cycles. In response to lower oil prices, and to preserve our balance sheet, all further 2020 discretionary capital spending has been deferred until prices recover to a more stable and sustainable level.

In the first quarter of 2020, we produced an average of 8,415 boe/d (69% liquids). Production is up from 8,093 boe/d (73% liquids) in the first quarter of 2019, an increase of 4% year over year due the High Ground acquisition which closed in July 2019 and bringing 52 gross (50.2 net) horizontal wells on production during the period from April 1, 2019 to March 31, 2020. Comparing the first quarter of 2019 to the first quarter of 2020, Karve realized a 2% reduction in operating expenses per boe year over year (from $14.87 per boe in 2019 to $14.53 per boe in 2020) and a 24% reduction in transportation costs per boe (from $1.95 per boe in 2019 to $1.47 per boe in 2020). Karve expects further operating and transportation costs reductions as it continues to optimize operations and pipeline connect more of our production. For the three months ended March 31, 2020, Karve reported a field operating netback of $17.56 per boe and generated adjusted funds flow from operations of $12.7 million.

Total capital expenditures (not including acquisitions and dispositions) was $19.0 million in three months ended March 31, 2020 compared to $19.1 million in three months ended March 31, 2019. In the first quarter of 2020 we completed 11 gross (11.0 net) horizontal wells and drilled 18 gross (17.9 net) horizontal wells. As at March 31, 2020, we have a total of 7 gross (6.9 net) drilled and uncompleted horizontal wells. We expect to complete these 7 horizontal wells when commodity prices stabilize. Karve has now completed and brought on a total of 229.0 gross (224.7 net) horizontal Viking oil wells on production since November 2016.

Throughout these challenging times, Karve continues to maintain a flexible and disciplined capital allocation strategy, with a focus on maintaining a strong financial position. Karve has 3,000 bbl/d hedged at a price of $47.60 CAD per barrel from April 1, 2020 to June 30, 2020 and an additional 1,000 bbl/d from July 1, 2020 to December 31, 2020 hedged at a price of $45.10 CAD per barrel. In addition, the Company entered into an MSW ("mixed sweet blend") hedge for 3,000 bbl/d at minus $11.30 CAD per barrel from May 1, 2020 to June 30, 2020.

Karve had $62.6 million of net debt as at March 31, 2020 with a bank borrowing base of $100.0 million. The next semi-annual borrowing base review of Karve's credit facilities is slated to be complete on or about May 31, 2020. These credit facilities carry a single covenant. As at March 31, 2020, Karve was in compliance with this covenant.

We will hold our Annual General Meeting ("AGM") on Wednesday May 13, 2019 at 2:00PM via teleconference. Details are included in the Management Information Circular that can be found on our website at www.karveenergy.com. All shareholders and stakeholders are welcome to attend the AGM.

You will find enclosed the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2020. 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, 2020 to March 31, 2020. It is dated May 13, 2020 and should be read in conjunction with the unaudited consolidated financial statements for the three months ended march 31, 2020 and the audited consolidated financial statements for the year ended December 31, 2019. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

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

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Mar 31, 2020	Mar 31, 2019
Net loss	(104)	(49)
Per share - basic	-	-
Per share - diluted	-	-
Funds flow from operations (1)	12,459	18,869
Per share - basic (1)	0.09	0.14
Per share - diluted (1)	0.09	0.14
Adjusted funds flow from operations (1)	12,689	19,330
Per share - basic (1)	0.09	0.14
Per share - diluted (1)	0.09	0.14
Capital expenditures (before acquisitions and dispositions)	18,996	19,085
Adjusted (net debt) (1)	(62,638)	(25,324)
Total assets	382,633	327,218
Shares outstanding, weighted average (000s)	140,530	137,269
Shares outstanding, end of period (000s)	140,530	137,269
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	5,520	5,727
NGLs (bbl/d)	299	205
Natural gas (mcf/d)	15,577	12,966
Total (boe/d)	**8,415**	**8,093**
Average sales prices (excluding hedging gains and losses)		
Oil ($/bbl)	47.95	60.26
NGLs ($/bbl)	31.59	40.27
Natural gas ($/mcf)	2.12	2.44
Boe basis ($/boe)	**36.50**	**47.57**
Field netback ($/boe excluding hedging gains and losses)		
Sales price	36.50	47.57
Royalties	(2.94)	(3.58)
Operating expense	(14.53)	(14.87)
Transportation expense	(1.47)	(1.95)
Field netback (1)	**17.56**	**27.17**

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

SALES VOLUMES

Sales volumes averaged 8,415 boe/d during the three months ended March 31, 2020 compared to 8,093 boe/d for the three months ended March 31, 2019. The increase in sales volumes from the three months ended March 31, 2019 is due to the High Ground acquisition which closed in July 2019 and bringing 52 gross (50.2 net) horizontal wells on production during the period from April 1, 2019 to March 31, 2020. Average Company production is approximately 8,200 boe/d (67% liquids) for the first week of May 2020, with approximately 800 boe/d voluntarily shut-in due to the dramatic drop in commodity prices.

	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Sales volumes		
Oil (bbl/d)	5,520	5,727
NGLs (bbl/d)	299	205
Natural gas (mcf/d)	15,577	12,966
Total (boe/d)	**8,415**	**8,093**

SALES PRICES AND REVENUE

For the three months ended March 31, 2020, the Company generated total revenue of $27.9 million (three months ended March 31, 2019 - $34.6 million) on average sales volumes of 8,415 boe/d. The average sales price per boe for the three months ended March 31, 2020 was $36.50 compared to $47.57 for the three months ended March 31, 2019. The decrease in average sales price is the result of the significant decrease to commodity prices during March 2020 caused by demand reduction resulting from COVID-19 and the global over supply of crude oil and natural gas.

	For the three months ended	
KARVE AVERAGE REALIZED PRICE (1)	Mar 31, 2020	Mar 31, 2019
Revenue ($000s)	27,947	34,648
Oil ($/bbl)	47.95	60.26
NGLs ($/bbl)	31.59	40.27
Natural gas ($/mcf)	2.12	2.44
Karve realized price ($/boe)	**36.50**	**47.57**
AVERAGE BENCHMARK PRICES (2)		
Crude oil - WTI ($US/bbl)	46.17	54.81
Crude oil - Canadian light sweet ($CDN/bbl)	52.02	66.92
Natural gas - AECO-C spot ($CDN/mcf)	2.03	2.62
Exchange Rate - ($US/$CAD)	0.74	0.75

(1) Excludes hedging gains and losses.

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

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

	For the three months ended	
($000s, except per boe amounts) (1)	Mar 31, 2020	Mar 31, 2019
Crude oil	24,086	31,059
Natural gas liquids	859	744
Natural gas	3,002	2,845
TOTAL PETROLEUM AND NATURAL GAS SALES	**27,947**	**34,648**

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.

As at March 31, 2020, the Company had the following commodity contracts in place:

WTI Crude Oil Derivative Contracts:

Type	Term	Basis (1)	Volume (Bbl/d)	Swap Price ($CAD/Bbl) (1)	Current Asset ($000s)
Fixed price swap	Apr. 1/20 - Jun. 30/20	WTI	3,000	47.60	3,296
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	1,000	45.10	(113)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**4,000**	**46.98**	**3,183**

(1) Nymex WTI monthly average in $CAD.

WTI Crude Oil Differential Derivative Contracts in place as at March 31, 2020:

Type	Term	Basis[1]	Volume (Bbl/d)	Swap Price ($CAD/Bbl)[1]	Current Asset ($000s)
Fixed price swap	May 1/20 - Jun. 30/20	MSW	3,000	11.30	1,210
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**3,000**	**11.30**	**1,210**

(1) Mixed Sweet Blend ("MSW")

The Company did not have any commodity contracts in place as at March 31, 2019 or December 31, 2019.

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

	For the three months ended	
($000s)	Mar 31, 2020	Mar 31, 2019
Unrealized gain on financial derivative contracts	4,393	-
GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**4,393**	**-**

At March 31, 2020 the fair value of the financial derivative contract was a current asset position of $4.4 million resulting in an unrealized gain of $4.4 million. The fair value, or mark-to-market value, of this contract is based on the estimated amount that would have been received or paid to settle the contract as at March 31, 2020 and may be different from what will eventually be realized. Assuming all other variables remain constant, a $5.00 USD increase (decrease) in WTI would result in a $6.0 million (decrease) increase in the unrealized gain (loss).

The unrealized gain on May 12, 2020 (day prior to financial statement release) was $4.9 million.

ROYALTIES

	For the three months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Royalties	2,252	2,605
Royalties as a % of revenue	8.1%	7.5%
Per boe ($)	2.94	3.58

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2020 was $2.3 million ($2.94 per boe) compared to $2.6 million ($3.58 per boe) for the three months ended March 31, 2019. For the three months ended March 31, 2020, the Company's royalty rate was 8.1% of revenues (three months ended March 31, 2019 – 7.5%). The increase in royalty rate relates to the acquisition of High Ground Energy Inc. and higher oil crown royalties as additional low decline horizontal oil Viking wells came off royalty holiday in 2020.

OPERATING EXPENSE

	For the three months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Operating expense	11,127	10,831
Per boe ($)	14.53	14.87

Operating expenses are include activities in the field required to operate wells and facilities, lift to surface, gather, process and in-field trucking of the Company's production. Operating expenses were $11.1 million ($14.53 per boe) during the three months ended March 31, 2020 and $10.8 million ($14.87 per boe) during the three months ended March 31, 2019. The slight decrease in operating expenses per boe relates to the operating efficiencies gained throughout 2019 and the first quarter of 2020. In the current commodity price environment, the Company has implemented wide-spread cost cutting measures to lower gross operating expenses across our field operations.

TRANSPORTATION EXPENSE

	For the three months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Transportation expense	1,128	1,419
Per boe ($)	1.47	1.95

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 $1.1 million ($1.47 per boe) during the three months ended March 31, 2020, compared to $1.4 million ($1.95 per boe) for the three months ended March 31, 2019. This decrease in transportation expense per boe period over period is primarily due to lower oil trucking costs as the Company pipeline connects more of its production. In the current commodity environment, the Company will look to deliver volumes to the highest netback delivery points, which will lead to variability in transportation expense.

FIELD NETBACK

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

	For the three months ended	Mar 31, 2020	For the three months ended	Mar 31, 2019
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	27,947	36.50	34,648	47.57
Royalties	(2,252)	(2.94)	(2,605)	(3.58)
Operating expense	(11,127)	(14.53)	(10,831)	(14.87)
Transportation expense	(1,128)	(1.47)	(1,419)	(1.95)
FIELD NETBACK ($) (1)	**13,440**	**17.56**	**19,793**	**27.17**

(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 months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Royalty income	723	974
Processing fee income	786	974
Other	136	40
Total other income	1,645	1,988
Per boe ($)	2.15	2.73

Other income for the three months ended March 31, 2020 was $1.6 million ($2.15 per boe) and $2.0 million ($2.73 per boe) for the three months ended March 31, 2019. The other income streams relate to processing fee income, royalty income, and other income, all from third parties.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests. The decrease in royalty income for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 is due to lower commodity pricing in 2020 compared to 2019.

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. The decrease in processing fee income for the three months ended March 31, 2020 compared to three months ended March 31, 2019 is primarily due to lower third-party throughput volumes being processed at Karve operated facilities.

Other income totalling $136,000 for the three months ended March 31, 2020 (three months ended March 31, 2019 - $40,000) relates to road use income, seismic licensing income, contract operating income and foreign exchange gains/losses.

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the three months ended March 31, 2020 and March 31, 2019:

	For the three months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Staff and consulting costs	1,590	2,030
Professional fees	102	76
Office and rent costs	473	434
Other	232	272
General and administration expense (gross)	2,397	2,812
Capitalized G&A and overhead recovery	(544)	(554)
Lease liability reclassifciation	(138)	(112)
General and administration expense (net)	1,715	2,146
Per boe ($)	2.24	2.95

General and administrative expenses (net) for the three months ended March 31, 2020 were $1.7 million ($2.24 per boe) and $2.1 million ($2.95 per boe) for the three months ended March 31, 2019. This decrease in gross G&A is due to significant cost-cutting measures in light of the current commodity environment. The Company will continue to aggressively reduce G&A costs to conserve cash flows through the economic uncertainty.

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 upon agreement 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, and the Company is currently in the annual review process with its syndicate of lenders.

As at March 31, 2020, $61.9 million (net of unamortized debt issue costs) was drawn on the Credit Facility and $nil was drawn on the operating loan.

Long term debt as at March 31, 2020 and December 31, 2019 is as follows:

($000s)	As at Mar 31, 2020	As at Dec 31, 2019
Credit facility	62,000	58,000
Less: unamortized debt issue costs	(67)	(142)
LONG TERM DEBT	**61,933**	**57,858**
Operating loan	-	5,956
CARRYING VALUE OF BANK DEBT	**61,933**	**63,814**

Financing expense for the three months ended March 31, 2020 and 2019 is comprised of the following:

	For the three months ended	
($000s)	Mar 31, 2020	Mar 31, 2019
Credit facility interest and charges	552	257
Operating loan interest and charges	26	57
Amortization of debt issue costs	74	19
Interest on lease liability (NOTE 10)	9	14
FINANCING EXPENSES	**661**	**347**

The increase in credit facility interest and charges is due to the increase in long term debt resulting from the High Ground bank debt that was assumed by the Company upon the acquisition that closed on July 15, 2019.

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

SHARE-BASED COMPENSATION EXPENSE

	For the three months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Share-based compensation - options	822	665
Share-based compensation - performance warrants	758	762
Share-based compensation expense	1,580	1,427
Per boe ($)	2.06	1.96

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

SBC expense related to stock options for the three months ended March 31, 2020 was $822,000 (three months ended March 31, 2019- $665,000) and SBC expense related to performance warrants for the three months ended March 31, 2020 was $758,000 (three months ended March 31, 2019 - $762,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended March 31, 2020.

As at March 31, 2020, 13,834,260 stock options and 32,129,500 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 March 31, 2020, 7,251,533 stock options and 6,460,000 performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the three months ended March 31, 2020, DD&A expense decreased to $13.5 million ($17.58 per boe) from $13.7 million ($18.86 per boe) during the three months ended March 31, 2019. The decrease per boe is due to an increase in the Company's reserve base primarily in the second half of 2019.

	For the three months ended	
($000s, except per boe amounts)	Mar 31, 2020	Mar 31, 2019
Depletion	13,344	13,616
Depreciation and amortization	121	122
Total DD&A ($)	13,465	13,738
Per boe ($)	17.58	18.86

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended March 31, 2020 consisted of the following:

	For the three months ended	
($000s)	Mar 31, 2020	Mar 31, 2019
Drilling	7,937	1,691
Completions	5,142	4,571
Facilities and well equipment	5,784	12,576
Geological and geophysical	-	52
Land	133	118
Office equipment	-	77
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**18,996**	**19,085**

During the three months ended March 31, 2020, the Company drilled 18 gross (17.9 net) wells and completed 11 gross (11.0 net) horizontal Viking oil wells. During the three months ended March 31, 2019, the Company drilled 5 gross (5.0 net) wells and completed 12 gross (11.9 net) horizontal Viking oil wells.

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

For the quarter ended	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Drilled - Gross (Net) (1)	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.

For the quarter ended	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Drilled - Gross (Net)	21 (20.5)	52 (49.1)	12 (11.5)	25 (25.0)	23 (22.1)
Completed - Gross (Net)	9 (8.5)	49 (46.1)	9 (8.9)	25 (24.7)	23 (22.4)
On production - Gross (Net)	19 (18.3)	44 (41.2)	4 (4.0)	25 (24.7)	23 (22.4)

Since November 2016, the Company has drilled a total of 239 gross (233.7 net), completed and brought on 229 gross (224.7 net) horizontal Viking oil wells on production.

ACQUISITION OF OIL AND GAS ASSETS

High Ground Energy Inc. Acquisition

On July 15, 2019, the Company acquired all the issued and outstanding common shares of High Ground Energy Inc. for total consideration of $8.8 million and assumption of estimated net debt of $32.0 million, including all severance and transaction costs. The acquisition was financed by issuing 3.2 million shares of Karve with an estimated fair value of $2.75 per common share.

The Acquisition added 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 increased Karve's dominant footprint in the Alberta Viking and enables near term expansion of the Company's waterflood project on the acquired lands.

($000s)	
Property, plant and equipment	40,566
Cash	965
Derivative asset	531
Deferred tax asset	13,833
Net working capital deficiency	(1,856)
Bank debt	(31,150)
Decommissioning liabilities	(3,308)
FAIR VALUE OF NET ASSETS ACQUIRED	**19,581**

CONSIDERATION	
Issue of common shares	8,798
TOTAL PURCHASE PRICE	**8,798**
GAIN ON ACQUISITION	**(10,783)**

During the year ended December 31, 2019, the Company incurred $299,000 of transaction costs for the High Ground Acquisition which were included in "Transaction costs" in the Company's consolidated statement of net income and comprehensive income.

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

Other Miscellaneous Acquisitions

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

DECOMMISSIONING LIABILITY

At March 31, 2020, the Company estimated a decommissioning liability of $10.3 million for the future abandonment and reclamation of Karve's properties (December 31, 2019 – $19.2 million). $742,000 is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $9.6 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 $194.0 million ($100.4 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 2060. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2019 – 8%) and an inflation rate of 2% (December 31, 2019 – 2%). The change in estimate for the three months ended March 31, 2020 relates to an increase to the credit adjusted discount rate.

SHARE CAPITAL

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

During the year ended December 31, 2019 the Company issued 3.2 million common shares at $2.75 per common share to fund the High Ground Acquisition. During the year ended December 31, 2019, 16,666 vested stock options were exercised at a weighted average price of $1.65 per share for gross and net proceeds of $27,000.

SUPPLEMENTARY QUARTERLY INFORMATION

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

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

For the quarter ended ($000s)	Mar 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018
Petroleum and natural gas sales	34,648	25,807	37,335	44,283
Funds flow from operations (1)	18,869	7,058	20,690	19,698
Adjusted funds flow from operations (1)	19,330	8,384	21,933	21,812
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,727	6,278	4,807	5,697
Natural gas liquids (bbl/d)	205	268	291	523
Natural gas (Mcf/d)	12,966	13,194	13,359	24,032
TOTAL PRODUCTION (BOE/d)	**8,093**	**8,745**	**7,325**	**10,225**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	54.81	58.81	69.46	67.88
Crude oil - Canadian light sweet ($CDN/bbl)	66.92	48.27	75.64	77.82
Natural gas - AECO-C spot ($CDN/mcf)	2.62	1.62	1.28	1.20
Exchange Rate - ($US/$CAD)	0.75	0.76	0.77	0.77
FIELD NETBACK ($/BOE)				
Revenue	47.57	32.08	55.41	47.59
Royalties	(3.58)	(2.60)	(4.77)	(2.86)
Operating expense	(14.87)	(15.33)	(15.50)	(15.87)
Transportation expense	(1.95)	(3.89)	(1.71)	(1.87)
FIELD NETBACK ($/BOE) (1)	**27.17**	**10.26**	**33.43**	**26.99**
General and administration	(2.95)	(2.57)	(2.91)	(3.71)
Other income	2.73	2.67	4.01	2.24
Interest income (expense)	(0.41)	0.03	0.08	0.04
Realized hedging	-	(0.88)	(2.06)	(1.32)
CASHFLOW NETBACK ($/BOE) (1)	**26.54**	**9.51**	**32.55**	**24.24**

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

NET LOSS SUMMARY

	For the three months ended Mar 31, 2020		For the three months ended Mar 31, 2019	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	27,947	36.50	34,648	47.57
Royalties	(2,252)	(2.94)	(2,605)	(3.58)
NET REVENUE	**25,695**	**33.56**	**32,043**	**43.99**
Other income	1,645	2.15	1,988	2.73
Gain on financial derivative contracts	4,393	5.73	-	-
Loss on investment	-	-	(2,565)	(3.52)
Interest income	-	-	9	0.01
TOTAL REVENUE AND OTHER INCOME	**31,733**	**41.44**	**31,475**	**43.21**
Operating	11,127	14.53	10,831	14.87
Transportation	1,128	1.47	1,419	1.95
General and administration	1,715	2.24	2,146	2.95
Financing	661	0.86	347	0.48
Depletion, depreciation and amortization	13,465	17.58	13,738	18.86
Accretion	384	0.50	178	0.24
Share-based compensation	1,580	2.06	1,427	1.96
Exploration and evaluation - expiries	915	1.21	434	0.60
INCOME FROM OPERATIONS BEFORE TAXES	**758**	**0.99**	**955**	**1.30**
Current income tax expense	-	-	-	-
Deferred income tax expense	862	1.13	1,004	1.38
NET LOSS AND COMPREHENSIVE LOSS	**(104)**	**(0.14)**	**(49)**	**(0.08)**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2020 are as follows:

($000s)	2020	2021	2022	Thereafter	Total
Operating leases	24	-	-	-	24
Pipeline transportation	1,070	1,449	985	1,005	4,509
TOTAL ANNUAL COMMITMENTS	**1,094**	**1,449**	**985**	**1,005**	**4,533**

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at March 31, 2020, there were 140,529,665 common shares outstanding (December 31, 2019 – 140,529,665).

As at May 13, 2020, the date of this MD&A, there were 140,529,665 common shares, 13,834,260 stock options and 32,129,500 performance warrants outstanding.

LIQUIDITY

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

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At March 31, 2020, the Company remains in compliance with all terms of our Credit Facility and based on current available information, management expects to comply with all terms during the subsequent 12-month period. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for a recovery in such prices, pipeline and transportation capacity constraints, and the effects of the Coronavirus (COVID-19), preparation of financial forecasts is challenging.

OFF BALANCE SHEET ARRANGEMENTS

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

The Company has treated some leases as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at March 31, 2020.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

BARRELS OF OIL EQUIVALENT

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

NON-GAAP MEASUREMENTS

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

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

	For the three months ended	
($000s)	Mar 31, 2020	Mar 31, 2019
Cash flow from continuing operations	25,650	15,629
Change in non-cash working capital from operating activities	(13,191)	3,240
FUNDS FLOW FROM OPERATIONS	**12,459**	**18,869**
Transaction costs	-	-
Decommissioning expenditures	230	461
ADJUSTED FUNDS FLOW FROM OPERATIONS	**12,689**	**19,330**

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

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

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