MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2020 and JUNE 30, 2019

LETTER TO OUR SHAREHOLDERS

August 12, 2020

Dear Shareholder:

Through the unprecedented events of the dramatic decrease in crude oil prices and the COVID-19 pandemic, the Company continues to be well positioned to persevere through these volatile times. Karve's asset base is largely comprised of low decline, pressure supported production with low sustaining capital requirements. Current production is 7,800 boe/d with approximately 300 boe/d of productive capacity to be brought on near term for a total of 8,100 boe/d of productive capacity.

Despite unprecedented low oil prices in the second quarter, Karve was able to generate positive cash flow and reduced net debt by $4.0 million from March 31, 2020. Karve has reduced its operating expense per boe by over 8% and its G&A expense per boe by over 37% in the second quarter of 2020 compared to the same quarter in 2019. With the recent increase in oil prices and the derivative hedges the Company has executed, the Company is budgeting to continue to pay down debt while spending $10.0 million in the last half of 2020.

In the second quarter of 2020, we produced an average of 7,409 boe/d (66% liquids). Production is lower from 8,143 boe/d (69% liquids) in the second quarter of 2019 due to the voluntary shut in of 800 boe/d. Comparing the first quarter of 2020 to the second quarter of 2020, Karve realized a 12% reduction in operating expenses per boe quarter over quarter (from $14.53 per boe in Q1 of 2020 to $12.75 per boe in Q2 of 2020) and a 24% reduction in transportation costs per boe (from $1.47 per boe in Q1 of 2020 to $1.11 per boe in Q2 of 2020). For the three months ended June 30, 2020, Karve reported a field operating netback of $4.43 per boe and generated adjusted funds flow from operations of $4.9 million.

The Company had minimal capital expenditures for the three months ended June 30, 2020 due to the deferral of discretionary capital spending. Total capital expenditures was $576,000 in three months ended June 30, 2020 compared to $15.2 million in three months ended June 30, 2019. As at June 30, 2020, Karve has a total of 7 gross (6.9 net) drilled and uncompleted horizontal wells. We expect to have these wells completed by the end of August 2020. Additional capital expenditures for the rest of 2020 include $7.6 million on drilling, completions and tie-ins, $2.0 million on waterflood expansion and $400,000 on ARO.

For the remainder of 2020, the Company currently has 3,000 bbl/d hedged at a weighted average price of price of $51.62 CAD per barrel from July 1, 2020 to December 31, 2020. Additionally in 2021, Karve sold 500 bbl/d at a price of $58.25 CAD per barrel from January 1, 2021 to June 30, 2021.

Karve reduced its net debt from $62.6 million as at March 31, 2020 to $58.6 million of net debt as at June 30, 2020. The Company completed its semi annual borrow base review on June 30, 2020 and has an all conforming bank borrowing base of $65.0 million. These credit facilities carry a single covenant, and as at June 30, 2020, Karve was in compliance with this covenant.

You will find enclosed the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months and six months ended June 30, 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 June 30, 2020. It is dated August 12, 2020 and should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 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		For the six months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net income (loss)	(11,762)	5,359	(11,866)	5,310
Per share - basic	(0.08)	0.04	(0.08)	0.04
Per share - diluted	(0.08)	0.04	(0.08)	0.04
Funds flow from operations (1)	4,811	19,696	17,270	38,565
Per share - basic (1)	0.03	0.14	0.12	0.28
Per share - diluted (1)	0.03	0.13	0.12	0.26
Adjusted funds flow from operations (1)	4,900	21,162	17,589	40,492
Per share - basic (1)	0.03	0.15	0.13	0.29
Per share - diluted (1)	0.03	0.14	0.13	0.27
Capital expenditures (before acquisitions and dispositions)	576	15,218	19,572	34,303
Net acquisitions (dispositions)	-	119	-	119
Total net capital expenditures	576	15,337	19,572	34,422
Adjusted (net debt) (1)	(58,624)	(21,166)	(58,624)	(21,166)
Total assets	361,452	325,593	361,452	325,593
Shares outstanding, weighted average (000s)	140,530	137,289	140,530	137,308
Shares outstanding, end of period (000s)	140,530	137,314	140,530	137,314
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	4,572	5,316	5,046	5,520
NGLs (bbl/d)	292	277	295	242
Natural gas (mcf/d)	15,268	15,247	15,423	14,113
Total (boe/d)	**7,409**	**8,134**	**7,912**	**8,114**
Average sales prices (excluding hedging gains and losses)				
Oil ($/bbl)	24.50	67.60	37.33	63.82
NGLs ($/bbl)	13.04	37.83	22.43	38.86
Natural gas ($/mcf)	2.00	1.29	2.06	1.82
Boe basis ($/boe)	**19.76**	**47.89**	**28.66**	**47.73**
Field netback ($/boe excluding hedging gains and losses)				
Sales price	19.76	47.89	28.66	47.73
Royalties	(1.47)	(3.93)	(2.25)	(3.75)
Operating expense	(12.75)	(13.93)	(13.70)	(14.40)
Transportation expense	(1.11)	(1.10)	(1.30)	(1.52)
Field netback (1)	**4.43**	**28.93**	**11.41**	**28.06**

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

SALES VOLUMES

Sales volumes averaged 7,409 boe/d during the three months ended June 30, 2020 compared to 8,134 boe/d for the three months ended June 30, 2019. The decrease in sales volumes from the three months ended June 30, 2019 is due a voluntary shut-in of approximately 800 boe/d offset by bringing 36 gross (35.9 net) new horizontal wells on production during the period from July 1, 2019 to June 30, 2020. Average Company production is approximately 7,800 boe/d (60% liquids) for the first week of August 2020, with approximately 300 boe/d of productive capacity to be brought on near term for a total of 8,100 boe/d of productive capacity.

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Sales volumes				
Oil (bbl/d)	4,572	5,316	5,046	5,520
NGLs (bbl/d)	292	277	295	242
Natural gas (mcf/d)	15,268	15,247	15,423	14,113
Total (boe/d)	**7,409**	**8,134**	**7,912**	**8,114**

SALES PRICES AND REVENUE

For the three months ended June 30, 2020, the Company generated total revenue of $13.3 million (three months ended June 30, 2019 - $35.5 million) on average sales volumes of 7,409 boe/d. The average sales price per boe for the three months ended June 30, 2020 was $19.76 compared to $47.89 for the three months ended June 30, 2019. The decrease in average sales price is the result of the significant decrease to commodity prices during the first six months of 2020. This decrease was caused by the global over supply of crude oil and the demand reduction resulting from COVID-19.

	For the three months ended		For the six months ended	
KARVE AVERAGE REALIZED PRICE (1)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue ($000s)	13,323	35,450	41,270	70,098
Oil ($/bbl)	24.50	67.60	37.33	63.82
NGLs ($/bbl)	13.04	37.83	22.43	38.86
Natural gas ($/mcf)	2.00	1.29	2.06	1.82
Karve realized price ($/boe)	**19.76**	**47.89**	**28.66**	**47.73**
AVERAGE BENCHMARK PRICES (2)				
Crude oil - WTI ($US/bbl)	27.84	59.84	37.01	57.33
Crude oil - Canadian light sweet ($CDN/bbl)	31.45	72.55	41.74	69.74
Natural gas - AECO-C spot ($CDN/mcf)	2.01	1.05	2.02	1.86
Exchange Rate - ($US/$CAD)	0.72	0.75	0.73	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		For the six months ended	
($000s)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Crude oil	10,195	32,701	34,281	63,760
Natural gas liquids	346	955	1,205	1,699
Natural gas	2,782	1,794	5,784	4,639
TOTAL PETROLEUM AND NATURAL GAS SALES	**13,323**	**35,450**	**41,270**	**70,098**

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 June 30, 2020, the Company had the following commodity contracts in place:

Type	Term	Basis[1]	Volume (Bbl/d)	Swap Price ($CAD/Bbl)[1]	Current Liability ($000s)
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	1,000	45.10	(1,577)
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	55.25	144
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	54.00	28
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	54.95	115
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	500	55.30	147
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**3,000**	**51.62**	**(1,143)**

(1) Nymex WTI monthly average in $CAD.

The Company did not have any commodity contracts in place as at June 30, 2019 or December 31, 2019.

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Unrealized loss on financial derivative contracts	(5,536)	-	(1,143)	-
Realized gain on financial derivative contracts	2,430	-	2,430	-
(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**(3,106)**	**-**	**1,287**	**-**

At June 30, 2020 the fair value of the financial derivative contracts was a current liability position of $1.1 million resulting in an unrealized loss of $5.5 million for the three months ended June 30, 2020. The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at June 30, 2020 and may be different from what will eventually be realized. Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $533,000 increase in the unrealized loss and a $5.00 USD decrease in WTI would result in a $74,000 decrease in the unrealized loss.

The unrealized loss on August 11, 2020 (day prior to financial statement release) was $2.4 million.

ROYALTIES

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Royalties	993	2,907	3,245	5,512
Royalties as a % of revenue	7.5%	8.2%	7.9%	7.9%
Per boe ($)	1.47	3.93	2.25	3.75

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended June 30, 2020 was $1.0 million ($1.47 per boe) compared to $2.9 million ($3.93 per boe) for the three months ended June 30, 2019. For the three months ended June 30, 2020, the Company's royalty rate was 7.5% of revenues (three months ended June 30, 2019 – 8.2%). The decrease in royalties is due to the lower oil commodity price environment in the second quarter of 2020.

OPERATING EXPENSE

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating expense	8,599	10,312	19,726	21,143
Per boe ($)	12.75	13.93	13.70	14.40

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 $8.6 million ($12.75 per boe) during the three months ended June 30, 2020 and $10.3 million ($13.93 per boe) during the three months ended June 30, 2019. The decrease in operating expenses per boe during the three months ended June 30, 2020 relates to implementation of cost cutting measures to lower gross operating expenses across our field operations.

TRANSPORTATION EXPENSE

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Transportation expense	746	811	1,874	2,230
Per boe ($)	1.11	1.10	1.30	1.52

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 $746,000 ($1.11 per boe) during the three months ended June 30, 2020, compared to $811,000 ($1.10 per boe) for the three months ended June 30, 2019. This decrease in transportation expense period over period is primarily due to 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 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 June 30, 2020		For the three months ended June 30, 2019	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	13,323	19.76	35,450	47.89
Royalties	(993)	(1.47)	(2,907)	(3.93)
Operating expense	(8,599)	(12.75)	(10,312)	(13.93)
Transportation expense	(746)	(1.11)	(811)	(1.10)
FIELD NETBACK ($) (1)	**2,985**	**4.43**	**21,420**	**28.93**

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

	For the six months ended June 30, 2020		For the six months ended June 30, 2019	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	41,270	28.66	70,098	47.73
Royalties	(3,245)	(2.25)	(5,512)	(3.75)
Operating expense	(19,726)	(13.70)	(21,143)	(14.40)
Transportation expense	(1,874)	(1.30)	(2,230)	(1.52)
FIELD NETBACK ($) (1)	**16,425**	**11.41**	**41,213**	**28.06**

(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		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Royalty income	523	1,417	1,246	2,391
Processing fee income	737	989	1,523	1,949
Other	(7)	64	129	118
Total other income	1,253	2,470	2,898	4,458
Per boe ($)	1.86	3.34	2.01	3.04

Other income for the three months ended June 30, 2020 was $1.3 million ($1.86 per boe) and $2.5 million ($3.34 per boe) for the three months ended June 30, 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 June 30, 2020 compared to the three months ended June 30, 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 June 30, 2020 compared to three months ended June 30, 2019 is primarily due to lower third-party throughput volumes being processed at Karve operated facilities.

Other (loss) income totalling $7,000 for the three months ended June 30, 2020 (three months ended June 30, 2019 - $64,000) 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 and six months ended June 30, 2020 and June 30, 2019:

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Staff and consulting costs	969	1,986	2,559	4,017
Professional fees	137	307	239	384
Office and rent costs	376	401	849	835
Other	261	278	493	550
General and administration expense (gross)	1,743	2,972	4,140	5,786
Capitalized G&A and overhead recovery	(231)	(464)	(775)	(1,019)
Lease liability reclassifciation	(138)	(113)	(276)	(226)
General and administration expense (net)	1,374	2,395	3,089	4,541
Per boe ($)	2.04	3.24	2.15	3.09

General and administrative expenses (net) for the three months ended June 30, 2020 were $1.4 million ($2.04 per boe) and $2.4 million ($3.24 per boe) for the three months ended June 30, 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 reduce G&A costs to conserve cash flows through the economic uncertainty.

OPERATING LOAN AND LONG TERM DEBT

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

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

As at June 30, 2020, $57.9 million (net of unamortized debt issue costs) (December 31, 2019 - $57.9 million) was drawn on the Credit Facility and $1.9 million (December 31, 2019 - $6.0 million) was drawn on the bank operating loan.

Long term debt as at June 30, 2020 and December 31, 2019 is as follows:

($000s)	As at June 30, 2020	As at Dec 31, 2019
Credit Facility	58,000	58,000
Less: unamortized debt issue costs	(146)	(142)
LONG TERM DEBT	**57,854**	**57,858**
Bank operating loan	1,887	5,956
TOTAL BANK DEBT	**59,741**	**63,814**

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Credit facility interest and charges	380	265	932	522
Operating loan interest and charges	44	68	70	125
Amortization of debt issue costs	52	87	126	106
Interest on lease liability	9	15	18	29
FINANCING EXPENSES	**485**	**435**	**1,146**	**782**

For the three months ended June 30, 2020, the effective interest rate on the credit facility was 2.8 percent. Key covenants of the bank credit facilities include standard business operating covenants. As at June 30, 2020 the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Share-based compensation - options	828	595	1,650	1,260
Share-based compensation - performance warrants	735	742	1,493	1,504
Share-based compensation expense	1,563	1,337	3,143	2,764
Per boe ($)	2.32	1.81	2.18	1.88

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, 2020 was $828,000 (three months ended June 30, 2019- $595,000) and SBC expense related to performance warrants for the three months ended June 30, 2020 was $735,000 (three months ended June 30, 2019 - $742,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended June 30, 2020.

As at June 30, 2020, 13,751,260 stock options and 32,073,500 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, 2020, 7,280,533 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 June 30, 2020, DD&A expense decreased to $11.9 million ($17.63 per boe) from $14.3 million ($19.31 per boe) during the three months ended June 30, 2019. The decrease in depletion expense is due a decrease in production in the second quarter of 2020.

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Depletion	11,756	14,173	25,099	27,789
Depreciation and amortization	130	123	252	245
Total DD&A ($)	11,886	14,296	25,351	28,034
Per boe ($)	17.63	19.31	17.61	19.09

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three and six months ended June 30, 2020 consisted of the following:

	For the three months ended		For the six months ended	
($000s)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Drilling	76	821	8,013	2,512
Completions	40	4,447	5,182	9,018
Facilities and well equipment	161	9,249	5,945	21,825
Geological and geophysical	-	3	-	55
Land	133	694	266	812
Acquistions	-	119	-	119
Office equipment	166	4	166	81
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**576**	**15,337**	**19,572**	**34,422**

During the three months ended June 30, 2020, the Company did not drill or complete any horizontal Viking oil wells. During the three months ended June 30, 2019, the Company drilled nil gross (nil net) wells and completed 14 gross (13.7 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	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sept. 30, 2019	Jun. 30, 2019
Drilled - Gross (Net) (1)	0 (0.00)	18 (17.9)	4 (4)	22 (21.9)	0 (0.0)
Completed - Gross (Net)	0 (0.00)	11 (11.0)	15 (14.9)	10 (10.0)	14 (13.7)
On production - Gross (Net)	0 (0.00)	11 (11.0)	15 (14.9)	10 (10.0)	14 (13.7)

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

For the quarter ended	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Drilled - Gross (Net)	5 (5.0)	21 (20.5)	52 (49.1)	12 (11.5)	25 (25.0)
Completed - Gross (Net)	12 (11.9)	9 (8.5)	49 (46.1)	9 (8.9)	25 (24.7)
On production - Gross (Net)	12 (11.9)	19 (18.3)	44 (41.2)	4 (4.0)	25 (24.7)

Since November 2016, the Company has drilled a total of 239 gross (233.7 net), completed and brought on production a total of 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 of sweet, light oil-weighted Viking assets added approximately 2,000 boe/d of production (52% liquids) contiguous to Karve's existing core area at Monitor. The Acquisition increased Karve's dominant footprint in the Alberta Viking 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 (loss) income and comprehensive (loss) income.

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

Other Miscellaneous Acquisitions

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

DECOMMISSIONING LIABILITY

At June 30, 2020, the Company estimated a decommissioning liability of $10.6 million for the future abandonment and reclamation of Karve’s properties (December 31, 2019 – $19.2 million). $473,000 is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $10.1 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 six months ended June 30, 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 JUNE 30, 2020	**140,529,665**	**225,158**

SUPPLEMENTARY QUARTERLY INFORMATION

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.

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)	1.05	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 14 for details.

NET (LOSS) INCOME SUMMARY

	For the three months ended June 30, 2020		For the three months ended June 30, 2019	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	13,323	19.76	35,450	24.14
Royalties	(993)	(1.47)	(2,907)	(1.98)
NET REVENUE	**12,330**	**18.29**	**32,543**	**22.16**
Other income	1,253	1.86	2,470	1.68
Gain on financial derivative contracts	(3,106)	(4.61)	-	-
TOTAL REVENUE AND OTHER INCOME	**10,477**	**15.54**	**35,013**	**23.84**
Operating	8,599	12.75	10,312	7.02
Transportation	746	1.11	811	0.55
General and administration	1,374	2.04	2,395	1.63
Financing	485	0.72	435	0.30
Depletion, depreciation and amortization	11,886	17.63	14,296	9.73
Accretion	359	0.53	252	0.17
Share-based compensation	1,563	2.32	1,337	0.91
Exploration and evaluation - expiries	790	1.17	197	0.13
Transaction costs	-	-	8	0.01
(LOSS) INCOME FROM OPERATIONS BEFORE TAXES	**(15,325)**	**(22.73)**	**4,970**	**3.39**
Deferred income tax recovery	(3,563)	(5.28)	(389)	(0.26)
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME	**(11,762)**	**(17.45)**	**5,359**	**3.65**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

($000s)	2020	2021	2022	Therafter	Total
Operating leases	48	48	-	-	96
Pipeline transportation	716	1,449	985	1,005	4,155
TOTAL COMMITMENTS	764	1,497	985	1,005	4,251

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at June 30, 2020, there were 140,529,665 common shares outstanding (December 31, 2019 – 140,529,665).

As at August 12, 2020, the date of this MD&A, there were 140,529,665 common shares, 13,751,260 stock options and 32,073,500 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 June 30, 2020, the Company remains in compliance with all terms of our Credit Facility and based on current available information, management expects to comply with all terms during the subsequent 12-month period. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for a recovery in such prices, pipeline and transportation capacity constraints, and the effects of the Coronavirus (COVID-19), preparation of financial forecasts is challenging.

SUBSEQUENT EVENTS

Subsequent to June 30, 2020, the Company entered into a fixed price derivative swap contract for 500 bbl/d for the period January 1, 2021 to June 30, 2021 at a price of $58.25 CAD WTI per barrel.

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, 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		For the six months ended	
($000s)	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash flow from continuing operations	3,805	19,801	29,455	35,430
Change in non-cash working capital from operating activities	1,006	(105)	(12,185)	3,135
FUNDS FLOW FROM OPERATIONS	**4,811**	**19,696**	**17,270**	**38,565**
Transaction costs	-	8	-	8
Decommissioning expenditures	89	1,458	319	1,919
ADJUSTED FUNDS FLOW FROM OPERATIONS	**4,900**	**21,162**	**17,589**	**40,492**

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.