MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2019 and MARCH 31, 2018

May 8, 2019

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our March 27, 2019 letter to shareholders.

In the first quarter of 2019, we produced an average of 8,093 BOE/d (73% liquids). Adjusting first quarter 2018 production for the sale of non-core shallow gas and Mannville oil assets where Karve sold 3,500 boe/d for $30.7 million later in 2018, production is up from 6,917 BOE/d (74% liquids), an increase of 17% year over year. Over the same period, per boe operating expenses have decreased 6% from $15.89 in the first quarter of 2018 to $14.87 in the first quarter of 2019. As at March 31, 2019 we remained in strong financial health, with $25.3 million of net debt with a bank borrowing base of $100 million.

In the first quarter of 2019 we completed 12 gross (11.9 net) horizontal wells and drilled 5 gross (5.0 net) horizontal wells. As at March 31, 2019, we have a total of 15 gross (14.5 net) drilled and uncompleted horizontal wells. We expect to complete these 15 horizontal wells in May 2019. In the first quarter of 2019, we expanded our waterflood an additional 3.5 sections; and now have a total of 23.5 sections currently under active waterflood.

Since November 2016 to May 9, 2019, we have brought a total of 179 gross (175.1 net) horizontal Viking oil wells on production. We will resume our drilling program in mid June with plans to drill an additional 43 gross horizontal wells throughout the rest of 2019.

Since the fourth quarter of 2018 when the initial 2019 budget was set, we have seen a steady improvement in oil prices with a dramatically narrower differential. As a result of this improved pricing, the Karve Board has approved an increase to our capital program. Our 2019 capital program now consists of spending a total of $98.7 million, up from $84.7 million approved on March 27th, 2019. It is our intention to set our capital expenditure program at approximately our estimated annual cashflow.

The 2019 capital program includes the drilling of 48 gross (47.6 net) and completing of 70 gross (69.0 net) horizontal Viking oil wells for $63.4 million. The remaining $35.3 million of capital will be spent on waterflood, facility and abandonment initiatives. Karve is optimistic about the additional waterflood potential on its lands. In 2019 we will expand the waterflood an additional 6.5 sections at Bulwark and Monitor to increase oil recoveries, and reserves and mitigate base production declines.

We will hold our Annual General Meeting ("AGM") on Wednesday May 8, 2019 at 2:00PM at our offices located at Suite 1700, 205 5 AVE SW, Calgary, Alberta. At the AGM, among other items, we will provide an update. 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, 2019. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2019 to March 31, 2019 ("three months ended March 31, 2019"). It is dated May 8, 2019 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2019 and the audited consolidated financial statements for the year ended December 31, 2018. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

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

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Mar. 31, 2019	Mar. 31, 2018
Net income (loss)	(49)	5,431
Per share - basic	-	0.04
Per share - diluted	-	0.03
Funds flow from operations [(1)]	18,869	22,368
Per share - basic [(1)]	0.14	0.16
Per share - diluted [(1)]	0.14	0.13
Adjusted funds flow from operations [(1)]	19,330	23,486
Per share - basic [(1)]	0.14	0.17
Per share - diluted [(1)]	0.14	0.14
Capital expenditures (before acquisitions and dispositions)	19,085	25,403
Net acquisitions	-	279
Total net capital expenditures	19,085	25,682
Adjusted positive working capital (net debt) [(1)]	(25,324)	7,795
Total assets	327,218	277,504
Shares outstanding, weighted average (000s)	137,269	137,199
Shares outstanding, end of period (000s)	137,269	137,199
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	5,727	6,210
NGLs (bbl/d)	205	419
Natural gas (mcf/d)	12,966	22,729
Total (boe/d)	**8,093**	**10,417**
Average sales prices (excluding hedging gains and losses)		
Oil ($/bbl)	60.26	63.88
NGLs ($/bbl)	40.27	54.32
Natural gas ($/mcf)	2.44	2.31
Boe basis ($/boe)	**47.57**	**45.31**
Field netback ($/boe excluding hedging gains and losses)		
Sales price	47.57	45.31
Royalties	(3.58)	(2.38)
Operating expense	(14.87)	(15.89)
Transportation expense	(1.95)	(1.21)
Field netback [(1)]	**27.17**	**25.83**

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

SALES VOLUMES

Sales volumes averaged 8,093 boe/d during the three months ended March 31, 2019 compared to 10,417 boe/d for the three months ended March 31, 2018. The decrease in sales volumes from the three months ended March 31, 2019 is due to the disposition of non-core shallow Viking natural gas and Mannville oil assets in the second quarter of 2018. This decrease was offset by the Alliance acquisition which closed on October 31, 2018, and bringing 79 gross (75.4 net) horizontal wells on production during the period from April 1, 2018 to March 31, 2019. Average Company production is approximately 8,700 boe/d (66% liquids) for the first week of May 2019.

	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Sales volumes		
Oil (bbl/d)	5,727	6,210
NGLs (bbl/d)	205	419
Natural gas (mcf/d)	12,966	22,729
Total (boe/d)	**8,093**	**10,417**

SALES PRICES AND REVENUE

For the three months ended March 31, 2019, the Company generated total revenue of $34.6 million (three months ended March 31, 2018 - $42.5 million) on average sales volumes of 8,093 boe/d. Revenue is recorded before transportation expenses. Despite lower oil prices in Q1 2019, the average sales price per boe for the three months ended March 31, 2019 was $47.57 compared to $45.31 for the three months ended March 31, 2018. The increase relates to a change in the Company's sales product mix due to the closing of the disposition on June 14, 2018 of non-core natural gas weighted assets.

	For the three months ended	
KARVE AVERAGE REALIZED PRICE (1)	Mar. 31, 2019	Mar. 31, 2018
Revenue ($000s)	34,648	42,475
Oil ($/bbl)	60.26	63.88
NGLs ($/bbl)	40.27	54.32
Natural gas ($/mcf)	2.44	2.31
Karve realized price ($/boe)	**47.57**	**45.31**
AVERAGE BENCHMARK PRICES (2)		
Crude oil - WTI ($US/bbl)	54.81	62.91
Crude oil - Canadian light sweet ($CDN/bbl)	66.92	70.09
Natural gas - AECO-C spot ($CDN/mcf)	2.62	2.06
Exchange Rate - ($US/$CAD)	0.75	0.79

(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 March 31, 2019, the Company did not have any commodity contracts in place.

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

	For the three months ended	
($000s)	Mar. 31, 2019	Mar. 31, 2018
Realized loss on financial derivative contracts	-	(752)
Unrealized loss on financial derivative contracts	-	(2,230)
LOSS ON FINANCIAL DERIVATIVE CONTRACTS	**-**	**(2,982)**

ROYALTIES

($000s, except per boe amounts)	For the three months ended Mar. 31, 2019	Mar. 31, 2018
Royalties	2,605	2,228
Royalties as a % of revenue	7.5%	5.2%
Per boe ($)	3.58	2.38

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2019 was $2.6 million ($3.58 per boe) compared to $2.2 million ($2.38 per boe) for the three months ended March 31, 2018. For the three months ended March 31, 2019, the Company's royalty rate was 7.5% of revenues (three months ended March 31, 2018 – 5.2%). The increase in royalty rate relates to higher oil crown royalties as a number of low decline horizontal oil Viking wells that have come off royalty holiday. The Company expects its royalty rate to increase slowly over time.

OPERATING EXPENSE

($000s, except per boe amounts)	For the three months ended Mar. 31, 2019	Mar. 31, 2018
Operating expense	10,831	14,895
Per boe ($)	14.87	15.89

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process and in-field trucking of the Company's production. Operating expenses were $10.8 million ($14.87 per boe) during the three months ended March 31, 2019 and $14.9 million ($15.89 per boe) during the three months ended March 31, 2018. Despite the 2018 disposition when lower operating cost natural gas was sold, operating expenses per boe decreased during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to operating efficiencies gained over the past year. In the future, as more horizontal wells come on production, the operating expense per boe is expected to continue to decrease due to the fixed nature of a considerable portion of the expenses which will be allocated over increasing production volumes and efficiencies in operating the assets over time.

TRANSPORTATION EXPENSE

($000s, except per boe amounts)	For the three months ended Mar. 31, 2019	Mar. 31, 2018
Transportation expense	1,419	1,134
Per boe ($)	1.95	1.21

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 $1.4 million ($1.95 per boe) during the three months ended March 31, 2019 and $1.1 million ($1.21 per boe) for the three months ended March 31, 2018. The increase during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 is due to higher oil trucking costs in the first quarter of 2019. The company used additional oil trucking to deliver oil to selling terminals to achieve higher oil prices as a result of limited pipeline capacity in Western Canada.

FIELD NETBACK

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

	For the three months ended March 31, 2019		For the three months ended March 31, 2018	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	34,648	47.57	42,475	45.31
Royalties	(2,605)	(3.58)	(2,228)	(2.38)
Operating expense	(10,831)	(14.87)	(14,895)	(15.89)
Transportation expense	(1,419)	(1.95)	(1,134)	(1.21)
FIELD NETBACK ($) (1)	**19,793**	**27.17**	**24,218**	**25.83**

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

OTHER INCOME

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2019	Mar. 31, 2018
Processing fee income	974	788
Royalty income	974	738
Other	40	57
Total other income	1,988	1,583
Per boe ($)	2.73	1.69

Other income for the three months ended March 31, 2019 was $2.0 million ($2.73 per boe) and $1.6 million ($1.69 per boe) for the three months ended March 31, 2018. The other income streams relate to processing fee income, royalty income, and other 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 is a result of Karve retaining key infrastructure in the disposition that closed on June 14, 2018 and entering into processing agreements for third party production.

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

Other income totalling $40,000 for the three months ended March 31, 2019 (three months ended March 31, 2018 - $57,000) relates to road use income, seismic licensing income, and contract operating income.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three months ended March 31, 2019 and March 31, 2018:

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2019	Mar. 31, 2018
Staff and consulting costs	2,030	1,628
Professional fees	76	221
Office and rent costs	434	413
Other	272	202
General and administration expense (gross)	2,812	2,464
Capitalized G&A and overhead recovery	(554)	(841)
Lease liability reclassifciation	(112)	-
General and administration expense (net)	2,146	1,623
Per boe ($)	2.95	1.73

General and administrative expenses (net) for the three months ended March 31, 2019 were $2.1 million ($2.95 per boe) and $1.6 million ($1.73 per boe) for the three months ended March 31, 2018. This increase was due to lower production in Q1 2019 compared to Q1 2018. The increase in gross G&A during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 is due to additional head office staff hired as a result of the Provost acquisition in 2018. The decrease in capitalized G&A and overhead recovery relates to decreased capital spending for the three months ended March 31, 2019 compared to March 31, 2018.

The table below reconciles cash G&A expenditures:

	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
General and administration expense (net)	2,146	1,623
Non-cash deferred lease expense	-	(47)
Cash general and administration expense (net)	2,146	1,576
Per boe ($)	2.95	1.68

OPERATING LOAN AND LONG TERM DEBT

On December 3, 2018 the Corporation increased its bank credit facilities to $100.0 million comprised of $90.0 million syndicated committed facility (“Credit Facility”) and a $10.0 million operating loan. The Credit Facility is a committed 364 days + 1 year and extendible annually. The Credit Facility and operating loan incur interest based on the applicable Canadian prime rate or Banker’s Acceptance rate plus between 0.50 and 3.50 percent depending on the type of borrowing and the Corporation’s debt to EBITDA ratio. The Corporation is also subject to a standby fee of 0.3375 percent to 0.7875 percent depending on the Corporation’s debt to EBITDA ratio. The next annual review date is May 31, 2019.

Previously, the Corporation had a $25.0 million revolving operating demand loan facility with a Canadian chartered bank.

As at March 31, 2019, $24.8 million (net of unamortized debt issue costs) was drawn on the Credit Facility and $3.7 million was drawn on the operating loan.

Long term debt as at March 31, 2019 and March 31, 2018 is as follows:

($000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
Credit Facility	25,000	15,000
less: unamortized debt issue costs	(250)	(269)
LONG TERM DEBT	**24,750**	**14,731**
Operating loan	3,670	6,109
CARRYING VALUE OF DEBT	**28,420**	**20,840**

Financing expense for the three months ended March 31, 2019 and 2018 is comprised of the following:

	For the three months ended	
($000s)	Mar. 31, 2019	Mar. 31, 2018
Credit Facility interest and charges	257	-
Operating loan interest and charges	57	-
Amortization of debt issue costs	19	-
Interest on lease liability	14	-
FINANCING EXPENSES	**347**	**-**

For the three months ended March 31, 2019, the effective interest rate on the credit facility was 4.03 percent. Key covenants of the bank credit facilities include standard business operating covenants. As at March 31, 2019 the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2019	Mar. 31, 2018
Share-based compensation - options	665	1,264
Share-based compensation - performance warrants	762	821
Share based compensation expense	1,427	2,085
Per boe ($)	1.96	2.22

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, 2019 was $665,000 (three months ended March 31, 2018 - $1.3 million) and SBC expense related to performance warrants for the three months ended March 31, 2019 was $762,000 (three months ended March 31, 2018 - $821,000) using the graded vesting method.

As at March 31, 2019, 13,442,260 stock options and 32,485,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.57 per option and $2.88 per warrant. The weighted average fair value of stock options and performance warrants outstanding was $0.75 per option and $0.47 per warrant.

At March 31, 2019, 5,973,495 stock options and 6,470,000 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. 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, 2019, depletion expense increased to $13.7 million (three months ended March 31, 2018 - $10.0 million) due to increases in net carrying value, and future development costs, offset by the disposition of non-core assets that closed on June 14, 2018. Depletion expense per boe increased during the three months ended March 31, 2019, due to the significant increase in net carrying value and future development costs from higher weighted oil reserves.

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2019	Mar. 31, 2018
Depletion	13,616	10,030
Depreciation and amortization	122	11
Total DD&A ($)	13,738	10,041
Per boe ($)	18.86	10.71

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended March 31, 2019 consisted of the following:

	For the three months ended	
($000s)	Mar. 31, 2019	Mar. 31, 2018
Drilling	1,691	7,783
Completions	4,571	10,535
Facilities and well equipment	12,576	7,084
Geological and geophysical	52	-
Land	118	279
Office equipment	77	1
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**19,085**	**25,682**

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. During the three months ended March 31, 2018, the Company drilled 25 gross (25.0 net) wells and completed 25 gross (24.7 net) horizontal Viking oil wells.

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

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)	24 (24.7)
On production - Gross (Net)	12 (11.9)	19 (18.3)	44 (41.2)	4 (4.0)	24 (24.7)

For the quarter ended	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Drilled - Gross (Net)	23 (22.1)	25 (24.8)	8 (7.9)	14 (13.9)	10 (9.9)
Completed - Gross (Net)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.9)
On production - Gross (Net)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.9)

Since November 2016, the Company drilled a total of 195 gross (189.9 net) and completed 179 gross (175.1 net) horizontal Viking oil wells to March 31, 2019.

ACQUISITION OF OIL AND GAS ASSETS

Alliance Acquisition

On October 31, 2018, the Company acquired assets in the Alliance area of Alberta ("Alliance Acquisition") that complement Karve's existing asset base for a total purchase price of $10.7 million. At the time of acquisition, the assets were producing approximately 900 boe/d, and include future drilling locations in the Alliance area. The effective date of the acquisition was May 1, 2018.

($000s)	
Net working capital	1,251
Property, plant and equipment	37,122
Decommissioning liabilities	(5,544)
Deferred tax liabilities	(5,969)
FAIR VALUE OF NET ASSETS ACQUIRED	**26,860**

CONSIDERATION	
Cash	10,720
TOTAL PURCHASE PRICE	**10,720**
GAIN ON ACQUISITION	**(16,140)**

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

Other Miscellaneous Acquisitions

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

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

CONSIDERATION	
Cash	1,410
TOTAL PURCHASE PRICE	**1,410**

DISPOSITION

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

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

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

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

OTHER LONG-TERM ASSET

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

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

The net loss of PrivateCo for the three months ended March 31, 2019 was $7.8 million.

DECOMMISSIONING LIABILITY

At March 31, 2019, the Company estimated a decommissioning liability of $12.2 million for the future abandonment and reclamation of Karve's properties (March 31, 2018 – $23.6 million). $2.0 million is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $10.2 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 $174.3 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2037 and 2057. The estimated future cash flows have been discounted using a credit adjusted rate of 8% and an inflation rate of 2%. At March 31, 2019, a 1% decrease in the discount rate used would create approximately a $4.7 million increase in the decommissioning liability, and a 1% increase in the discount rate used would create approximately a $3.4 million decrease in the decommissioning liability.

SHARE CAPITAL

($000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2017	137,199,270	216,061
Issued on exercise of options and performance warrants	70,000	113
Allocation of contributed surplus - exercise of options and performance warrants	-	34
BALANCE AT DECEMBER 31, 2018 & MARCH 31, 2019	**137,269,270**	**216,208**

There were no shares issued during the three months ended March 31, 2019 or the comparative period ended March 31, 2018.

SUPPLEMENTARY QUARTERLY INFORMATION

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 15 for details.

For the quarter ended ($000s)	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017
Petroleum and natural gas sales	42,475	38,464	18,133	10,017
Funds flow from (used for) operations (1)	22,368	19,022	4,654	4,728
Adjusted funds flow from operations (1)	23,486	19,896	6,521	4,948
AVERAGE SALES VOLUMES				
Oil (bbl/d)	6,210	5,700	3,283	1,874
Natural gas liquids (bbl/d)	419	412	226	7
Natural gas (Mcf/d)	22,729	23,792	12,553	1,037
TOTAL PRODUCTION (BOE/d)	**10,417**	**10,078**	**5,602**	**2,054**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	62.91	55.27	48.18	48.27
Crude oil - Canadian light sweet ($CDN/bbl)	70.09	65.68	57.15	59.72
Natural gas - AECO-C spot ($CDN/mcf)	2.06	1.72	1.61	2.79
Exchange Rate - ($US/$CAD)	0.79	0.79	0.80	0.74
FIELD NETBACK ($/BOE)				
Revenue	45.31	41.49	35.18	53.61
Royalties	(2.38)	(2.31)	(2.37)	(3.03)
Operating expense	(15.89)	(14.64)	(17.29)	(14.72)
Transportation expense	(1.21)	(1.30)	(1.60)	(3.09)
FIELD NETBACK ($/BOE) (1)	**25.83**	**23.24**	**13.92**	**32.77**
General and administration	(1.68)	(3.77)	(3.50)	(7.84)
Other income	1.69	1.97	1.43	-
Interest income	0.01	0.03	0.06	0.14
Realized hedging	(0.80)	-	0.64	1.06
CASHFLOW NETBACK ($/BOE) (1)	**25.05**	**21.47**	**12.55**	**26.13**

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

NET INCOME SUMMARY

($000s, except per boe amounts)	For the three months ended March 31, 2019 $	$/boe	For the three months ended March 31, 2018 $	$/boe
Petroleum and natural gas sales	34,648	47.57	42,475	45.31
Royalties	(2,605)	(3.58)	(2,228)	(2.38)
NET REVENUE	**32,043**	**43.99**	**40,247**	**42.93**
Other income	1,988	2.73	1,583	1.69
Gain (loss) on financial derivative contracts	-	-	(2,982)	(3.18)
Loss on investment	(2,565)	(3.52)	-	-
Interest income	9	0.01	13	0.01
TOTAL REVENUE AND OTHER INCOME	**31,475**	**43.21**	**38,861**	**41.45**
Operating	10,831	14.87	14,895	15.89
Transportation	1,419	1.95	1,134	1.21
General and administration	2,146	2.95	1,623	1.73
Financing	347	0.48	-	-
Depletion, depreciation and amortization	13,738	18.86	10,041	10.71
Accretion	178	0.24	446	0.48
Share-based compensation	1,427	1.96	2,085	2.22
Exploration and evaluation - expiries	434	0.60	371	0.40
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	**955**	**1.30**	**8,266**	**8.81**
Deferred income tax expense	1,004	1.38	2,835	3.02
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(49)**	**(0.08)**	**5,431**	**5.79**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2019 are as follows:

($000s)	2019	2020	2021	2022	Therafter	Total
Operating leases	24	-	-	-	-	24
Pipeline transportation	1,829	1,481	1,449	985	1,005	6,749
TOTAL ANNUAL COMMITMENTS	**1,853**	**1,481**	**1,449**	**985**	**1,005**	**6,773**

On February 15, 2018, the Company entered into a five year take or pay commitment with a major midstream company wherein a pipeline will be constructed and paid for by the midstream company which came on stream in the first quarter of 2019.

RELATED PARTY DISCLOSURES

The Company received a total of $0.8 million of gas processing income and royalty income (three months ended March 31, 2018 - nil) from PrivateCo. PrivateCo is a company with some common directors with Karve. Gas processing income and royalty income are based on standard third party agreements. As at March 31, 2019, $2.2 million is included in accounts receivable for final statement of adjustments, gas processing income, and royalty income for amounts due from PrivateCo (year ended December 31, 2017 - nil).

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at March 31, 2019, there were 137,269,270 common shares outstanding (March 31, 2018 - 137,199,270).

As at May 8, 2019, the date of this MD&A, there were 137,269,270 common shares, 13,642,260 stock options and 32,485,500 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 expects to access capital markets to meets its capital programs. Future liquidity depends primarily on cash flow generated from operations and the ability to access equity markets.

SUBSEQUENT EVENTS

a) Minor Acquisitions

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

b) Stock Option Grant

Subsequent to March 31, 2019, 200,000 stock options were granted to certain employee/s of the Company at an exercise price of $2.50 per share under the Company's Stock Option Plan.

CHANGES IN ACCOUNTING POLICY

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

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

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

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

Opening Balance Sheet	**Dec. 31, 2018 (previous IFRS)**	**Adoption of IFRS 16**	**Jan. 1, 2019 (new IFRS)**
Right of use asset	-	738	738
Lease liability	-	1,154	1,154
Deferred lease liability	416	-	-

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

OFF BALANCE SHEET ARRANGEMENTS

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

All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at March 31, 2019.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

BARRELS OF OIL EQUIVALENT

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

NON-GAAP MEASUREMENTS

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

The Company reconciles funds flow from (used for) operations and adjusted funds flow from (used for) 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, 2019	Mar. 31, 2018
Cash flow from continuing operations	15,629	22,731
Change in non-cash working capital from operating activities	3,240	(363)
FUNDS FLOW FROM OPERATIONS	**18,869**	**22,368**
Transaction costs	-	-
Decommissioning expenditures	461	1,118
ADJUSTED FUNDS FLOW FROM OPERATIONS	**19,330**	**23,486**

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

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

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
Computershare Trust Company of Canada
600, 530 8 AVE SW
Calgary, Alberta T2P 3S8

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	Shane Helwer
Chief Executive Officer	Vice President, Finance & Chief Financial Officer
587-393-8308	587-393-8302
bob.chaisson@karveenergy.com	shane.helwer@karveenergy.com