



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED
DECEMBER 31, 2021 and DECEMBER 31, 2020



LETTER TO OUR SHAREHOLDERS

April 12, 2022

Dear Shareholder:

We are pleased to present our 2021 audited financial statements and management's discussion and analysis ("MD&A") along with an update on Karve's progress since our November 10, 2021 letter to shareholders.

2021 was a pivotal year for Karve as energy prices strengthened with increased demand as the economy recovered from the COVID-19 pandemic. Karve was able to deliver strong operating and financial results and capitalize on the improved commodity price environment. In the third quarter of 2021, Karve closed a divestiture of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments). The disposition transacted at approximately an 8 times cash flow multiple based on annualized income from the first six month of 2021. In line with our strategy, Karve has managed our balance sheet, operated efficiently and executed a flexible and disciplined capital program to maintain a strong financial position. With our low decline, waterflood pressure supported oil production, the Company has low maintenance capital requirements and therefore can ensure future sustainability with strong financial and operating results. The Company's current production is 9,200 boe/d, including 6,400 bbl/d of oil and 300 bbl/d of NGLs (73% liquids).

In the fourth quarter of 2021, the Company produced an average of 8,002 boe/d (71% liquids), with a field operating netback of \$46.87 per boe. This is an increase of 25% from the third quarter of 2021 and an increase of 230% from the fourth quarter of 2020. The Company generated adjusted funds flow from operations of \$30.3 million for the three months ended December 31, 2021 (three months ended December 31, 2020 - \$7.9 million), which is a 284% increase year over year. Karve reduced its net debt by \$36.4 million from \$54.3 million at December 31, 2020 to \$17.9 million at December 31, 2021. Karve expects to be in a net cash position in April 2022.

During 2021, Karve drilled 62 gross (62.0 net) horizontal Viking wells and completed a total of 56 gross (56.0 net) horizontal Viking wells. Since November 2016, the Company drilled a total of 305 gross (299.4 net) and completed and brought on 299 gross (294.5 net) horizontal Viking wells. Capital expenditures (not including acquisitions and dispositions) were \$70.7 million in 2021 compared to \$30.1 million in 2020.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2021. Proved plus probable reserve volumes have increased from 40.8 MMBOE to 44.3 MMBOE (an increase of 9%) and the before tax NPV 10 reserves value has increased from \$414.2 million to \$760.5 million (an increase of 84%). On a per share basis, 2P reserve volumes increased 9% per share with reserve value increasing 84% on a per share basis. Karve delivered Finding, Development and Acquisition ("FD&A") costs of \$5.66 per BOE on a 2P basis, with a 2021 recycle ratio of 6.7 times. In the attached MD&A we have included a summary of the Sproule Report and a comparison of the 2021 results to 2020.

Karve will be holding our Annual General Meeting ("AGM") on Wednesday May 11, 2022, at 2:00PM both at our offices as well as via teleconference. Details for both are included in the Management Information Circular that can be found on our website at www.karveenergy.com.

Enclosed are the Karve Energy Inc. audited consolidated financial statements and MD&A for the year ended December 31, 2021. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress and thank all 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 years ended December 31, 2021 and December 31, 2020. It is dated April 12, 2022 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021 and the audited consolidated financial statements for the year ended December 31, 2020. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

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

OPERATIONAL AND FINANCIAL SUMMARY

	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
FINANCIAL (Canadian \$000, except per share and per boe amounts)		
Net income (loss)	39,100	(25,784)
Per share - basic	0.28	(0.18)
Per share - diluted	0.27	(0.18)
Funds flow from operations ⁽¹⁾	73,288	33,543
Per share - basic ⁽¹⁾	0.52	0.24
Per share - diluted ⁽¹⁾	0.50	0.24
Adjusted funds flow from operations ⁽¹⁾	75,564	34,309
Per share - basic ⁽¹⁾	0.54	0.24
Per share - diluted ⁽¹⁾	0.52	0.24
Capital expenditures (before acquisitions and dispositions)	70,741	30,996
Net acquisitions (dispositions)	(34,095)	-
Total net capital expenditures	36,646	30,996
Adjusted (net debt) ⁽¹⁾	(17,947)	(54,297)
Total assets	386,972	358,774
Shares outstanding, weighted average (000s)	140,530	140,530
Shares outstanding, end of year (000s)	140,530	140,530
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	4,628	4,845
NGLs (bbl/d)	280	301
Natural gas (mcf/d)	13,590	14,881
Total (boe/d)	7,173	7,626
Average sales prices (excluding hedging gains and losses)		
Oil (\$/bbl)	77.52	41.40
NGLs (\$/bbl)	58.93	26.59
Natural gas (\$/mcf)	3.35	2.16
Boe basis (\$/boe)	58.66	31.56
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	58.66	31.56
Royalties	(4.96)	(2.39)
Operating expense	(17.70)	(15.17)
Transportation expense	(0.96)	(1.21)
Field netback ⁽¹⁾	35.04	12.79

(1) Non-GAAP measure, see page 18 for details.

RESERVES SUMMARY

The following is a summary of reserves for the Company's total reserves which are located in the Provost area as at December 31, 2021 as evaluated by Karve's independent reserve engineers, Sproule Associated Limited ("Sproule"). The reserves have been reviewed and approved by Karve's Reserve Committee. No provision for general and administration expenses has been made in the reserve evaluation and it should not be assumed that the net present value estimates made by Sproule represent fair market value of the assets.

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta as at December 31, 2021 for comparison to December 31, 2020.

GROSS RESERVES SUMMARY ^(1,2)					Dec. 31, 2021
Karve interest	% Liquids	Oil Mbbbl	NGLs Mbbbl	Natural Gas MMcf	MBOE ⁽³⁾
Proved developed producing	64%	6,800	479	24,601	11,379
Proved non-producing and undeveloped	79%	16,907	574	27,344	22,038
TOTAL PROVED	74%	23,707	1,053	51,945	33,417
Probable	75%	7,749	339	16,557	10,848
TOTAL PROVED PLUS PROBABLE	74%	31,456	1,392	68,502	44,265

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2021. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

(3) MMcf has been converted to MBOE on a 6:1 basis.

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta as at December 31, 2020.

GROSS RESERVES SUMMARY ^(1,2)					Dec. 31, 2020
Karve interest	% Liquids	Oil Mbbbl	NGLs Mbbbl	Natural Gas MMcf	MBOE ⁽³⁾
Proved developed producing	63%	5,192	377	20,025	8,906
Proved non-producing and undeveloped	79%	14,689	521	24,446	19,285
TOTAL PROVED	74%	19,881	898	44,471	28,191
Probable	72%	8,656	429	21,300	12,635
TOTAL PROVED PLUS PROBABLE	73%	28,537	1,327	65,771	40,826

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2020. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

(3) MMcf has been converted to MBOE on a 6:1 basis.

The reserves comparison compares the December 31, 2021 reserve report to the December 31, 2020 reserve report. The increase in reserves year over year is mainly attributed to drilling of new wells, improved recovery and higher commodity prices in the December 31, 2021 reserve report compared to the December 31, 2020 reserve report.

GROSS RESERVES COMPARISON ^(1,2)			
	Dec. 31, 2021	Dec. 31, 2020	% Change
Karve interest	MBOE	MBOE	
Proved developed producing	11,379	8,906	28%
Proved non-producing and undeveloped	22,038	19,284	14%
TOTAL PROVED	33,417	28,190	19%
Probable	10,848	12,635	-14%
TOTAL PROVED PLUS PROBABLE	44,265	40,825	8%

(1) Sproule Associates Limited estimated reserves as at December 31, 2021 and December 31, 2020. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.



The reserve life index is based on production of 8,002 boe/d for the quarter ended December 31, 2021 (three months ended December 31, 2020 – 7,180 boe/d).

RESERVE LIFE INDEX	Dec. 31, 2021 ⁽¹⁾	Dec. 31, 2020 ⁽²⁾
Total proved	11.4	10.8
Total proved plus probable	15.2	15.6

(1) Based on production of approximately 8,002 BOE/d for the quarter ended December 31, 2021.

(2) Based on production of approximately 7,180 BOE/d as of December 2020.

The future development capital as at December 31, 2021 as compared to December 31, 2020 is as follows:

FUTURE DEVELOPMENT CAPITAL (\$000s)	Dec. 31, 2021	Dec. 31, 2020	% Change
Total proved plus probable	446,377	448,275	0%

Net present values are based on Sproule December 31, 2021 forecast pricing assumptions and future development capital.

NET PRESENT VALUE, BEFORE TAX^(1,2)	Dec. 31, 2021		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	215,080	209,589	194,199
Proved non-producing and undeveloped	369,508	301,331	248,738
TOTAL PROVED	584,588	510,920	442,937
Probable	308,505	249,591	208,680
TOTAL PROVED PLUS PROBABLE	893,093	760,511	651,617

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2021. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

The net present values below are based on Sproule December 31, 2020 forecast pricing assumptions.

NET PRESENT VALUE, BEFORE TAX^(1,2)	Dec. 31, 2020		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	93,041	101,357	96,240
Proved non-producing and undeveloped	183,871	139,299	105,655
TOTAL PROVED	276,912	240,656	201,895
Probable	222,235	173,500	139,954
TOTAL PROVED PLUS PROBABLE	499,147	414,156	341,849

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2020. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

The net present value comparison compares the value attributed to Karve's reserves as of December 31, 2021 as compared to the value attributed to Karve's reserves as of December 31, 2020. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2021 and December 31, 2020 price deck, respectively), the table below should be used for directional purposes only.

NET PRESENT VALUE COMPARISON, BEFORE TAX^(1,2)	Dec. 31, 2021	Dec. 31, 2020	% Change
Karve interest (\$000s)	10%	10%	
Proved developed producing	209,589	101,357	107%
Proved non-producing and undeveloped	301,331	139,299	116%
TOTAL PROVED	510,920	240,656	112%
Probable	249,591	173,500	44%
TOTAL PROVED PLUS PROBABLE	760,511	414,156	84%

(1) Sproule Associates Limited estimated reserves as at December 31, 2021 and December 31, 2020. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.



The net present value, after tax, is based on Sproule December 31, 2021 forecast pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2021.

NET PRESENT VALUE, AFTER TAX ^(1,2)	Dec. 31, 2021		
	5%	10%	15%
Karve interest (\$000s)			
Proved developed producing	215,080	209,589	194,199
Proved non-producing and undeveloped	284,445	228,996	186,248
TOTAL PROVED	499,525	438,585	380,447
Probable	238,472	191,967	159,880
TOTAL PROVED PLUS PROBABLE	737,997	630,552	540,327

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2021. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

Benchmark pricing used in the 2021 reserve report for various commodities has increased between 7-31% from 2020. As was shown in the previous table, this increase in benchmark pricing resulted in an increase in net present values. The approach taken by reserve evaluators is consistent year over year and the pricing set for the report was determined as at December 31, 2021.

Below are the 2020 and 2021 benchmark commodity prices used by Sproule to calculate the net present value of the Company's reserves:

	WTI (\$USD/bbl)			Canadian Light Sweet (\$CDN/bbl)			Henry Hub (\$USD/MMbtu)			AECO-C Spot (\$CDN/bbl)		
	2020 ⁽¹⁾	2021 ⁽¹⁾	% Change	2020 ⁽¹⁾	2021 ⁽¹⁾	% Change	2020 ⁽¹⁾	2021 ⁽¹⁾	% Change	2020 ⁽¹⁾	2021 ⁽¹⁾	% Change
	2022	50.17	72.83	31%	59.89	86.82	31%	2.87	3.85	25%	2.70	3.56
2023	53.17	68.78	23%	63.48	80.73	21%	2.90	3.44	16%	2.61	3.21	19%
2024	54.97	66.76	18%	65.76	78.01	16%	2.96	3.17	7%	2.65	3.05	13%
2025	56.07	68.09	18%	67.13	79.57	16%	3.02	3.24	7%	2.70	3.11	13%
2026	57.19	69.45	18%	68.53	81.16	16%	3.08	3.30	7%	2.76	3.17	13%
2027	58.34	70.84	18%	69.95	82.78	15%	3.14	3.37	7%	2.81	3.23	13%
2028	59.50	72.26	18%	71.40	84.44	15%	3.20	3.44	7%	2.87	3.30	13%
2029	60.69	73.70	18%	72.88	86.13	15%	3.26	3.50	7%	2.92	3.36	13%
2030	61.91	75.18	18%	74.34	87.85	15%	3.33	3.58	7%	2.98	3.43	13%
2031	63.15	76.68	18%	75.83	89.61	15%	3.39	3.65	7%	3.04	3.50	13%

(1) Benchmark commodity prices are based on the average pricing from Sproule, GLJ and McDaniels.

FINDING, DEVELOPMENT & ACQUISITION COSTS (\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Capital expenditures (excluding acquisitions/dispositions) ⁽¹⁾	70,284	29,701
Change in future development costs (FDC) ⁽²⁾	(1,898)	32,985
TOTAL	68,386	62,686
Dispositions	(34,095)	-
TOTAL CAPITAL EXPENDITURES INCLUDING FDC	34,291	62,686

(1) Capital expenditures for the year ended December 31, 2021 exclude decommissioning expenditures of \$1.8 million.

Year ended December 31, 2020 exclude decommissioning expenditures of \$766,000.

(2) FDC as at December 31, 2021 was \$446.4 million (December 31, 2020 - \$448.3 million).

RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Reserve additions ⁽¹⁾	6,059	(821)
Acquisitions (dispositions) reserve changes	(1)	-
RESERVE ADDITIONS INCLUDING ACQUISITIONS/DISPOSITIONS	6,058	(821)

(1) Reserve additions include infill drilling and extensions, economic factors and technical revisions.

COMPANY METRICS - PROVED PLUS PROBABLE	Three-Year		
	Dec. 31, 2021	Dec. 31, 2020	Average
Finding & development costs (F&D) (\$/boe)	11.29	Not meaningful ⁽³⁾	17.66
Finding, development & acquisition costs (\$/boe) ⁽¹⁾	5.66	Not meaningful ⁽³⁾	15.00
Operating netback (\$/boe) ⁽²⁾	37.67	14.85	27.24
Recycle ratio - F&D	3.3x	Not meaningful ⁽³⁾	1.5x
Recycle ratio - FD&A	6.7x	Not meaningful ⁽³⁾	1.8x

(1) Non-GAAP measure, see page 18 for details.

(2) Recycle ratio is based on 2021 operating netback of \$35.04/boe plus other income of \$2.63/boe (processing and royalty income).

(3) For 2020, if reserve additions were to exclude proved plus probable economic factors of 3,433 MBOE then the proved plus probable F&D as well as FD&A would be \$23.99 and the associated proved plus probable recycle ratio for F&D and FD&A would be 0.6x.

RESERVES RECONCILIATION (MBOE)	Total Proved	Proved plus
		Probable
December 31, 2020	28,190	40,825
Infill drilling and extensions	1,285	1,817
Acquisitions/Dispositions	(1)	(1)
Improved recovery - Waterflood	1,208	1,534
Economic Factors	4,497	2,542
Technical revisions	856	166
Production	(2,618)	(2,618)
DECEMBER 31, 2021	33,417	44,265

SALES VOLUMES

Sales volumes averaged 7,173 boe/d during the year ended December 31, 2021 compared to 7,626 boe/d for the year ended December 31, 2020. The decrease in sales volumes from the year ended December 31, 2021 is due to natural declines as there was a reduction in drilling in 2020 impacting 2021 production volumes. In addition, the production from the 21 gross wells drilled in the fourth quarter of 2021 was not yet fully realized in Q4 2021 production as these wells were drilled and brought on production throughout the quarter. During the year ended December 31, 2021, Karve brought on 59 gross (58.95 net) oil wells while over the same period in 2020, Karve brought on 23 gross (22.84 net) oil wells.

Sales volumes	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Oil (bbl/d)	4,628	4,845
NGLs (bbl/d)	280	301
Natural gas (mcf/d)	13,590	14,881
Total (boe/d)	7,173	7,626

SALES PRICES AND REVENUE

For the year ended December 31, 2021, the Company generated total revenue of \$153.6 million (year ended December 31, 2020 - \$88.1 million) on average sales volumes of 7,173 boe/d. Revenue is shown before transportation expenses. The average sales price per boe for the year ended December 31, 2021 was \$58.66 compared to \$31.56 for the year ended December 31, 2020. The increase in average sales price during 2021 is primarily due to the increase in crude oil prices resulting from both the correction of global over supply of crude oil and a reverse in the demand destruction caused by COVID-19.

KARVE AVERAGE REALIZED PRICE ⁽¹⁾	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Revenue (\$000s)	153,600	88,105
Oil (\$/bbl)	77.52	41.40
NGLs (\$/bbl)	58.93	26.59
Natural gas (\$/mcf)	3.35	2.16
Karve realized price (\$/boe)	58.66	31.56
AVERAGE BENCHMARK PRICES ⁽²⁾		
Crude oil - WTI (\$US/bbl)	67.91	39.40
Crude oil - Canadian light sweet (\$CDN/bbl)	80.31	45.39
Natural gas - AECO-C spot (\$CDN/mcf)	3.64	2.24
Exchange Rate - (\$US/\$CAD)	0.80	0.75

(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 December 31, 2021, 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	Jan. 1/22 - Dec. 31/22	WTI	500	82.75	(1,579)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	83.25	(1,488)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	85.50	(1,079)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	85.50	(1,066)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			2,000	84.25	(5,212)

(1) Nymex WTI monthly average in \$CAD.

At December 31, 2021 the fair value of the financial derivative contracts was a current liability position of \$5.2 million resulting in an unrealized loss of \$2.8 million for the year ended December 31, 2021 (December 31, 2020 - \$2.4 million current liability and unrealized loss of \$2.4 million). The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at December 31, 2021 and may be different from what will eventually be realized. Assuming all other variables remain constant, a \$5.00 USD increase in WTI would result in an unrealized loss of \$4.9 million and a derivative liability of \$9.3 million and a \$5.00 USD decrease in WTI would result in an unrealized gain of \$2.9 million and a derivative liability of \$1.5 million.

As at April 11, 2022 the fair value of the financial derivative contracts was a current derivative liability position of \$20.9 million.

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

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Unrealized (loss) on financial derivative contracts	(2,814)	(2,397)
Realized (loss) gain on financial derivative contracts	(11,415)	544
(LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	(14,229)	(1,853)

The Company had an unrealized loss of \$2.8 million for the year ended December 31, 2021 (December 31, 2020 - \$2.4 unrealized loss). The Company recognized a realized loss of \$11.4 million for the year ended December 31, 2021 (December 31, 2020 - \$544,000 realized gain).

ROYALTIES

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Royalties	12,989	6,660
Royalties as a % of revenue	8.5%	7.6%
Per boe (\$)	4.96	2.39

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2021 was \$13.0 million (\$4.96 per boe) compared to \$6.7 million (\$2.39 per boe) for the year ended December 31, 2020. For the year ended December 31, 2021, the Company's royalty rate was 8.5% of revenues (year ended December 31, 2020 - 7.6%). The increase in royalties is primarily due to higher average commodity prices during the year ended December 31, 2021 compared to 2020.

OPERATING EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Operating expense	46,334	42,341
Per boe (\$)	17.70	15.17

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 \$46.3 million (\$17.70 per boe) during the year ended December 31, 2021 and \$42.3 million (\$15.17 per boe) during the year ended December 31, 2020. The increase in operating expenses and operating expenses per boe during the year ended December 31, 2021 is due to the gradual return to normalized field operations and regular scheduled repairs and maintenance programs, combined with a slight reduction in production levels during the year ended December 31, 2021. During the year ended December 31, 2020 the Company implemented cost cutting measures and deferred some repairs and maintenance due to the deterioration of commodity pricing.



TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Transportation expense	2,504	3,366
Per boe (\$)	0.96	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 \$2.5 million (\$0.96 per boe) during the year ended December 31, 2021 and \$3.4 million (\$1.21 per boe) for the year ended December 31, 2020. This decrease in transportation expense year over year is primarily due to lower production volumes and lower oil trucking costs as the Company pipeline connects more of its production. The Company will continue to look to deliver volumes to the highest netback delivery points, which may lead to variability in transportation expense.

FIELD NETBACK

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

(\$000s, except per boe amounts)	For the year ended		For the year ended	
	Dec. 31, 2021		Dec. 31, 2020	
	\$	\$/boe	\$	\$/boe
Revenue	153,600	58.66	88,105	31.56
Royalties	(12,989)	(4.96)	(6,660)	(2.39)
Operating expense	(46,334)	(17.70)	(42,341)	(15.17)
Transportation expense	(2,504)	(0.96)	(3,366)	(1.21)
FIELD NETBACK (\$)⁽¹⁾	91,773	35.04	35,738	12.79

(1) Non-GAAP measure, see page 18 for details.

The year over year change in field netback is explained by the discussion of the netback components above.

OTHER INCOME

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Royalty income	3,113	2,538
Processing fee income	3,608	3,003
Other	163	207
Total other income	6,884	5,748
Per boe (\$)	2.63	2.06

Other income for the year ended December 31, 2021 was \$6.9 million (\$2.63 per boe) and \$5.7 million (\$2.06 per boe) for the year ended December 31, 2020. The other income streams from third parties relate to processing fee income, royalty income, and other income.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests. On August 25, 2021, the Company closed a divestiture of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments). See Page 13 – Dispositions. The increase in royalty income for the year ended December 31, 2021 compared to the year ended December 31, 2020 is due to the increase in commodity prices which generates royalty income, offset by the divestiture.

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. The increase in processing fee income for the year ended December 31, 2021 compared to the year ended December 31, 2020 is primarily due to higher third-party throughput volumes being processed at Karve operated facilities.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the year ended December 31, 2021 and December 31, 2020:

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Staff and consulting costs	9,263	4,613
Professional fees	421	368
Office and rent costs	1,261	1,739
Other	1,061	1,002
General and administration expense (gross)	12,006	7,722
Capitalized G&A and overhead recovery	(2,219)	(1,496)
Lease liability reclassification	(164)	(597)
General and administration expense (net)	9,623	5,629
Per boe (\$)	3.68	2.02

General and administrative expenses (net) for the year ended December 31, 2021 were \$9.6 million (\$3.68 per boe) and \$5.6 million (\$2.02 per boe) for the year ended December 31, 2020. This increase is due to the gradual return to normalized operations from the significant cost cutting measures that began in March 2020 and government support received in 2020. For the year ended December 31, 2021, the Company received \$691,000 in government grants which was recorded as a \$473,000 reduction to G&A expense and \$218,000 as a reduction to operating expense. For the year ended December 31, 2020, the Company received \$1.6 million in government grants which was recorded as a \$897,000 reduction to G&A expense and \$734,000 as a reduction to operating expenses.

OPERATING LOAN AND LONG TERM DEBT

As at December 31, 2021, the Company had secured bank credit facilities of \$55.0 million, comprised of a \$48.0 million Credit Facility and a \$7.0 million operating loan. The full facility is conforming. The Credit Facility is a committed 364 days + 1 year and extendible upon agreement annually and is shown as long term debt on the Company’s balance sheet. The operating loan is shown as a current liability. The Credit Facility and operating loan incur interest based on the applicable Canadian prime rate or Banker’s Acceptance rate plus between 1.75% and 4.75% depending on the type of borrowing and the Corporation’s debt to EBITDA ratio. The Company is also subject to a standby fee of 0.6875% to 1.1875% based on the Corporation’s debt to EBITDA ratio. The next annual review date is May 27, 2022.

As at December 31, 2021, \$26.8 million (net of unamortized debt issue costs) (December 31, 2020 - \$53.4 million) was drawn on the Credit Facility and \$nil (December 31, 2020 - \$5.5 million) was drawn on the operating loan.

The Company has issued letters of credit of \$951,000 as at December 31, 2021 (December 31, 2020 - \$781,000), thereby reducing the available bank credit facility by this amount.

Long term debt as at December 31, 2021 and December 31, 2020 is as follows:

(\$000s)	As at	As at
	Dec. 31, 2021	Dec. 31, 2020
Credit Facility	27,000	53,500
Less: unamortized debt issue costs	(177)	(126)
LONG TERM DEBT	26,823	53,374
Bank operating loan	-	5,513
TOTAL BANK DEBT	26,823	58,887

Financing expense for the year ended December 31, 2021 and 2020 is comprised of the following:

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Credit facility interest and charges	1,945	2,077
Operating loan interest and charges	108	93
Amortization of debt issue costs	131	176
Interest on lease liability	36	36
FINANCING EXPENSES	2,220	2,382

For the year ended December 31, 2021, the effective interest rate on the credit facility was 4.46% (December 31, 2020 – 4.45%). Key covenants of the bank credit facilities include standard business operating covenants. As at December 31, 2021 the Company is in compliance with all covenants.



SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Share-based compensation - options	1,394	3,131
Share-based compensation - performance warrants	1,303	2,593
Share-based compensation expense	2,697	5,724
Per boe (\$)	1.03	2.05

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 year ended December 31, 2021 was \$1.4 million (year ended December 31, 2020 - \$3.1 million) and SBC expense related to performance warrants for the year ended December 31, 2021 was \$1.3 million (year ended December 31, 2020 - \$2.6 million) using the graded vesting method. There were no stock options or performance warrants exercised during the year ended December 31, 2021.

As at December 31, 2021, 13,736,260 stock options and 31,893,500 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 December 31, 2021, 12,087,078 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 year ended December 31, 2021, DD&A expense decreased to \$45.6 million (\$17.41 per boe) from \$50.2 million (\$18.00 per boe) during the year ended December 31, 2020. This decrease of 9% is primarily due to the 7% reduction in 2021 production compared to 2020, combined with a higher offset from the Site Rehabilitation Program (“SRP”) expenses of \$2.9 million for the year ended December 31, 2021 (December 31, 2020 - \$251,000).

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Depletion	45,174	49,736
Depreciation and amortization	418	511
Total DD&A (\$)	45,592	50,247
Per boe (\$)	17.41	18.00

INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined basic federal and provincial statutory income tax rates for Canada at December 31, 2021 at 23% (December 31, 2020 – 24%).

A reconciliation to the differences is as follows:

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Net income before taxes	51,918	(28,738)
Combined federal and provincial tax rate	23.0%	24.0%
Computed "expected" tax expense	11,941	(6,897)
Increase (decrease) in taxes due to:		
Permanent differences	623	1,374
Change in tax rate	-	2,507
True-up	254	62
TOTAL INCOME TAX EXPENSE (RECOVERY)	12,818	(2,954)
Current income tax	-	-
Deferred income tax expense (recovery)	12,818	(2,954)
TOTAL INCOME TAX EXPENSE (RECOVERY)	12,818	(2,954)

The following table summarizes Karve's net deferred income tax liability at December 31, 2021:

	Balance at Jan. 1, 2021	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2021
Share issue costs	509	(368)	-	141
PP&E and E&E assets	(18,204)	(14,168)	-	(32,372)
Other	567	673	-	1,240
TOTAL DEFERRED INCOME TAX ASSET (LIABILITY)	5,335	(12,818)	-	(7,483)

A deferred tax asset was not recognized in respect of temporary differences related to successor tax pools of \$44.6 million (2020 – 44.6 million) as there is not sufficient certainty regarding future utilization.

As at December 31, 2021, the deferred tax liability was \$7.5 million (as at December 31, 2020 deferred tax asset - \$5.3 million) resulting in a deferred tax expense for the year ended December 31, 2022 of \$13.0 million (year ended December 31, 2020 – deferred tax recovery of \$3.1 million). The Company's non-capital losses expire between 2035 and 2042.

The following table summarizes Karve's net deferred income tax asset at December 31, 2020:

	Balance at Jan. 1, 2020	Recognized in Income (Loss)	Recognized in Other	Balance at Dec. 31, 2020
Share issue costs	254	255	-	509
PP&E and E&E assets	(9,526)	(8,678)	-	(18,204)
Other	45	522	-	567
TOTAL DEFERRED INCOME TAX ASSET	2,381	2,954	-	5,335



The following table summarizes Karve's income tax pools available for deduction:

(\$000s)	Dec. 31, 2021	As at Dec. 31, 2020
Non-capital losses	102,207	97,666
Canadian exploration expense	246	201
Canadian development expense	122,820	120,707
Canadian oil and gas property expense	54,609	92,325
Capital cost allowance	63,430	68,221
Share issue costs	687	1,387
TOTAL TAX POOLS AVAILABLE FOR DEDUCTION	343,999	380,507

The reduction in Canadian oil and gas property expense year over year is due to the royalty disposition which closed in the third quarter of 2021. The Company's non-capital losses expire between 2035 and 2042.

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the December 31, 2021 consisted of the following:

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Drilling	29,702	11,023
Completions	21,359	9,293
Facilities and well equipment	19,223	9,385
Land	360	1,129
Dispositions	(34,095)	-
Other	97	166
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	36,646	30,996

During the year ended December 31, 2021, the Company drilled 62 gross (62.0 net) horizontal Viking wells and completed 56 gross (56.0 net) horizontal Viking wells. During the year ended December 31, 2020, the Company drilled 23 gross (22.8 net) horizontal Viking wells and completed 23 gross (22.8 net) horizontal Viking oil wells. During 2021, the Company continued the expansion of its waterflood program.

In the third quarter of 2021, Karve closed a divestiture of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments).

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

For the quarter ended	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021	Mar. 31, 2021
Drilled - Gross (Net) ⁽¹⁾	19 (19.0)	29 (29.0)	4 (4.0)	10 (10.0)
Completed - Gross (Net)	18 (18.0)	28 (28.0)	0 (0.0)	10 (10.0)
On production - Gross (Net)	18 (18.0)	28 (28.0)	0 (0.0)	10 (10.0)

For the quarter ended	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020	Mar. 31, 2020
Drilled - Gross (Net) ⁽¹⁾	5 (4.9)	0 (0.0)	0 (0.0)	18 (17.9)
Completed - Gross (Net)	5 (4.9)	7 (6.9)	0 (0.0)	11 (11.0)
On production - Gross (Net)	5 (4.9)	7 (6.9)	0 (0.0)	11 (11.0)

(1) Not included in the above table are 2 water source wells and 3 other wells drilled (2020 - 1 other well drilled)

Since November 2016, the Company drilled a total of 305 gross (299.4 net) and completed and brought on 299 gross (294.5 net) horizontal Viking wells on production.

DISPOSITIONS

On August 25, 2021, the Company sold of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments). The disposition was effective July 1, 2021. Transaction costs related to the disposition totalled \$429,000. The disposed assets included 275 gross sections of fee title lands and 130 gross sections of gross overriding royalty ("GORR") lands excluding fee title and GORR lands within the Karve core Viking properties. The annualized fee income associated with the disposed assets based on income from the first six months of 2021 was approximately \$4.4 million (disposition transacted at



approximately an 8 times cash flow multiple). The estimated carrying value of the assets disposed and gain on disposition are summarized below:

(\$000s)	
Property, plant and equipment	777
CARRYING VALUE OF NET ASSETS DISPOSED	777
CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS	34,095
GAIN ON DISPOSITION	33,318

DECOMMISSIONING LIABILITY

At December 31, 2021, the Company estimated a decommissioning liability of \$20.9 million for the future abandonment and reclamation of Karve’s properties (December 31, 2020 – \$21.7 million). \$4.2 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining \$16.7 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 inflated, undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$180.4 million (\$101.4 million undiscounted, uninflated) (December 31, 2020 - \$176.5 million and \$101.0 million respectively), which will be incurred over the remaining life of the assets with the costs to be incurred between 2022 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2020 – 11%) and an inflation rate of 2% (December 31, 2020 – 2%). The change in estimate for the year ended December 31, 2021 relates to a change in the estimated timing of abandonment and reclamation expenses. The change in estimate for the year ended December 31, 2020 relates to an increase to the credit adjusted discount rate and changes in timing of abandonment and reclamation expenses.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program (“SRP”) whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. Pursuant to the SRP, the Company was approved for up to \$5.1 million in SRP funding. To date the Company has recognized \$3.1 million in SRP funding (December 31, 2020 - \$251,000). Subsequent to year end, the Company was approved for an additional \$0.7 million of SRP funding.

SHARE CAPITAL

(\$000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2018	137,269,270	216,208
BALANCE AT DECEMBER 31, 2019, 2020 and 2021	140,529,665	225,158

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended (\$000s)	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021	Mar. 31, 2021
Petroleum and natural gas sales	51,918	40,303	33,844	27,535
Funds flow from operations ⁽¹⁾	30,018	23,709	11,485	8,076
Adjusted funds flow from operations ⁽¹⁾	30,339	24,532	12,147	8,546
Net income (loss) and comprehensive income (loss)	10,761	30,769	2,408	(4,838)
Income (loss) per share - basic (\$)	0.07	0.22	0.02	(0.03)
Income (loss) per share - diluted (\$)	0.07	0.21	0.02	(0.03)
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,395	4,683	4,300	4,120
Natural gas liquids (bbl/d)	295	310	285	229
Natural gas (Mcf/d)	13,874	13,988	13,788	12,695
TOTAL PRODUCTION (BOE/d)	8,002	7,324	6,883	6,465
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	77.19	70.56	66.03	57.84
Crude oil - Canadian light sweet (\$CDN/bbl)	92.14	84.18	76.29	68.62
Natural gas - AECO-C spot (\$CDN/mcf)	4.74	3.59	3.07	3.13
Exchange Rate - (\$US/\$CAD)	0.79	0.79	0.81	0.79
FIELD NETBACK (\$/BOE)				
Revenue	70.52	59.81	54.03	47.32
Royalties	(6.24)	(5.06)	(4.60)	(3.61)
Operating expense	(16.44)	(16.33)	(19.38)	(19.06)
Transportation expense	(0.97)	(0.96)	(1.01)	(0.87)
FIELD NETBACK (\$/BOE) ⁽¹⁾	46.87	37.46	29.04	23.78
General and administration	(4.79)	(2.54)	(2.97)	(4.33)
Other income	1.52	2.84	3.63	2.70
Interest expense	(0.43)	(0.80)	(0.98)	(1.01)
Realized hedging	(1.96)	(0.54)	(9.33)	(6.46)
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	41.21	36.42	19.39	14.68

(1) Non-GAAP measure, see page 18 for details.

For the quarter ended (\$000s)	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	Mar. 31, 2020
Petroleum and natural gas sales	23,521	23,314	13,323	27,947
Funds flow from operations ⁽¹⁾	7,786	8,487	4,811	12,459
Adjusted funds flow from operations ⁽¹⁾	7,883	8,837	4,900	12,689
Net income (loss)	(10,086)	(5,613)	(11,762)	(104)
Income (loss) per share - basic (\$)	(0.07)	(0.03)	(0.08)	(0.00)
Income (loss) per share - diluted (\$)	(0.07)	(0.03)	(0.08)	(0.00)
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,539	4,755	4,572	5,520
Natural gas liquids (bbl/d)	292	322	292	299
Natural gas (Mcf/d)	14,095	14,596	15,268	15,577
TOTAL PRODUCTION (BOE/d)	7,180	7,510	7,409	8,415
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	42.66	40.93	27.84	46.17
Crude oil - Canadian light sweet (\$CDN/bbl)	49.17	49.05	31.45	52.02
Natural gas - AECO-C spot (\$CDN/mcf)	2.65	2.27	2.01	2.03
Exchange Rate - (\$US/\$CAD)	0.77	0.75	0.72	0.74
FIELD NETBACK (\$/BOE)				
Revenue	35.61	33.74	19.76	36.50
Royalties	(2.59)	(2.47)	(1.47)	(2.94)
Operating expense	(17.79)	(15.72)	(12.75)	(14.53)
Transportation expense	(1.04)	(1.16)	(1.11)	(1.47)
FIELD NETBACK (\$/BOE) ⁽¹⁾	14.19	14.39	4.43	17.56
General and administration	(2.07)	(1.70)	(2.04)	(2.24)
Other income	2.36	2.09	1.91	2.00
Interest expense	(0.91)	(0.83)	(0.63)	(0.75)
Realized hedging	(1.64)	(1.16)	3.60	-
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	11.93	12.79	7.27	16.57

(1) Non-GAAP measure, see page 18 for details.



NET INCOME (LOSS) SUMMARY

(\$000s, except per boe amounts)	For the year ended Dec. 31, 2021		For the year ended Dec. 31, 2020	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	153,600	58.66	88,105	31.56
Royalties	(12,989)	(4.96)	(6,660)	(2.39)
NET REVENUE	140,611	53.70	81,445	29.17
Other income	6,884	2.63	5,748	2.06
(Loss) on financial derivative contracts	(14,229)	(5.43)	(1,853)	(0.66)
Gain on disposition of property, plant and equipment	33,318	12.72	-	-
TOTAL REVENUE AND OTHER INCOME	166,584	63.62	85,340	30.57
Operating	46,334	17.70	42,341	15.17
Transportation	2,504	0.96	3,366	1.21
General and administration	9,623	3.68	5,629	2.02
Financing	2,220	0.85	2,382	0.85
Depletion, depreciation and amortization	45,592	17.41	50,247	18.00
Accretion	2,386	0.91	1,545	0.55
Share-based compensation	2,697	1.03	5,724	2.05
Exploration and evaluation - expiries	2,881	1.10	2,844	1.02
Transaction costs	429	0.16	-	-
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	51,918	19.82	(28,738)	(10.30)
Deferred income tax (recovery)	12,818	4.89	(2,954)	(1.06)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	39,100	14.93	(25,784)	(9.24)

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2021 are as follows:

(\$000s)	2022	2023	Total
Operating leases	78	-	78
Pipeline transportation	985	1,005	1,990
TOTAL COMMITMENTS	1,063	1,005	2,068

RELATED PARTY DISCLOSURES

a) Key Management Personnel

Key management is defined as the Board of Directors and Officers of the Company. The table below summarizes the fair value of compensation and other fees paid to key management:

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Share-based compensation benefit	1,588	3,085
Salaries and benefits	2,720	1,676
TOTAL KEY MANAGEMENT COMPENSATION	4,308	4,761

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

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

As at April 12, 2022, the date of this MD&A, there were 140,529,665 common shares, 13,733,260 stock options and 31,887,500 performance warrants outstanding.

LIQUIDITY

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

At December 31, 2021, the Company remains in compliance with all terms of our Credit Facility and based on current available information, management expects to comply with all terms during the subsequent 12-month period.

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 December 31, 2021.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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



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

BARRELS OF OIL EQUIVALENT

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

NON-GAAP MEASUREMENTS

Certain financial measures in this MD&A are not prescribed by generally accepted accounting principles (GAAP). These non-GAAP financial measures are included because management uses the information to analyze business performance and liquidity. These non-GAAP measures do not have any standardized meaning and, therefore, may differ from other companies. Accordingly, such measures may not be comparable to measures used by other companies. Readers are cautioned that these measures should not be construed as an alternative to other terms such as current and long-term debt, net earnings or cash flow from continuing operations in accordance with IFRS as measures of performance.

Funds flow from operations is a capital management measure and is a key measure of operating performance as it demonstrates the Company’s ability to generate the cash necessary to make capital investments and repay debt. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds flow provides a useful measure of the Company’s ability to generate cash that is not subject to short-term movements in non-cash operating working capital. 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. Funds flow from operations 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.

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.

The Company reconciles funds flow from 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:

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Cash flow from continuing operations	69,852	42,236
Change in non-cash working capital from operating activities	3,436	(8,693)
FUNDS FLOW FROM OPERATIONS	73,288	33,543
Transaction costs	429	-
Decommissioning expenditures	1,847	766
ADJUSTED FUNDS FLOW FROM OPERATIONS	75,564	34,309

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share.

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. Field netback is a per boe measure used in operational and capital allocation decisions.



Net debt is a capital management measure and is key to assessing the Company's liquidity. Net debt is defined as long term debt plus any net working capital excluding derivative contract asset/liability and current portion of decommissioning liability. 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. The following reconciles long-term debt to net debt:

(\$000s)	As at	
	Dec. 31, 2021	Dec. 31, 2020
Long term debt (NOTE 11)	26,823	53,374
Total current assets	(28,523)	(15,709)
Trade and other payables (NOTE 6)	19,647	11,119
Operating loan (NOTE 11)	-	5,513
Adjusted (net debt)	17,947	54,297

Net Capital Expenditures is used by management to measure its capital investments compared to the Company's annual capital budgeted expenditures. The following reconciles cash flows from investing activities to net capital expenditures:

(\$000s)	For the year ended	
	Dec. 31, 2021	Dec. 31, 2020
Cash Flow used for investing activities	32,216	36,536
Change in non-cash working capital (NOTE 20)	4,430	(5,540)
Total net capital expenditures	36,646	30,996
Property, plant and equipment dispositions (NOTE 8)	34,095	-
Capital expenditures (before acquisitions and dispositions)	70,741	30,996

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^A Denotes member of the Audit Committee.

^R Denotes member of the Reserves Committee.

^C Denotes member of the Compensation Committee.

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