



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED
DECEMBER 31, 2022 AND DECEMBER 31, 2021



LETTER TO OUR SHAREHOLDERS

March 22, 2023

Dear Shareholder:

We are pleased to present our 2022 audited financial statements and management's discussion and analysis ("MD&A"), along with an update on Karve's progress since our November 10, 2022 letter to shareholders.

In the year ended December 31, 2022, the Company had record adjusted funds flow from operations of \$148.8 million, a 97% increase over the adjusted funds flow from operations of \$75.6 million in 2021. This increase was due to a strong field netback for 2022 of \$59.39/boe compared to \$35.04/boe in 2021 and an increase of production from 7,173 boe/d in 2021 to 8,423 boe/d in 2022. On July 29, 2022, Karve paid its Shareholders \$49.2 million representing a Return of Capital of \$0.35 per Common Share.

Fourth quarter 2022 production was 8,148 boe/d compared to third quarter production of 8,239 boe/d due to cold weather causing certain assets to be shut-in. With our low decline, waterflood pressure supported oil production in the Provost, Alberta region, the Company has low maintenance capital requirements and therefore can ensure future sustainability with continued strong financial and operating results. The Company's current production is 9,000 boe/d, including 6,300 bbl/d of oil and 300 bbl/d of NGLs (73% liquids).

During 2022, Karve drilled 68 gross (67.9 net) horizontal Viking wells and completed a total of 69 gross (68.8 net) horizontal Viking wells, compared to 62 gross (61.9 net) wells drilled and 56 gross (55.9 net) wells completed in 2021. Capital expenditures (not including acquisitions and dispositions) were \$104.2 million in 2022 compared to \$70.7 million in 2021. Since November 2016, the Company has drilled a total of 373 gross (367.3 net) and completed and brought on 368 gross (363.3 net) horizontal Viking wells.

Based on current commodity price expectations, Karve is planning a 2023 capital expenditure program of approximately \$98.0 to \$100.0 million. The capital program consists of approximately \$71.0 to \$72.0 million to drill 52 gross (52.0 net) wells and complete 56 gross (56.0 net) horizontal Viking oil wells, approximately \$10.0 to \$11.0 million on facilities, \$13.0 million on waterflood, and \$4.0 million on asset retirement obligations. Consistent with previous capital expenditure programs, Karve will continue to monitor and adjust its capital spending depending on market conditions.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2022. Proved plus probable reserve volumes have increased from 44.3 MMBOE to 46.2 MMBOE (an increase of 4%) and the before tax NPV 10 reserves value has increased to \$1.1 billion from \$760.5 million (an increase of 45%). On a per share basis, 2P reserve volumes increased 4% per share with reserve value increasing 45% on a per share basis. Karve delivered Finding, Development and Acquisition ("FD&A") costs of \$26.18 per BOE on a 2P basis, with a 2022 recycle ratio of 2.3 times. The increase in future development capital related to undeveloped locations (Proved and Probable) is due to inflationary pressures and is consistent with industry averages. In the attached MD&A we have included a summary of the Sproule Report and a comparison of the 2022 results to 2021.

Karve will be holding our Annual General Meeting ("AGM") on Wednesday May 10, 2023, 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, 2022. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the years ended December 31, 2022 and December 31, 2021. It is dated March 22, 2023 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022 and the audited consolidated financial statements for the year ended December 31, 2021. 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	
FINANCIAL (Canadian \$000, except per share and per boe amounts)	Dec. 31, 2022	Dec. 31, 2021
Net income	71,141	39,100
Per share - basic	0.51	0.28
Per share - diluted	0.46	0.27
Funds flow from operations ⁽¹⁾	146,260	73,288
Per share - basic ⁽¹⁾	1.04	0.52
Per share - diluted ⁽¹⁾	0.94	0.50
Adjusted funds flow from operations ⁽¹⁾	148,807	75,564
Per share - basic ⁽¹⁾	1.06	0.54
Per share - diluted ⁽¹⁾	0.95	0.52
Capital expenditures	104,248	70,741
Net (dispositions)	-	(34,095)
Total net capital expenditures	104,248	36,646
Net debt ⁽¹⁾	(25,589)	(17,947)
Total assets	437,196	386,972
Return of capital	49,185	-
Shares outstanding, weighted average (000s)	140,530	140,530
Shares outstanding, end of period (000s)	140,530	140,530
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	5,705	4,628
NGLs (bbl/d)	329	280
Natural gas (mcf/d)	14,332	13,590
Total (boe/d)	8,423	7,173
Average sales prices (excluding hedging gains and losses)		
Oil (\$/bbl)	116.08	77.52
NGLs (\$/bbl)	85.16	58.93
Natural gas (\$/mcf)	5.29	3.35
Boe basis (\$/boe)	90.95	58.66
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	90.95	58.66
Royalties	(10.98)	(4.96)
Operating expense	(19.46)	(17.70)
Transportation expense	(1.12)	(0.96)
Field netback ⁽¹⁾	59.39	35.04

(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, 2022 as evaluated by Karve's independent reserve engineers, Sproule Associated Limited ("Sproule"). 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, 2022 for comparison to December 31, 2021.

GROSS RESERVES SUMMARY^(1,2)					Dec. 31, 2022
		Oil	NGLs	Natural Gas	
Karve interest	% Liquids	Mbbl	Mbbl	MMcf	MBOE ⁽³⁾
Proved developed producing	66%	7,631	566	25,883	12,510
Proved non-producing and undeveloped	78%	17,253	736	30,998	23,156
TOTAL PROVED	73%	24,884	1,302	56,881	35,666
Probable	75%	7,514	369	16,154	10,575
TOTAL PROVED PLUS PROBABLE	74%	32,398	1,671	73,035	46,241

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2022. 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, 2021.

GROSS RESERVES SUMMARY^(1,2)					Dec. 31, 2021
		Oil	NGLs	Natural Gas	
Karve interest	% Liquids	Mbbl	Mbbl	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 comparison compares the December 31, 2022 reserve report to the December 31, 2021 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, 2022 reserve report compared to the December 31, 2021 reserve report.

GROSS RESERVES COMPARISON^(1,2)			
	Dec. 31, 2022	Dec. 31, 2021	% Change
Karve interest	MBOE	MBOE	
Proved developed producing	12,510	11,379	10%
Proved non-producing and undeveloped	23,156	22,038	5%
TOTAL PROVED	35,666	33,417	7%
Probable	10,575	10,848	-3%
TOTAL PROVED PLUS PROBABLE	46,241	44,265	4%

(1) Sproule Associates Limited estimated reserves as at December 31, 2022 and December 31, 2021. Table may not add due to rounding.

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



The reserve life index is based on production of 8,148 boe/d for the three months ended December 31, 2022 (three months ended December 31, 2021 – 8,002 boe/d).

RESERVE LIFE INDEX	Dec. 31, 2022 ⁽¹⁾	Dec. 31, 2021 ⁽²⁾
Total proved	12.0	11.4
Total proved plus probable	15.5	15.2

(1) Based on production of approximately 8,148 BOE/d for the three months ended December 31, 2022.

(2) Based on production of approximately 8,002 BOE/d for the three months ended December 2021.

The future development capital as at December 31, 2022 as compared to December 31, 2021 is as follows:

FUTURE DEVELOPMENT CAPITAL (\$000s)	Dec. 31, 2022	Dec. 31, 2021	% Change
Total proved plus probable	474,776	446,377	6%

The increase in future development capital related to undeveloped locations (Proved and Probable) is due to inflationary pressures and is consistent with industry averages.

Net present values are based on Sproule December 31, 2022 forecast pricing assumptions and future development capital.

NET PRESENT VALUE, BEFORE TAX^(1,2)	Dec. 31, 2022		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	341,238	320,203	293,210
Proved non-producing and undeveloped	554,991	459,813	385,924
TOTAL PROVED	896,229	780,016	679,134
Probable	389,663	319,560	270,951
TOTAL PROVED PLUS PROBABLE	1,285,892	1,099,576	950,085

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2022. 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, 2021 forecast pricing assumptions.

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 value comparison compares the value attributed to Karve's reserves as of December 31, 2022 as compared to the value attributed to Karve's reserves as of December 31, 2021. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2022 and December 31, 2021 price deck, respectively), the table below should be used for directional purposes only.

NET PRESENT VALUE COMPARISON, BEFORE TAX^(1,2)	Dec. 31, 2022	Dec. 31, 2021	% Change
Karve interest (\$000s)	10%	10%	
Proved developed producing	320,203	209,589	53%
Proved non-producing and undeveloped	459,813	301,331	53%
TOTAL PROVED	780,016	510,920	53%
Probable	319,560	249,591	28%
TOTAL PROVED PLUS PROBABLE	1,099,576	760,511	45%

(1) Sproule Associates Limited estimated reserves as at December 31, 2022 and December 31, 2021. 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, 2022 forecast pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2022.

NET PRESENT VALUE, AFTER TAX ^(1,2)		Dec. 31, 2022		
		5%	10%	15%
Karve interest (\$000s)				
Proved developed producing	314,986	297,637	273,468	
Proved non-producing and undeveloped	415,148	337,236	276,774	
TOTAL PROVED	730,134	634,873	550,242	
Probable	301,615	246,155	207,972	
TOTAL PROVED PLUS PROBABLE	1,031,749	881,028	758,214	

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2022. Table may not add due to rounding.

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

Benchmark pricing used in the 2022 reserve report for various commodities has increased between 11-27% from 2021. 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, 2022.

Below are the 2021 and 2022 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/MMBtu)		
	2021 ⁽¹⁾	2022 ⁽¹⁾	% Change	2021 ⁽¹⁾	2022 ⁽¹⁾	% Change	2021 ⁽¹⁾	2022 ⁽¹⁾	% Change	2021 ⁽¹⁾	2022 ⁽¹⁾	% Change
	2023	68.78	80.33	14%	80.73	103.76	22%	3.44	4.74	27%	3.21	4.23
2024	66.76	78.50	15%	78.01	97.74	20%	3.17	4.50	30%	3.05	4.40	31%
2025	68.09	76.95	12%	79.57	95.27	16%	3.24	4.31	25%	3.11	4.21	26%
2026	69.45	77.61	11%	81.16	95.58	15%	3.30	4.40	25%	3.17	4.27	26%
2027	70.84	79.16	11%	82.78	97.07	15%	3.37	4.49	25%	3.23	4.34	26%
2028	72.26	80.74	11%	84.44	99.01	15%	3.44	4.58	25%	3.30	4.43	26%
2029	73.70	82.36	11%	86.13	100.99	15%	3.50	4.67	25%	3.36	4.51	25%
2030	75.18	84.00	11%	87.85	103.01	15%	3.58	4.76	25%	3.43	4.60	25%
2031	76.68	85.69	11%	89.61	105.07	15%	3.65	4.86	25%	3.50	4.69	25%
2032	78.21	87.40	11%	91.40	106.69	14%	3.72	4.95	25%	3.57	4.79	25%
2033	79.78	89.15	11%	93.23	108.83	14%	3.79	5.05	25%	3.64	4.88	25%
2034	81.37	90.93	11%	95.09	111.00	14%	3.87	5.15	25%	3.71	4.98	26%
2035	83.00	92.75	11%	96.99	113.22	14%	3.95	5.26	25%	3.79	5.08	25%
2036	84.66	94.61	11%	98.93	115.49	14%	4.03	5.36	25%	3.86	5.18	25%
2037	86.35	96.50	11%	100.91	117.80	14%	4.11	5.47	25%	3.94	5.29	26%

(1) Benchmark commodity prices are based on the average pricing from Sproule, GLJ and McDaniels. Escalates at +2%/year thereafter.

FINDING, DEVELOPMENT & ACQUISITION COSTS (\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Capital expenditures (excluding acquisitions/dispositions) ⁽¹⁾	103,796	70,284
Change in future development costs (FDC) ⁽²⁾	28,399	(1,898)
TOTAL	132,195	68,386
Dispositions	-	(34,095)
TOTAL CAPITAL EXPENDITURES INCLUDING FDC	132,195	34,291

(1) Capital expenditures for the year ended December 31, 2022 exclude decommissioning expenditures of \$2.5 million.

Year ended December 31, 2021 exclude decommissioning expenditures of \$1.8 million.

(2) FDC as at December 31, 2022 was \$474.8 million (December 31, 2021 - \$446.4 million).

RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Reserve additions ⁽¹⁾	5,050	6,059
Acquisitions (dispositions) reserve changes	-	(1)
RESERVE ADDITIONS INCLUDING ACQUISITIONS/DISPOSITIONS	5,050	6,058

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



COMPANY METRICS - PROVED PLUS PROBABLE	Dec. 31, 2022	Dec. 31, 2021	Three-Year Average
Finding & development costs (F&D) (\$/boe)	26.18	11.29	25.59
Finding, development & acquisition costs (\$/boe) ⁽¹⁾	26.18	5.66	22.28
Operating netback (\$/boe) ⁽²⁾	61.02	37.67	37.85
Recycle ratio - F&D	2.3x	3.3x	1.5x
Recycle ratio - FD&A	2.3x	6.7x	1.7x

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

(2) Recycle ratio is based on 2022 operating netback of \$59.39/boe plus other income of \$1.63/boe (processing and royalty income).

RESERVES RECONCILIATION (MBOE)	Total Proved	Proved plus Probable
December 31, 2021	33,417	44,265
Category transfer	157	(247)
Infill drilling and extensions	3,354	4,415
Improved recovery - Waterflood	477	477
Technical revisions and economic factors	1,335	405
Production	(3,074)	(3,074)
DECEMBER 31, 2022	35,666	46,241

SALES VOLUMES

Sales volumes averaged 8,423 boe/d during the year ended December 31, 2022 compared to 7,173 boe/d for the year ended December 31, 2021. The increase in sales volumes from the year ended December 31, 2021 is due 69 new gross wells (68.8 net) being added to production during the year ended December 31, 2022. During the year ended December 31, 2021, the Company brought on 59 gross (58.9 net) oil wells.

	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Sales volumes		
Oil (bbl/d)	5,705	4,628
NGLs (bbl/d)	329	280
Natural gas (mcf/d)	14,332	13,590
Total (boe/d)	8,423	7,173

SALES PRICES AND REVENUE

For the year ended December 31, 2022, the Company generated total revenue of \$279.6 million (year ended December 31, 2021 - \$153.6 million) on average sales volumes of 8,423 boe/d. Revenue is shown before transportation expenses. The average sales price per boe for the year ended December 31, 2022 was \$90.95 compared to \$58.66 for the year ended December 31, 2021. The increase in revenue year over year is due to the substantial increase in average oil and natural gas sales prices combined with the increase in sales volumes.

	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
KARVE AVERAGE REALIZED PRICE ⁽¹⁾		
Revenue (\$000s)	279,615	153,600
Oil (\$/bbl)	116.08	77.52
NGLs (\$/bbl)	85.16	58.93
Natural gas (\$/mcf)	5.29	3.35
Karve realized price (\$/boe)	90.95	58.66
AVERAGE BENCHMARK PRICES ⁽²⁾		
Crude oil - WTI (\$US/bbl)	94.23	67.91
Crude oil - Canadian light sweet (\$CDN/bbl)	119.73	80.31
Natural gas - AECO-C spot (\$CDN/mcf)	5.43	3.64
Exchange Rate - (\$US/\$CAD)	0.77	0.80

(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, 2022, the Company had the following commodity contracts in place:

Type	Term	Basis ⁽¹⁾	Volume (Bbl/d)	Strike Price (\$CAD/Bbl) ⁽¹⁾	Current Liability (\$000s)
Put option	Jan. 1/23 - Mar. 31/23	WTI	750	97.50	(204)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			750	97.50	(204)

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

At December 31, 2022 the fair value of the financial derivative contracts was a current liability position of \$204,000 resulting in an unrealized gain of \$5.0 million for the year ended December 31, 2022 (December 31, 2021 - \$5.2 million current liability and unrealized loss of \$2.8 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, 2022 and may be different from what will eventually be realized. Assuming all other variables remain constant, a \$5.00 USD increase in WTI would result in an unrealized gain of \$5.0 million and a derivative liability of \$255,000 and a \$5.00 USD decrease in WTI would result in an unrealized gain of \$5.1 million and a derivative liability of \$107,000.

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

(\$000s)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Unrealized gain (loss) on financial derivative contracts	5,008	(2,814)
Realized (loss) on financial derivative contracts	(27,850)	(11,415)
LOSS ON FINANCIAL DERIVATIVE CONTRACTS	(22,842)	(14,229)

The Company recognized a realized loss of \$27.9 million for the year ended December 31, 2022 (year ended December 31, 2021 - \$11.4 million) due to the increase in oil prices.

ROYALTIES

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Royalties	33,757	12,989
Royalties as a % of revenue	12.1%	8.5%
Per boe (\$)	10.98	4.96

Royalties include crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2022 was \$33.8 million (\$10.98 per boe) compared to \$13.0 million (\$4.96 per boe) for the year ended December 31, 2021. For the year ended December 31, 2022, the Company's royalty rate was 12.1% of revenues (year ended December 31, 2021 - 8.5%). The increase in royalties is primarily due to wells coming off royalty holiday and higher average commodity prices during the year ended December 31, 2022 compared to the year ended December 31, 2021.

OPERATING EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Operating expense	59,825	46,334
Per boe (\$)	19.46	17.70

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process and in-field trucking of the Company's production. Operating expenses were \$59.8 million (\$19.46 per boe) during the year ended December 31, 2022 and \$46.3 million (\$17.70 per boe) during the year ended December 31, 2021. The increase in operating expenses per boe is primarily due to the inflationary environment, significant increases in electricity costs due to high Alberta power prices and an increase in workover expenses.



TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Transportation expense	3,458	2,504
Per boe (\$)	1.12	0.96

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 \$3.5 million (\$1.12 per boe) during the year ended December 31, 2022 and \$2.5 million (\$0.96 per boe) during the year ended December 31, 2021. This increase in transportation expense year over year is primarily due to higher production volumes and increased trucking rates. 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, 2022		Dec. 31, 2021	
	\$	\$/boe	\$	\$/boe
Revenue	279,615	90.95	153,600	58.66
Royalties	(33,757)	(10.98)	(12,989)	(4.96)
Operating expense	(59,825)	(19.46)	(46,334)	(17.70)
Transportation expense	(3,458)	(1.12)	(2,504)	(0.96)
FIELD NETBACK (\$)⁽¹⁾	182,575	59.39	91,773	35.04

(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, 2022	Dec. 31, 2021
Processing fee income	4,491	3,608
Royalty income	281	3,113
Other	250	163
Total other income	5,022	6,884
Per boe (\$)	1.63	2.63

Other income for the year ended December 31, 2022 was \$5.0 million (\$1.63 per boe) and \$6.9 million (\$2.63 per boe) for the year ended December 31, 2021. The other income streams from third parties 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 for the year ended December 31, 2022 compared to the year ended December 31, 2021 is primarily due to higher third-party throughput volumes being processed at Karve operated facilities. Processing fee income was \$4.5 million (\$1.46 per boe) during the year ended December 31, 2022 and \$3.6 million (\$1.38 per boe).

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 the majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments), resulting in a decrease in royalty income period over period. See Page 14 – Dispositions.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the year ended December 31, 2022 and December 31, 2021:

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Staff and consulting costs	9,609	9,263
Professional fees	701	421
Office and rent costs	1,411	1,261
Other	1,107	1,061
General and administration expense (gross)	12,828	12,006
Capitalized G&A and overhead recovery	(2,714)	(2,219)
Lease liability reclassification	(283)	(164)
General and administration expense (net)	9,831	9,623
Per boe (\$)	3.20	3.68

General and administrative expenses (net) for the year ended December 31, 2022 were \$9.8 million (\$3.20 per boe) and \$9.6 million (\$3.68 per boe) for the year ended December 31, 2021. This slight increase is due to additional administration due to higher capital expenditures and production during 2022.

OPERATING LOAN AND LONG TERM DEBT

As at December 31, 2022, the Company had total bank credit facilities of \$55.0 million, comprised of a \$48.0 million Credit Facility and a \$7.0 million operating loan. 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. Amounts outstanding on the operating loan are 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 2023.

As at December 31, 2022, \$19.8 million (net of unamortized debt issue costs) was drawn on the Credit Facility (December 31, 2021 - \$26.8 million, net of unamortized debt issue costs) and \$3.1 million was drawn on the operating loan (December 31, 2021 - \$nil).

The Company has issued letters of credit of \$400,000 as at December 31, 2022 (December 31, 2021 - \$951,000), thereby reducing the available bank credit facility by this amount.

Bank debt as at December 31, 2022 and December 31, 2021 is as follows:

(\$000s)	As at	As at
	Dec. 31, 2022	Dec. 31, 2021
Credit Facility	20,000	27,000
Less: unamortized debt issue costs	(205)	(177)
LONG TERM DEBT	19,795	26,823
Bank operating loan	3,119	-
TOTAL BANK DEBT	22,914	26,823

Financing expense for the year ended December 31, 2022 and 2021 is comprised of the following:

(\$000s)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Credit facility interest and charges	865	1,945
Operating loan interest and charges	264	108
Amortization of debt issue costs	166	131
Interest on lease liability	30	36
FINANCING EXPENSES	1,325	2,220

For the year ended December 31, 2022, the effective interest rate on the credit facility was 7.65% (December 31, 2021 – 4.46%). As at December 31, 2022 the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Share-based compensation - options	1,188	1,394
Share-based compensation - performance warrants	650	1,303
Share-based compensation expense	1,838	2,697
Per boe (\$)	0.60	1.03

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, 2022 was \$1.2 million (year ended December 31, 2021 – \$1.4 million) and SBC expense related to performance warrants for the year ended December 31, 2022 was \$650,000 (year ended December 31, 2021 - \$1.3 million) using the graded vesting method. There no stock options or performance warrants exercised during the year ended December 31, 2022 or 2021.

As at December 31, 2022, 13,952,760 stock options and 31,831,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was \$1.47 per option and \$2.51 per warrant. The weighted average exercise prices were adjusted due to the \$0.35 per share return of capital distribution paid on July 29, 2022. The weighted average fair value of stock options and performance warrants outstanding was \$0.93 per option and \$0.60 per warrant (December 31, 2021 - \$0.87 per option and \$0.47 per warrant). The year over year increase in the weighted average fair value of the stock options and performance was due an extension of 2 years to the expiry date (from 7 years to 9 years) and the resulting modification to the fair value.

At December 31, 2022, 13,438,592 stock options were exercisable; and at December 31, 2022, subject to the terms of the performance warrants, 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, 2022, DD&A expense increased to \$54.5 million (\$17.72 per boe) from \$45.6 million (\$17.41 per boe) during the year ended December 31, 2021. This increase is due to the increase in year over year production.

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Depletion	54,108	45,174
Depreciation and amortization	375	418
Total DD&A (\$)	54,483	45,592
Per boe (\$)	17.72	17.41

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, 2022 at 23% (December 31, 2021 – 23%).

A reconciliation to the differences is as follows:

(\$000s)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Net income before taxes	92,755	51,918
Combined federal and provincial tax rate	23.0%	23.0%
Computed "expected" tax expense	21,334	11,941
Increase (decrease) in taxes due to:		
Permanent differences	422	623
True-up	(142)	254
TOTAL INCOME TAX EXPENSE	21,614	12,818
Current income tax	-	-
Deferred income tax expense	21,614	12,818
TOTAL INCOME TAX EXPENSE	21,614	12,818

The following table summarizes Karve's net deferred income tax liability at December 31, 2022:

	Balance at	Recognized in	Recognized in Statement	Balance at
	Jan. 1, 2022	Income (Loss)	of Financial Position	Dec. 31, 2022
Non-capital losses	23,508	(12,384)	-	11,124
Share issue costs	141	(12)	-	129
PP&E and E&E assets	(32,372)	(8,054)	-	(40,426)
Other	1,240	(1,164)	-	76
TOTAL DEFERRED INCOME TAX LIABILITY	(7,483)	(21,614)	-	(29,097)

A deferred tax asset was not recognized in respect of temporary differences related to successor tax pools of \$44.6 million (2021 – \$44.6 million) as there is not sufficient certainty regarding future utilization.

As at December 31, 2022, the deferred tax liability was \$29.1 million (as at December 31, 2021 deferred tax liability - \$7.5 million) resulting in a deferred tax expense for the year ended December 31, 2022 of \$21.6 million (year ended December 31, 2021 – \$12.8 million). The Company's non-capital losses expire between 2035 and 2042.

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

	Balance at	Recognized in	Recognized in Statement	Balance at
	Jan. 1, 2021	Income (Loss)	of Financial Position	Dec. 31, 2021
Non-capital losses	22,463	1,045	-	23,508
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)



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

(\$000s)	As at	
	Dec. 31, 2022	Dec. 31, 2021
Non-capital losses	48,064	102,207
Canadian exploration expense	246	246
Canadian development expense	132,957	122,820
Canadian oil and gas property expense	47,813	54,609
Capital cost allowance	73,004	63,430
Share issue costs	560	687
TOTAL TAX POOLS AVAILABLE FOR DEDUCTION	302,644	343,999

CAPITAL EXPENDITURES

Additions to property, plant and equipment for the year ended December 31, 2022 consisted of the following:

(\$000s)	For the year ended	
	Dec. 31, 2022	Dec. 31, 2021
Drilling	36,625	29,702
Completions	28,743	21,359
Facilities and well equipment	38,428	19,223
Land	452	360
Dispositions	-	(34,095)
Other	-	97
TOTAL NET CAPITAL EXPENDITURES ⁽¹⁾	104,248	36,646

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

During the year ended December 31, 2022, the Company drilled 68 gross (67.9 net) wells and completed and brought on production 69 gross (68.8 net) horizontal Viking wells. During the year ended December 31, 2021, the Company drilled 62 gross (61.9 net) horizontal Viking wells and completed 56 gross (55.9 net) horizontal Viking wells. During 2022, the Company continued the expansion of its waterflood program.

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

For the quarter ended	Dec. 31, 2022	Sept. 30, 2022	Jun. 30, 2022	Mar. 31, 2022
Drilled - Gross (Net) ⁽¹⁾	18 (18.0)	27 (27.0)	4 (4.0)	19 (18.9)
Completed - Gross (Net)	20 (20.0)	25 (25.0)	0 (0.0)	24 (23.8)
On production - Gross (Net)	20 (20.0)	25 (25.0)	0 (0.0)	24 (23.8)

For the quarter ended	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021	Mar. 31, 2021
Drilled - Gross (Net)	19 (18.9)	29 (29.0)	4 (4.0)	10 (9.9)
Completed - Gross (Net)	18 (18.0)	28 (28.0)	0 (0.0)	10 (9.9)
On production - Gross (Net)	18 (18.0)	28 (28.0)	0 (0.0)	10 (9.9)

(1) Not included in the above table are 2 water source wells and 3 other wells drilled in 2021

Since November 2016, the Company drilled a total of 373 gross (367.3 net) and completed and brought on 368 gross (363.3 net) horizontal Viking wells on production.



DISPOSITIONS

On August 25, 2021, the Company sold 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, 2022, the Company estimated a decommissioning liability of \$20.0 million for the future abandonment and reclamation of Karve's properties (December 31, 2021 – \$20.9 million). \$4.1 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining \$15.9 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 \$185.5 million (\$107.2 million undiscounted, uninflated) (December 31, 2021 - \$180.4 million and \$101.4 million, respectively), which will be incurred over the remaining life of the assets with the costs to be incurred between 2023 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 12% (December 31, 2021 – 11%) and an inflation rate of 2% (December 31, 2021 – 2%).

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 \$5.8 million in SRP funding. To date the Company has recognized \$4.4 million in SRP funding (December 31, 2021 - \$3.1 million).

SHARE CAPITAL

On July 1, 2022, the Company notified its Shareholders that the Company would reduce its stated capital by \$49.2 million in the aggregate, representing a Return of Capital of \$0.35 per Common Share. The Company distributed that amount to the holders of the Common Shares (the "Return of Capital"). The record date for determining the holders of Common Shares entitled to receive the Return of Capital was the close of business on July 15, 2022 and the Return of Capital was paid on July 29, 2022.

(\$000s except for share amounts)	Number	Amount
Common Shares		
BALANCE AT DECEMBER 31, 2020, and 2021	140,529,665	225,158
Return of capital	-	(49,185)
BALANCE AT DECEMBER 31, 2022	140,529,665	175,973

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended (\$000s)	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022
Petroleum and natural gas sales	63,172	65,320	84,799	66,324
Funds flow from operations ⁽¹⁾	27,266	32,062	48,370	38,563
Adjusted funds flow from operations ⁽¹⁾	28,519	32,700	48,620	38,969
Net income and comprehensive income	12,362	22,713	27,238	8,828
Income per share - basic (\$)	0.10	0.16	0.19	0.06
Income per share - diluted (\$)	0.07	0.15	0.18	0.06
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,609	5,477	5,930	5,811
Natural gas liquids (bbl/d)	309	359	360	288
Natural gas (Mcf/d)	13,380	14,417	15,263	14,277
TOTAL PRODUCTION (BOE/d)	8,148	8,239	8,834	8,479
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	82.65	91.56	108.41	94.29
Crude oil - Canadian light sweet (\$CDN/bbl)	108.15	116.77	136.35	117.66
Natural gas - AECO-C spot (\$CDN/mcf)	5.24	4.46	7.26	4.77
Exchange Rate - (\$US/\$CAD)	0.74	0.77	0.78	0.79
FIELD NETBACK (\$/BOE)				
Revenue	84.27	86.18	105.50	86.91
Royalties	(10.96)	(11.40)	(12.66)	(8.81)
Operating expense	(24.01)	(20.41)	(17.14)	(16.49)
Transportation expense	(1.09)	(1.16)	(1.15)	(1.10)
FIELD NETBACK (\$/BOE) ⁽¹⁾	48.21	53.21	74.55	60.51
General and administration	(4.38)	(2.95)	(3.28)	(2.20)
Other income	1.64	1.81	1.70	1.39
Interest expense	(0.58)	(0.36)	(0.22)	(0.31)
Realized hedging	(6.86)	(8.57)	(12.27)	(8.32)
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	38.03	43.14	60.48	51.07

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

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.



NET INCOME SUMMARY

(\$000s, except per boe amounts)	For the year ended Dec. 31, 2022		For the year ended Dec. 31, 2021	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	279,615	90.95	153,600	58.66
Royalties	(33,757)	(10.98)	(12,989)	(4.96)
NET REVENUE	245,858	79.97	140,611	53.70
Other income	5,022	1.63	6,884	2.63
Gain (Loss) on financial derivative contracts	(22,842)	(7.43)	(14,229)	(5.43)
Gain on disposition of property, plant and equipment	-	-	33,318	12.72
TOTAL REVENUE AND OTHER INCOME	228,038	74.17	166,584	63.62
Operating	59,825	19.46	46,334	17.70
Transportation	3,458	1.12	2,504	0.96
General and administration	9,831	3.20	9,623	3.68
Financing	1,325	0.43	2,220	0.85
Depletion, depreciation and amortization	54,483	17.72	45,592	17.41
Accretion	2,297	0.75	2,386	0.91
Share-based compensation	1,838	0.60	2,697	1.03
Exploration and evaluation - expiries	2,226	0.72	2,881	1.10
Transaction costs	-	-	429	0.16
INCOME FROM OPERATIONS BEFORE TAXES	92,755	30.17	51,918	19.82
Deferred income tax expense	21,614	7.03	12,818	4.89
NET INCOME AND COMPREHENSIVE INCOME	71,141	23.14	39,100	14.93

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2022 are as follows:

(\$000s)	2023	2024	Thereafter	Total
Operating leases	95	17	32	144
Pipeline transportation	1,005	-	-	1,005
TOTAL COMMITMENTS	1,100	17	32	1,149

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, 2022	Dec. 31, 2021
Share-based compensation benefit	1,001	1,588
Salaries and benefits	3,148	2,720
TOTAL KEY MANAGEMENT COMPENSATION	4,149	4,308

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at December 31, 2022, there were 140,529,665 common shares outstanding (December 31, 2021 – 140,529,665).

As at March 22, 2023, the date of this MD&A, there were 140,529,665 common shares, 13,952,760 stock options and 31,831,500 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, 2022, 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.

SUBSEQUENT EVENT

Subsequent to December 31, 2022, the Company entered into an Average Rate Collar for the notional amount of \$3.5 million USD for the period April 2023 to December 2023 with a floor of 1.3400 and ceiling of 1.3960.

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, 2022.

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, 2022	Dec. 31, 2021
Cash flow from continuing operations	143,874	69,852
Change in non-cash working capital from operating activities	2,386	3,436
FUNDS FLOW FROM OPERATIONS	146,260	73,288
Transaction costs	-	429
Decommissioning expenditures	2,547	1,847
ADJUSTED FUNDS FLOW FROM OPERATIONS	148,807	75,564

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, 2022	Dec. 31, 2021
Long term debt	19,795	26,823
Total current assets	(31,791)	(28,523)
Trade and other payables	34,466	19,647
Operating loan	3,119	-
ADJUSTED NET DEBT	25,589	17,947

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, 2022	Dec. 31, 2021
Cash flow used for investing activities	95,608	32,216
Property, plant and equipment dispositions	-	34,095
Change in non-cash working capital	8,640	4,430
TOTAL NET CAPITAL EXPENDITURES	104,248	70,741

CORPORATE INFORMATION

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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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Independent Businessman
Steven Smith^A
Independent Businessman
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Jennifer Giblin
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Vice President, Exploration
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