



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2023 AND DECEMBER 31, 2022**



## LETTER TO OUR SHAREHOLDERS

March 19, 2024

Dear Shareholder:

We are pleased to present our annual December 31, 2023, financial statements and management's discussion and analysis ("MD&A"), along with an update on Karve's progress since our November 15, 2023 letter to shareholders.

Karve continued to have a strong year throughout 2023, both operationally and financially. The Company's average production was 9,010 boe/d which includes 5,997 bbl/d of oil and 342 bbl/d of NGLs (70% liquids) and 16,028 mcf/d of natural gas, an overall increase of 7% from 2022 production. The Company's current production is 9,150 boe/d. Karve generated adjusted funds flow from operations of \$129.1 million for the year ended December 31, 2023 and reduced net debt by \$8.8 million. On December 15, 2023, the Company paid a Return of Capital of \$21.1 million (\$0.15 per Common Share) while continuing to maintain a strong balance sheet with net debt of only \$16.8 million at December 31, 2023.

During 2023, Karve drilled 51 gross (50.0 net) horizontal Viking wells and completed a total of 50 gross (50.0 net) horizontal Viking wells, compared to 68 gross (67.9 net) wells drilled and 69 gross (68.8 net) wells completed in 2022. Capital expenditures (excluding acquisitions and dispositions) were \$101.7 million in 2023 compared to \$104.2 million in 2022. Since November 2016, the Company has drilled a total of 424 gross (417.3 net) and completed and brought on 418 gross (413.3 net) horizontal Viking wells.

In the third quarter of 2023 the Company acquired assets in the Evi area of Alberta targeting the Clearwater formation producing approximately 100 boe/d of net production. The Company has now acquired approximately 135 net sections of land targeting heavy oil in the Clearwater and Manville Stack in the Evi and Cold Lake areas in northern Alberta. During the first quarter of 2024, the Company drilled three net wells in Evi and two net wells in the Cold Lake area. Two wells at Evi have recovered their load fluid and are producing at encouraging rates. The remaining three wells are still recovering load fluid.

On December 6, 2023, the Company completed the sale of its remaining fee title land interests effective October 1, 2023, for net proceeds of \$13.5 million (after closing adjustments). These assets were disposed of at approximately eight times their annualized average cash flow.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2023. Proved plus probable reserve volumes have increased by 12% from 46.2 MMBOE to 51.9 MMBOE and the before tax NPV 10 reserves value remained at \$1.1 billion. Karve delivered Finding, Development and Acquisition ("FD&A") costs of \$18.92 per BOE on a 2P basis, with a 2023 recycle ratio of 2.3 times. In the attached MD&A we have included a summary of the Sproule Report and a comparison of our 2023 results to 2022.

Based on current commodity price expectations, Karve is planning a 2024 capital expenditure program of up to approximately \$100.0 million. The capital program consists of approximately \$80.5 million on drilling and completions, \$6.0 million on facilities, \$9.0 million on waterflood, and \$4.5 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.

Enclosed are the Karve Energy Inc. audited consolidated financial statements and MD&A for the year ended December 31, 2023. 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](mailto: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, 2023 and December 31, 2022. It is dated March 19, 2024 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2023 and the audited consolidated financial statements for the year ended December 31, 2022. 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	
<b>FINANCIAL</b> (Canadian \$000, except per share and per boe amounts)	Dec. 31, 2023	Dec. 31, 2022
Net income	56,822	71,141
Per share - basic	0.40	0.51
Per share - diluted	0.36	0.46
Funds flow from operations <sup>(1)</sup>	124,815	146,260
Per share - basic <sup>(1)</sup>	0.89	1.04
Per share - diluted <sup>(1)</sup>	0.79	0.94
Adjusted funds flow from operations <sup>(1)</sup>	129,147	148,807
Per share - basic <sup>(1)</sup>	0.92	1.06
Per share - diluted <sup>(1)</sup>	0.82	0.95
Capital expenditures	101,701	104,248
Net acquisitions (dispositions)	(7,388)	-
Total net capital expenditures	94,313	104,248
Net debt <sup>(1)</sup>	(16,768)	(25,589)
Total assets	478,831	437,196
Return of capital	21,079	49,185
Shares outstanding, weighted average (000s)	140,530	140,530
Shares outstanding, end of period (000s)	140,530	140,530
<b>OPERATIONAL</b>		
Sales volumes		
Oil (bbl/d)	5,997	5,705
NGLs (bbl/d)	342	329
Natural gas (mcf/d)	16,028	14,332
<b>Total (boe/d)</b>	<b>9,010</b>	<b>8,423</b>
Average sales prices (excluding hedging gains and losses)		
Oil (\$/bbl)	96.27	116.08
NGLs (\$/bbl)	66.32	85.16
Natural gas (\$/mcf)	3.01	5.29
<b>Boe basis (\$/boe)</b>	<b>71.95</b>	<b>90.95</b>
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	71.95	90.95
Royalties	(8.89)	(10.98)
Operating expense	(20.25)	(19.46)
Transportation expense	(1.56)	(1.12)
<b>Field netback <sup>(1)</sup></b>	<b>41.25</b>	<b>59.39</b>

(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, 2023 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 as at December 31, 2023.

<b>GROSS RESERVES SUMMARY<sup>(1,2)</sup></b>					Dec. 31, 2023
Karve interest	% Liquids	Oil Mbbbl	NGLs Mbbbl	Natural Gas MMcf	MBOE <sup>(3)</sup>
Proved developed producing	66%	8,578	576	28,374	13,883
Proved non-producing and undeveloped	76%	19,203	809	37,518	26,266
<b>TOTAL PROVED</b>	<b>73%</b>	<b>27,781</b>	<b>1,385</b>	<b>65,892</b>	<b>40,149</b>
Probable	73%	8,122	410	19,279	11,745
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>73%</b>	<b>35,903</b>	<b>1,795</b>	<b>85,171</b>	<b>51,894</b>

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2023.

(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 as at December 31, 2022.

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

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

(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, 2023 reserve report to the December 31, 2022 reserve report. The increase in reserves year over year is mainly attributed to drilling of new wells, well performance and improved recovery.

<b>GROSS RESERVES COMPARISON<sup>(1,2)</sup></b>			
Karve interest	Dec. 31, 2023	Dec. 31, 2022	% Change
	MBOE	MBOE	
Proved developed producing	13,883	12,510	11%
Proved non-producing and undeveloped	26,266	23,156	13%
<b>TOTAL PROVED</b>	<b>40,149</b>	<b>35,666</b>	<b>13%</b>
Probable	11,745	10,575	11%
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>51,894</b>	<b>46,241</b>	<b>12%</b>

(1) Sproule Associates Limited estimated reserves as at December 31, 2023 and December 31, 2022.

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



The reserve life index is based on average production of 9,164 boe/d for the three months ended December 31, 2023 (three months ended December 31, 2022 – 8,148 boe/d).

<b>RESERVE LIFE INDEX</b>	Dec. 31, 2023 <sup>(1)</sup>	Dec. 31, 2022 <sup>(2)</sup>
Total proved	12.0	12.0
Total proved plus probable	15.5	15.5

(1) Based on production of approximately 9,164 BOE/d for the three months ended December 31, 2023.

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

The future development capital as at December 31, 2023 as compared to December 31, 2022 is as follows:

<b>FUTURE DEVELOPMENT CAPITAL (\$000s)</b>	Dec. 31, 2023	Dec. 31, 2022	% Change
Total proved plus probable	550,546	474,776	16%

Net present values are based on Sproule December 31, 2023 forecast pricing assumptions and future development capital.

<b>NET PRESENT VALUE, BEFORE TAX<sup>(1,2)</sup></b>	Dec. 31, 2023		
Karve interest (\$000s)	5%	10%	15%
Proved developed producing	368,429	333,731	298,069
Proved non-producing and undeveloped	607,195	456,954	350,940
<b>TOTAL PROVED</b>	<b>975,624</b>	<b>790,685</b>	<b>649,009</b>
Probable	417,895	319,486	255,378
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>1,393,519</b>	<b>1,110,171</b>	<b>904,387</b>

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2023.

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

The net present values below are based on Sproule December 31, 2022 forecast pricing assumptions.

<b>NET PRESENT VALUE, BEFORE TAX<sup>(1,2)</sup></b>	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
<b>TOTAL PROVED</b>	<b>896,229</b>	<b>780,016</b>	<b>679,134</b>
Probable	389,663	319,560	270,951
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>1,285,892</b>	<b>1,099,576</b>	<b>950,085</b>

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

(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, 2023 as compared to the value attributed to Karve's reserves as of December 31, 2022. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2023 and December 31, 2022 price deck, respectively), the table below should be used for directional purposes only.

<b>NET PRESENT VALUE COMPARISON, BEFORE TAX<sup>(1,2)</sup></b>	Dec. 31, 2023	Dec. 31, 2022	% Change
Karve interest (\$000s)	10%	10%	
Proved developed producing	333,731	320,203	4%
Proved non-producing and undeveloped	456,954	459,813	-1%
<b>TOTAL PROVED</b>	<b>790,685</b>	<b>780,016</b>	<b>1%</b>
Probable	319,486	319,560	0%
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>1,110,171</b>	<b>1,099,576</b>	<b>1%</b>

(1) Sproule Associates Limited estimated reserves as at December 31, 2023 and December 31, 2022.

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

The net present value, after tax, is based on Sproule December 31, 2023 forecast pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2023.

<b>NET PRESENT VALUE, AFTER TAX<sup>(1,2)</sup></b>		Dec. 31, 2023		
Karve interest (\$000s)		5%	10%	15%
Proved developed producing	329,591	301,176	270,122	
Proved non-producing and undeveloped	454,903	334,698	250,162	
<b>TOTAL PROVED</b>	<b>784,494</b>	<b>635,874</b>	<b>520,284</b>	
Probable	322,768	245,877	196,023	
<b>TOTAL PROVED PLUS PROBABLE</b>	<b>1,107,262</b>	<b>881,751</b>	<b>716,307</b>	

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2023. Table may not add due to rounding.

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

Below are the 2022 and 2023 benchmark commodity prices used by Sproule to calculate the net present value of the Company's reserves:

	<b>WTI (\$USD/bbl)</b>			<b>Canadian Light Sweet (\$CDN/bbl)</b>			<b>AECO-C Spot (\$CDN/MMBtu)</b>		
	<b>2022<sup>(1)</sup></b>	<b>2023<sup>(1)</sup></b>	<b>% Change</b>	<b>2022<sup>(1)</sup></b>	<b>2023<sup>(1)</sup></b>	<b>% Change</b>	<b>2022<sup>(1)</sup></b>	<b>2023<sup>(1)</sup></b>	<b>% Change</b>
<b>2024</b>	78.50	73.67	-6%	97.74	92.91	-5%	4.40	2.20	-50%
<b>2025</b>	76.95	74.98	-3%	95.27	95.04	0%	4.21	3.37	-20%
<b>2026</b>	77.61	76.14	-2%	95.58	96.07	1%	4.27	4.05	-5%
<b>2027</b>	79.16	77.66	-2%	97.07	97.99	1%	4.34	4.13	-5%
<b>2028</b>	80.74	79.22	-2%	99.01	99.95	1%	4.43	4.21	-5%
<b>2029</b>	82.36	80.80	-2%	100.99	101.94	1%	4.51	4.30	-5%
<b>2030</b>	84.00	82.42	-2%	103.01	103.98	1%	4.60	4.38	-5%
<b>2031</b>	85.69	84.06	-2%	105.07	106.06	1%	4.69	4.47	-5%
<b>2032</b>	87.40	85.74	-2%	106.69	108.18	1%	4.79	4.56	-5%

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

<b>FINDING, DEVELOPMENT &amp; ACQUISITION COSTS (\$000s, except per boe amounts)</b>	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Capital expenditures (excluding acquisitions/dispositions) <sup>(1)</sup>	100,837	103,796
Change in future development costs (FDC) <sup>(2)</sup>	75,770	28,399
<b>TOTAL</b>	<b>176,607</b>	<b>132,195</b>
Acquisitions (Dispositions)	(7,388)	-
<b>TOTAL CAPITAL EXPENDITURES INCLUDING FDC</b>	<b>169,219</b>	<b>132,195</b>

(1) Capital expenditures for the year ended December 31, 2023 exclude decommissioning expenditures of \$4.3 million.

Year ended December 31, 2022 exclude decommissioning expenditures of \$2.5 million.

(2) FDC as at December 31, 2023 was \$550.5 million (December 31, 2022 - \$474.8 million).

<b>RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)</b>	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Reserve additions <sup>(1)</sup>	8,901	5,050
Net acquisitions (dispositions) reserve changes	41	-
<b>RESERVE ADDITIONS INCLUDING ACQUISITIONS/DISPOSITIONS</b>	<b>8,942</b>	<b>5,050</b>

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

<b>COMPANY METRICS - PROVED PLUS PROBABLE</b>	Dec. 31, 2023	Dec. 31, 2022	Three-Year Average
Finding & development costs (F&D) (\$/boe) <sup>(1)</sup>	19.84	26.18	18.85
Finding, development & acquisition costs (FD&A) (\$/boe) <sup>(1)</sup>	18.92	26.18	16.74
Operating netback (\$/boe) <sup>(2)</sup>	42.66	61.02	47.12
Recycle ratio - F&D <sup>(2)</sup>	2.2x	2.3X	2.5x
Recycle ratio - FD&A <sup>(2)</sup>	2.3x	2.3X	2.8x

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

(2) Recycle ratio is based on 2023 operating netback of \$41.25/boe plus other income of \$1.41/boe (processing and royalty income).

<b>RESERVES RECONCILIATION (MBOE)</b>	Total Proved	Proved plus Probable
December 31, 2022	35,666	46,241
Category transfer	373	302
Net acquisitions/Dispositions	25	41
Infill drilling and extensions	5,552	7,358
Improved recovery - Waterflood	513	657
Technical revisions and economic factors	1,309	584
Production	(3,289)	(3,289)
<b>DECEMBER 31, 2023</b>	<b>40,149</b>	<b>51,894</b>

## SALES VOLUMES

Sales volumes averaged 9,010 boe/d during the year ended December 31, 2023 compared to 8,423 boe/d during the year ended December 31, 2022. The increase in sales volumes from the year ended December 31, 2022 is mainly due to 50 new gross Viking wells (50.0 net) being added to production from January 1, 2023 to December 31, 2023 net of production declines.

	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Sales volumes		
Oil (bbl/d)	5,997	5,705
NGLs (bbl/d)	342	329
Natural gas (mcf/d)	16,028	14,332
<b>Total (boe/d)</b>	<b>9,010</b>	<b>8,423</b>

## SALES PRICES AND REVENUE

For the year ended December 31, 2023, the Company generated total revenue of \$236.6 million (year ended December 31, 2022 - \$279.6 million) on average sales volumes of 9,010 boe/d. Revenue is shown before transportation expenses. The average sales price per boe for the year ended December 31, 2023 was \$71.95 compared to \$90.95 for the year ended December 31, 2022. The decrease in revenue year over year is due to the significant decrease in average oil and natural gas sales prices offset by the increase in sales volumes.

<b>KARVE AVERAGE REALIZED PRICE</b> <sup>(1)</sup>	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Revenue (\$000s)	236,634	279,615
Oil (\$/bbl)	96.27	116.08
NGLs (\$/bbl)	66.32	85.16
Natural gas (\$/mcf)	3.01	5.29
<b>Karve realized price (\$/boe)</b>	<b>71.95</b>	<b>90.95</b>
<b>AVERAGE BENCHMARK PRICES</b> <sup>(2)</sup>		
Crude oil - WTI (\$US/bbl)	77.63	94.23
Crude oil - Canadian light sweet (\$CDN/bbl)	99.87	119.73
Natural gas - AECO-C spot (\$CDN/mcf)	2.65	5.43
Exchange Rate - (\$US/\$CAD)	0.74	0.77

(1) Excludes hedging gains and losses.

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

## DERIVATIVE CONTRACTS

The Company utilizes financial derivative contracts to manage certain market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

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

(\$000s)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Unrealized gain on financial derivative contracts	204	5,008
Realized (loss) on financial derivative contracts	(473)	(27,850)
<b>(LOSS) ON FINANCIAL DERIVATIVE CONTRACTS</b>	<b>(269)</b>	<b>(22,842)</b>

### i) Commodity contracts

From time to time, the Company may hedge a portion of its crude oil sales using financial derivative contracts. In accordance with standard industry practice, financial derivative contracts are marked to market.

At December 31, 2023, the fair value of commodity derivative contracts was \$nil as the contracts expired during the year ended December 31, 2023, resulting in an unrealized loss of \$204,000 (December 31, 2022 - \$204,000 current liability and unrealized gain of \$5.0 million). During the year ended December 31, 2023, the Company realized a loss of \$579,000 on the commodity derivative contracts.

During the year ended December 31, 2022, the Company recorded a realized loss and an unrealized gain on financial derivative contracts of \$27.9 million and \$5.0 million, respectively. This was due to the increase in benchmark oil prices compared to the fixed swap contract prices. These derivative contracts were completed on December 31, 2022.

### ii) Foreign exchange contracts

The Company is exposed to the risk of changes in the U.S./Canadian dollar exchange rate ("USD/CAD") on crude oil sales based on U.S. dollar benchmark prices. Foreign exchange risk is mitigated by entering into foreign exchange contracts.

At December 31, 2023, the fair value of the foreign exchange contract was \$nil as the contract expired on December 31, 2023. During the year ended December 31, 2023, the Company realized a gain of \$106,000 on the foreign exchange contract.

## ROYALTIES

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Royalties	29,249	33,757
Royalties as a % of revenue	12.4%	12.1%
Per boe (\$)	8.89	10.98

Royalties include crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2023 was \$29.2 million (\$8.89 per boe) compared to \$33.8 million (\$10.98 per boe) for the year ended December 31, 2022. The decrease in royalties is primarily due the decrease in average oil and natural gas sales prices offset somewhat by the increase in sales volumes. For the year ended December 31, 2023, the Company's royalty rate slightly increased to 12.4% of revenues compared to 12.1% during the year ended December 31, 2022.

## OPERATING EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Operating expense	66,602	59,825
Per boe (\$)	20.25	19.46

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 \$66.6 million (\$20.25 per boe) during the year ended December 31, 2023, and \$59.8 million (\$19.46 per boe) during the year ended December 31, 2022. In the year ended December 31, 2023, the Company had non-routine costs resulting in higher than forecasted operating expenditures. The costs were mainly related to pipeline integrity and have since been resolved.



## TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Transportation expense	5,143	3,458
Per boe (\$)	1.56	1.12

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 \$5.1 million (\$1.56 per boe) during the year ended December 31, 2023 and \$3.5 million (\$1.12 per boe) during the year ended December 31, 2022. This increase in transportation expense per boe year over year is primarily due to increased trucking costs and hourly 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, 2023		Dec. 31, 2022	
	\$	\$/boe	\$	\$/boe
Revenue	236,634	71.95	279,615	90.95
Royalties	(29,249)	(8.89)	(33,757)	(10.98)
Operating expense	(66,602)	(20.25)	(59,825)	(19.46)
Transportation expense	(5,143)	(1.56)	(3,458)	(1.12)
<b>FIELD NETBACK (\$)<sup>(1)</sup></b>	<b>135,640</b>	<b>41.25</b>	<b>182,575</b>	<b>59.39</b>

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

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

## OTHER INCOME

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Processing fee income	4,195	4,491
Royalty income	437	281
Other	1,976	250
Total other income	6,608	5,022
Per boe (\$)	2.01	1.63

Other income for the year ended December 31, 2023 was \$6.6 million (\$2.01 per boe) and \$5.0 million (\$1.63 per boe) for the year ended December 31, 2022. The other income streams are from third parties and 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. Processing fee income was \$4.2 million (\$1.28 per boe) during the year ended December 31, 2023 and \$4.5 million (\$1.46 per boe) for the year ended December 31, 2022. The slight decrease in processing fee income year over year is primarily due to slightly lower third-party throughput volumes being processed at Karve operated facilities.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests.

Other income during the year ended December 31, 2023 includes \$1.3 million (December 31, 2022 - \$nil) related to the sale of carbon credits.

## GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the year ended December 31, 2023 and December 31, 2022:

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Staff and consulting costs	9,348	9,609
Professional fees	528	701
Office and rent costs	1,853	1,411
Other	1,399	1,107
General and administration expense (gross)	13,128	12,828
Capitalized G&A and overhead recovery	(2,398)	(2,714)
Lease liability reclassification	(391)	(283)
General and administration expense (net)	10,339	9,831
Per boe (\$)	3.13	3.20

General and administrative expenses (net) for the year ended December 31, 2023 increased to \$10.3 million (\$3.13 per boe) compared to \$9.8 million (\$3.20 per boe) for the year ended December 31, 2022 due to lower capitalized G&A and overhead recovery and an increase in office rent costs.

## OPERATING LOAN AND LONG TERM DEBT

As at December 31, 2023, the Company had total available 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 amounts outstanding are 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 2.25% and 5.25% depending on the type of borrowing and the Corporation’s debt to EBITDA ratio. The Company is also subject to a standby fee of 0.8125% to 1.3125% based on the Corporation’s debt to EBITDA ratio. As at December 31, 2023, the Company is in compliance with all covenants. The next review date is May 31, 2024.

As at December 31, 2023, \$14.8 million (net of unamortized debt issue costs) was drawn on the Credit Facility (December 31, 2022 - \$19.8 million, net of unamortized debt issue costs) and \$2.3 million was drawn on the operating loan (December 31, 2022 - \$3.1 million).

The Company has issued letters of credit of \$400,000 as at December 31, 2023 (December 31, 2022 - \$400,000), thereby reducing the available bank credit facility by this amount.

Bank debt as at December 31, 2023 and December 31, 2022 is as follows:

(\$000s)	As at	As at
	Dec, 31 2023	Dec. 31, 2022
Credit Facility	15,000	20,000
Less: unamortized debt issue costs	(157)	(205)
<b>LONG TERM DEBT</b>	<b>14,843</b>	<b>19,795</b>
Bank operating loan	2,303	3,119
<b>TOTAL BANK DEBT</b>	<b>17,146</b>	<b>22,914</b>

Financing expense for the year ended December 31, 2023 and December 31, 2022 is comprised of the following:

(\$000s)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Credit facility interest and charges	2,062	865
Operating loan interest and charges	229	264
Amortization of debt issue costs	209	166
Interest on lease liability	27	30
<b>FINANCING EXPENSES</b>	<b>2,527</b>	<b>1,325</b>

For the year ended December 31, 2023, the effective interest rate on the credit facility was 10% (year ended December 31, 2022 – 7.65%). As at December 31, 2023 the Company is in compliance with all covenants.

## SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Share-based compensation - options	308	1,188
Share-based compensation - performance warrants	2,025	650
Share-based compensation expense	2,333	1,838
Per boe (\$)	0.71	0.60

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, 2023 was \$308,000 (year ended December 31, 2022 – \$1.2 million) and SBC expense related to performance warrants for the year ended December 31, 2023 was \$2.0 million (year ended December 31, 2022 - \$650,000) using the graded vesting method. There no stock options or performance warrants exercised during the year ended December 31, 2023 or December 31, 2022.

As at December 31, 2023, 13,882,760 stock options and 31,811,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was \$1.32 per option and \$2.36 per warrant. During the year ended December 31, 2023, the weighted average exercise prices were reduced by \$0.15 per share return of capital distribution paid on December 15, 2023. During the year ended December 31, 2022, the weighted average exercise prices were reduced by \$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, 2022 - \$0.93 per option and \$0.60 per warrant). During the year ended December 31, 2022, the expiry date of the stock options and performance warrants were extended by two years (from seven years to nine years).

At December 31, 2023, 13,517,755 stock options were vested and exercisable; and at December 31, 2023, subject to the terms of the performance warrants, 6,460,000 performance warrants were vested and exercisable.

## DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization (“DD&A”) are associated with production assets 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, 2023, DD&A expense increased to \$62.3 million (\$18.95 per boe) from \$54.5 million (\$17.72 per boe) during the year ended December 31, 2022 due to higher production volumes. This increase per boe is due to the increased capital base.

(\$000s, except per boe amounts)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Depletion	61,788	54,108
Depreciation and amortization	494	375
Total DD&A (\$)	62,282	54,483
Per boe (\$)	18.94	17.72

## CAPITAL EXPENDITURES

Net capital expenditures for the year ended December 31, 2023 and December 31, 2022 consisted of the following:

(\$000s)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Drilling	35,418	36,625
Completions	23,923	28,743
Facilities and well equipment	31,339	38,428
Land	10,157	452
Acquisitions	6,161	-
Dispositions	(13,549)	-
Other	864	-
<b>TOTAL NET CAPITAL EXPENDITURES <sup>(1)</sup></b>	<b>94,313</b>	<b>104,248</b>

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

During the year ended December 31, 2023, the Company drilled 51 gross (50.0 net) wells and completed and brought on production 50 gross (50.0 net) horizontal Viking wells. During the year ended December 31, 2022, the Company drilled 68 gross (67.9 net) horizontal Viking wells and completed and brought on production 69 gross (68.8 net) horizontal Viking wells. During 2022 and 2023, the Company continued the expansion of its successful waterflood program in the Provost, Alberta area.

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

For the quarter ended	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023	Mar. 31, 2023
Drilled - Gross (Net) <sup>(1)</sup>	2 (1.00)	22 (22.0)	7 (7.0)	20 (20.0)
Completed - Gross (Net)	8 (8.00)	16 (16.0)	6 (6.0)	20 (20.0)
On production - Gross (Net)	8 (8.00)	16 (16.0)	6 (6.0)	20 (20.0)

For the quarter ended	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022
Drilled - Gross (Net)	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)

(1) Not included in the above table are 2 water source wells drilled in each of 2023 and 2022 and 1 exploration well drilled and completed in December 2023.

Since November 2016, the Company drilled a total of 424 gross (417.3 net) and completed and brought on 418 gross (413.3 net) horizontal Viking wells on production.

## ACQUISITIONS

On September 28, 2023, the Company acquired assets in the Evi area of Alberta targeting the Clearwater formation (the "Acquisition") for a total purchase price of \$6.2 million. The Acquisition included three producing wells with net production of approximately 100 boe/d.

The following table summarizes the fair value of the net assets acquired:

(\$000s)	
Exploration and evaluation assets	2,824
Property, plant and equipment	3,486
Decommissioning liabilities	(149)
<b>FAIR VALUE OF NET ASSETS ACQUIRED</b>	<b>6,161</b>
<b>CONSIDERATION</b>	
Cash	6,161
<b>TOTAL PURCHASE PRICE</b>	<b>6,161</b>

## DISPOSITIONS

On December 6, 2023, the Company completed the sale of its remaining fee title land interests effective October 1, 2023, for net proceeds of \$13.5 million (after closing adjustments). The disposed assets included 44 gross sections of fee title lands. These assets were disposed of at approximately eight times their annualized average cash flow. The carrying value of the assets disposed was \$nil, resulting in a gain on disposition is \$13.5 million.

## DECOMMISSIONING LIABILITY

At December 31, 2023, the Company estimated a decommissioning liability of \$22.1 million for the future abandonment and reclamation of Karve's properties (December 31, 2022 – \$20.0 million). \$3.9 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining \$18.2 million of estimated decommissioning liability is presented as a long-term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$189.6 million (\$110.6 million undiscounted, uninflated) (December 31, 2022 - \$185.5 million and \$107.2 million, respectively), which will be incurred over the remaining life of the assets with the costs to be incurred between 2024 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 12% (December 31, 2022 – 12%) and an inflation rate of 2% (December 31, 2022 – 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. To date the Company has received \$4.4 million in SRP funding (December 31, 2022 - \$4.4 million).

## INCOME TAX

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, 2023 at 23% (December 31, 2022 – 23%). A reconciliation to the differences is as follows:

(\$000s)	For the year ended	
	Dec. 31, 2023	Dec. 31, 2022
Net income before taxes	74,745	92,755
Combined federal and provincial tax rate	23.0%	23.0%
Computed "expected" tax expense	17,191	21,334
Increase (decrease) in taxes due to:		
Permanent differences	542	422
True-up	190	(142)
<b>TOTAL INCOME TAX EXPENSE</b>	<b>17,923</b>	<b>21,614</b>
Current income tax	-	-
Deferred income tax expense	17,923	21,614
<b>TOTAL INCOME TAX EXPENSE</b>	<b>17,923</b>	<b>21,614</b>

The following table summarizes Karve's net deferred income tax liability at December 31, 2023:

	Balance at Jan. 1, 2023	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2023
Non-capital losses	11,124	(6,047)	-	5,077
Share issue costs	129	(20)	-	109
PP&E and E&E assets	(40,426)	(11,785)	-	(52,211)
Other	76	(71)	-	5
<b>TOTAL DEFERRED INCOME TAX LIABILITY</b>	<b>(29,097)</b>	<b>(17,923)</b>	-	<b>(47,020)</b>

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

	Balance at Jan. 1, 2022	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at 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
<b>TOTAL DEFERRED INCOME TAX LIABILITY</b>	<b>(7,483)</b>	<b>(21,614)</b>	-	<b>(29,097)</b>

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

(\$000s)	As at Dec. 31, 2023	As at Dec. 31, 2022
Non-capital losses	22,074	48,064
Canadian exploration expense	13	246
Canadian development expense	126,535	132,957
Canadian oil and gas property expense	49,353	47,813
Capital cost allowance	73,722	73,004
Share issue costs	560	560
<b>TOTAL TAX POOLS AVAILABLE FOR DEDUCTION</b>	<b>272,257</b>	<b>302,644</b>

## 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.

On November 17, 2023, the Company notified its Shareholders that the Company would reduce its stated capital by \$21.1 million in the aggregate, representing a Return of Capital of \$0.15 per Common Share. The record date for determining the holders of Common Shares entitled to receive the Return of Capital was the close of business on December 1, 2023, and the Return of Capital was paid on December 15, 2023.

(\$000s except for share amounts)	Number	Amount
<b>Common Shares</b>		
<b>BALANCE AT DECEMBER 31, 2021</b>	<b>140,529,665</b>	<b>225,158</b>
Return of capital	-	(49,185)
<b>BALANCE AT DECEMBER 31, 2022</b>	<b>140,529,665</b>	<b>175,973</b>
Return of capital	-	(21,079)
<b>BALANCE AT DECEMBER 31, 2023</b>	<b>140,529,665</b>	<b>154,894</b>

## SUPPLEMENTARY QUARTERLY INFORMATION

	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023	Mar. 31, 2023
Petroleum and natural gas sales	57,707	62,069	57,199	59,659
Funds flow from operations <sup>(1)</sup>	31,328	33,352	28,792	31,343
Adjusted funds flow from operations <sup>(1)</sup>	31,493	34,989	30,672	31,993
Net income and comprehensive income	21,448	13,290	10,361	11,723
Income per share - basic (\$)	0.16	0.09	0.07	0.08
Income per share - diluted (\$)	0.13	0.09	0.07	0.07
<b>AVERAGE SALES VOLUMES</b>				
Oil (bbl/d)	5,911	5,773	6,120	6,189
Natural gas liquids (bbl/d)	357	345	347	320
Natural gas (Mcf/d)	17,375	16,139	16,273	14,292
<b>TOTAL PRODUCTION (BOE/d)</b>	<b>9,164</b>	<b>8,808</b>	<b>9,179</b>	<b>8,891</b>
<b>AVERAGE BENCHMARK PRICES</b>				
Crude oil - WTI (\$US/bbl)	78.32	82.26	73.80	76.13
Crude oil - Canadian light sweet (\$CDN/bbl)	97.55	107.29	94.99	99.73
Natural gas - AECO-C spot (\$CDN/mcf)	2.30	2.61	2.43	3.23
Exchange Rate - (\$US/\$CAD)	0.74	0.75	0.74	0.74
<b>FIELD NETBACK (\$/BOE)</b>				
Revenue	68.45	76.60	68.48	74.55
Royalties	(8.97)	(9.05)	(8.16)	(9.42)
Operating expense	(19.26)	(20.70)	(19.86)	(21.24)
Transportation expense	(1.58)	(1.67)	(1.64)	(1.36)
<b>FIELD NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>38.64</b>	<b>45.18</b>	<b>38.82</b>	<b>42.53</b>
General and administration	(3.54)	(3.09)	(3.03)	(2.89)
Other income	3.22	1.63	1.68	1.46
Interest expense	(0.68)	(0.64)	(0.80)	(0.71)
Realized hedging	-0.29	0.08	0.05	(0.41)
<b>CASHFLOW NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>37.35</b>	<b>43.16</b>	<b>36.72</b>	<b>39.98</b>

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

	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022	Mar. 31, 2022
For the quarter ended (\$000s)				
Petroleum and natural gas sales	63,172	65,320	84,799	66,324
Funds flow from operations <sup>(1)</sup>	27,266	32,062	48,370	38,563
Adjusted funds flow from operations <sup>(1)</sup>	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
<b>AVERAGE SALES VOLUMES</b>				
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
<b>TOTAL PRODUCTION (BOE/d)</b>	<b>8,148</b>	<b>8,239</b>	<b>8,834</b>	<b>8,479</b>
<b>AVERAGE BENCHMARK PRICES</b>				
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
<b>FIELD NETBACK (\$/BOE)</b>				
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)
<b>FIELD NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>48.21</b>	<b>53.21</b>	<b>74.55</b>	<b>60.51</b>
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)
<b>CASHFLOW NETBACK (\$/BOE) <sup>(1)</sup></b>	<b>38.03</b>	<b>43.14</b>	<b>60.48</b>	<b>51.07</b>

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

## NET INCOME SUMMARY

(\$000s, except per boe amounts)	For the year ended Dec. 31, 2023		For the year ended Dec. 31, 2022	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	236,634	71.95	279,615	90.95
Royalties	(29,249)	(8.89)	(33,757)	(10.98)
<b>NET REVENUE</b>	<b>207,385</b>	<b>63.06</b>	<b>245,858</b>	<b>79.97</b>
Other income	6,608	2.01	5,022	1.63
Gain (Loss) on financial derivative contracts	(269)	(0.08)	(22,842)	(7.43)
Gain on disposition	13,549	4.12	-	-
<b>TOTAL REVENUE AND OTHER INCOME</b>	<b>227,273</b>	<b>69.11</b>	<b>228,038</b>	<b>74.17</b>
Operating	66,602	20.25	59,825	19.46
Transportation	5,143	1.56	3,458	1.12
General and administration	10,339	3.14	9,831	3.20
Financing	2,527	0.77	1,325	0.43
Depletion, depreciation and amortization	62,282	18.94	54,483	17.72
Accretion	2,606	0.79	2,297	0.75
Share-based compensation	2,333	0.71	1,838	0.60
Exploration and evaluation - expiries	696	0.21	2,226	0.72
<b>INCOME FROM OPERATIONS BEFORE TAXES</b>	<b>74,745</b>	<b>22.74</b>	<b>92,755</b>	<b>30.17</b>
Deferred income tax expense	17,923	5.45	21,614	7.03
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>56,822</b>	<b>17.29</b>	<b>71,141</b>	<b>23.14</b>

## RELATED PARTY DISCLOSURES

### 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, 2023	Dec. 31, 2022
Share-based compensation benefit	1,198	1,001
Salaries and benefits	1,918	3,148
<b>TOTAL KEY MANAGEMENT COMPENSATION</b>	<b>3,116</b>	<b>4,149</b>

### Other Related Parties

During the year ended December 31, 2023, the Company incurred \$94,000 of legal fees to a law firm where the corporate secretary of the Company is a partner (December 31, 2022 - \$168,000), with legal fees pertaining to legal matters of the Company throughout the year.

## CAPITAL RESOURCES AND LIQUIDITY

### EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at December 31, 2023, there were 140,529,665 common shares outstanding (December 31, 2022 – 140,529,665).

As at March 20, 2024, the date of this MD&A, there were 140,529,665 common shares, 13,882,760 stock options and 31,811,500 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, 2023, 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**

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, 2023.

## **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, 2023	Dec. 31, 2022
Cash flow from continuing operations	127,262	143,874
Change in non-cash working capital from operating activities	(2,447)	2,386
<b>FUNDS FLOW FROM OPERATIONS</b>	<b>124,815</b>	<b>146,260</b>
Decommissioning expenditures	4,332	2,547
<b>ADJUSTED FUNDS FLOW FROM OPERATIONS</b>	<b>129,147</b>	<b>148,807</b>

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 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, 2023	As at Dec. 31, 2022
Long term debt	14,843	19,795
Total current assets	(23,003)	(31,791)
Trade and other payables	22,625	34,466
Operating loan	2,303	3,119
<b>NET DEBT</b>	<b>16,768</b>	<b>25,589</b>

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, 2023	Dec. 31, 2022
Cash flow used for investing activities	99,815	95,608
Change in non-cash working capital	(5,502)	8,640
<b>TOTAL NET CAPITAL EXPENDITURES</b>	<b>94,313</b>	<b>104,248</b>

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<sup>A</sup> Denotes member of the Audit Committee.  
<sup>R</sup> Denotes member of the Reserves Committee.  
<sup>C</sup> Denotes member of the Compensation Committee.

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 Independent Businessman  
 James (Pep) Lough<sup>A C</sup>  
 Independent Businessman  
 Steven Smith<sup>A</sup>  
 Independent Businessman  
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 JOG Capital Corp.  
 Dave Pearce<sup>R C</sup>  
 Azimuth Capital Management  
 Mitch Putnam<sup>R C</sup>  
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 President  
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 Executive Vice President, Corporate Development  
 Jennifer Giblin  
 Vice President, Finance  
 Silas Ehlers  
 Vice President, Exploration  
 Justin Crawford  
 Vice President, Operations  
 Clifford Brown  
 Vice President, Engineering  
 Sony Gill  
 Corporate Secretary