KARVE ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2023 AND JUNE 30, 2022

LETTER TO OUR SHAREHOLDERS August 9, 2023

Dear Shareholder:

We are pleased to present our June 30, 2023, interim financial statements and management's discussion and analysis ("MD&A"), along with an update on Karve's progress since our May 10, 2023 letter to shareholders.

Average production increased by 3% to 9,179 boe/d in the second quarter of 2023 from 8,891 boe/d in the first quarter of 2023. The Company continued to strengthen its balance sheet through reducing net debt by $13.3 million in the second quarter of 2023. Net debt was $19.6 million at June 30, 2023 compared to $32.9 million at March 31, 2023. For the three months ended June 30, 2023, the Company generated adjusted funds flow from operations of $30.7 million.

With the continued success of its ongoing waterflood program, the Company continues to have low maintenance capital requirements on our low decline, pressure supported oil production in the Provost, Alberta region. This ensures future sustainability with continued strong financial and operating results. The Company's current production is 8,950 boe/d, including 5,900 bbl/d of oil and 350 bbl/d of NGLs (70% liquids). Production has been impacted by a late spring break-up which delayed bringing on incremental production from new wells to offset natural declines and a third-party gas processing facility has been undergoing extended maintenance due to regulatory requirements since late May 2023. Accordingly, Karve was required to shut-in approximately 250 boe/d with expectations to have this resolved in Q4 2023. The Company is continuing to review all options to bring this production back online.

During the second quarter of 2023, Karve drilled 7 gross (7.0 net) horizontal Viking wells and completed a total of 6 gross (6.0 net) horizontal Viking wells, compared to 4.0 gross (4.0 net) wells drilled and nil wells completed during Q2 2022. Capital expenditures were $15.3 million in the three months ending June 30, 2023, compared to $12.0 million in the second quarter of 2022. Since November 2016, the Company drilled a total of 400 gross (394.3 net) and completed and brought on 394 gross (389.3 net) horizontal Viking wells on production.

Based on current commodity price expectations, Karve is planning a 2023 capital expenditure program of approximately $95.0 to $100.0 million. The capital program consists of approximately $67.0 to $72.0 million to drill 47 gross (47.0 net) to 52 gross (52.0 net) wells and complete 49 gross (49.0 net) to 56 gross (56.0 net) horizontal Viking oil wells, approximately $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.

Enclosed are the Karve Energy Inc. unaudited consolidated financial statements and MD&A for the quarter ended June 30, 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. 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.

KARVE ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2023 to June 30, 2023. It is dated August 9, 2023 and should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 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 three months ended		For the six months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net income	10,361	27,238	22,084	36,066
Per share - basic	0.07	0.19	0.16	0.26
Per share - diluted	0.07	0.18	0.14	0.23
Funds flow from operations (1)	28,792	48,370	60,135	86,933
Per share - basic (1)	0.20	0.34	0.43	0.62
Per share - diluted (1)	0.18	0.31	0.38	0.56
Adjusted funds flow from operations (1)	30,672	48,620	62,665	87,589
Per share - basic (1)	0.22	0.35	0.45	0.62
Per share - diluted (1)	0.19	0.31	0.40	0.57
Capital expenditures	15,301	11,966	53,816	39,645
(Net debt) Working capital (1)	(19,563)	29,095	(19,563)	29,095
Total assets	455,205	426,949	455,205	426,949
Shares outstanding, weighted average (000s)	140,530	140,530	140,530	140,530
Shares outstanding, end of period (000s)	140,530	140,530	140,530	140,530
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	6,120	5,930	6,154	5,871
NGLs (bbl/d)	347	360	334	324
Natural gas (mcf/d)	16,273	15,263	15,288	14,773
Total (boe/d)	**9,179**	**8,834**	**9,036**	**8,657**
Average sales prices (excluding hedging gains and losses)				
Oil ($/bbl)	91.34	133.51	93.43	122.32
NGLs ($/bbl)	58.33	92.41	65.54	90.28
Natural gas ($/mcf)	3.03	7.01	3.19	5.93
Boe basis ($/boe)	**68.48**	**105.50**	**71.45**	**96.45**
Field netback ($/boe excluding hedging gains and losses)				
Sales price	68.48	105.50	71.45	96.45
Royalties	(8.16)	(12.66)	(8.78)	(10.79)
Operating expense	(19.86)	(17.14)	(20.54)	(16.82)
Transportation expense	(1.64)	(1.15)	(1.50)	(1.13)
Field netback (1)	**38.82**	**74.55**	**40.63**	**67.71**

(1) Non-GAAP measure, see page 13 for details.

SALES VOLUMES

Sales volumes averaged 9,179 boe/d during the three months ended June 30, 2023 compared to 8,834 boe/d during the three months ended June 30, 2022. The increase in sales volumes from the three months ended June 30, 2022 is due to 71 new gross wells (71.0 net) being added to production from July 1, 2022 to June 30, 2023 net of production declines.

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Sales volumes				
Oil (bbl/d)	6,120	5,930	6,154	5,871
NGLs (bbl/d)	347	360	334	324
Natural gas (mcf/d)	16,273	15,263	15,288	14,773
Total (boe/d)	**9,179**	**8,834**	**9,036**	**8,657**

SALES PRICES AND REVENUE

For the three months ended June 30, 2023, the Company generated total revenue of $57.2 million (three months ended June 30, 2022 - $84.8 million) on average sales volumes of 9,179 boe/d. Revenue is shown before transportation expenses. The average sales price per boe for the three months ended June 30, 2023 was $68.48 compared to $105.50 for the three months ended June 30, 2022. The decrease in revenue period over period is due to the substantial decrease in average oil and natural gas sales prices slightly offset by the increase in sales volumes.

	For the three months ended		For the six months ended	
KARVE AVERAGE REALIZED PRICE (1)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue ($000s)	57,199	84,799	116,858	151,123
Oil ($/bbl)	91.34	133.51	93.43	122.32
NGLs ($/bbl)	58.33	92.41	65.54	90.28
Natural gas ($/mcf)	3.03	7.01	3.19	5.93
Karve realized price ($/boe)	**68.48**	**105.50**	**71.45**	**96.45**
AVERAGE BENCHMARK PRICES (2)				
Crude oil - WTI ($US/bbl)	73.80	108.41	74.96	101.35
Crude oil - Canadian light sweet ($CDN/bbl)	94.99	136.35	97.36	127.01
Natural gas - AECO-C spot ($CDN/mcf)	2.43	7.26	2.83	6.01
Exchange Rate - ($US/$CAD)	0.74	0.78	0.74	0.79

(1) Excludes hedging gains and losses.

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

DERIVATIVE CONTRACTS

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 gain (loss) on financial derivative contracts is as follows:

	For the three months ended		For the six months ended	
($000s)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Unrealized gain (loss) financial derivative contracts	220	2,231	705	(10,349)
Realized gain (loss) on financial derivative contracts	41	(9,862)	(290)	(16,210)
GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	**261**	**(7,631)**	**415**	**(26,559)**

i) Commodity contracts

At June 30, 2023 the fair value of the commodity derivative contracts was $nil, as all outstanding contracts were completed on March 31, 2023, resulting in an unrealized gain of $204,000 (December 31, 2022 - $204,000 current liability and unrealized gain of $5.0 million). During the six months ended June 30, 2023, the Company realized a loss of $331,000 on the commodity derivative contracts.

During the three months ended June 30, 2022, the Company recorded a realized loss and an unrealized gain on financial derivative contracts of $9.9 million and $2.2 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. During the six months ended June 30, 2023, the Company entered into the following foreign exchange contract:

Type	Term	Monthly Notional Amt.	Floor	Ceiling	Current Asset ($000s)
Average rate collar	Apr. 1/23 - Dec. 31/23	US $3.5 million	1.3400	1.3960	501

At June 30, 2023, the fair value of the foreign exchange contract was a current asset position of $501,000 resulting in an unrealized gain of $220,000 and $501,000 for the three and six months ended June 30, 2023, respectively. The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at June 30, 2023 and may be different from what will eventually be realized. During the three and six months ended June 30, 2023, the Company realized a gain of $41,000 on the foreign exchange contract.

Assuming all other variables remain constant, an increase of $0.01 in USD/CAD would have resulted in an unrealized gain of $555,000 and a derivative asset of $351,000, and a decrease of $0.01 in USD/CAD would have resulted in an unrealized gain of $873,000 and a derivative asset of $669,000.

Subsequent to June 30, 2023, the Company entered into the following derivative contracts:

Type	Term	Basis (1)	Volume (Bbl/d)	Put Price ($CAD/Bbl) (1)	Call Price ($CAD/Bbl) (1)
Collar	Oct. 1/23 - Dec. 31/23	WTI	500	93.00	125.50
Put option	Oct. 1/23 - Dec. 31/23	WTI	500	93.00	-

(1) Nymex WTI monthly average in $CAD.

ROYALTIES

($000s, except per boe amounts)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Royalties	6,817	10,175	14,356	16,901
Royalties as a % of revenue	11.9%	12.0%	12.3%	11.2%
Per boe ($)	8.16	12.66	8.78	10.79

Royalties include crown, freehold and gross overriding royalties. Royalty expense for the three months ended June 30, 2023 was $6.8 million ($8.16 per boe) compared to $10.2 million ($12.66 per boe) for the three months ended June 30, 2022. The decrease in royalties is primarily due the substantial decrease in average oil and natural gas sales prices slightly offset by the increase in sales volumes. For the three months ended June 30, 2023, the Company's royalty rate remained consistent at 11.9% of revenues compared to 12.0% during the three months ended June 30, 2022 due to certain wells reaching pay-out and coming off of royalty holiday.

OPERATING EXPENSE

($000s, except per boe amounts)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Operating expense	16,593	13,778	33,591	26,361
Per boe ($)	19.86	17.14	20.54	16.82

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 $16.6 million ($19.86 per boe) during the three months ended June 30, 2023, and $13.8 million ($17.14 per boe) during the three months ended June 30, 2022. The increase in operating expenses 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

($000s, except per boe amounts)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Transportation expense	1,374	923	2,459	1,764
Per boe ($)	1.64	1.15	1.50	1.13

Transportation expense includes costs paid to third parties for transporting clean oil and sales gas to a third party pipeline or processing plant point of sale. Transportation expenses were $1.4 million ($1.64 per boe) during the three months ended June 30, 2023 and $923,000 ($1.15 per boe) during the three months ended June 30, 2022. This increase in transportation expense period over period is primarily due to increased trucking costs and 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 three months ended June 30, 2023 $	$/boe	For the three months ended June 30, 2022 $	$/boe
Revenue	57,199	68.48	84,799	105.50
Royalties	(6,817)	(8.16)	(10,175)	(12.66)
Operating expense	(16,593)	(19.86)	(13,778)	(17.14)
Transportation expense	(1,374)	(1.64)	(923)	(1.15)
FIELD NETBACK ($) (1)	**32,415**	**38.82**	**59,923**	**74.55**

(1) Non-GAAP measure, see page 13 for details.

($000s, except per boe amounts)	For the six months ended June 30, 2023 $	$/boe	For the six months ended June 30, 2022 $	$/boe
Revenue	116,858	71.45	151,123	96.45
Royalties	(14,356)	(8.78)	(16,901)	(10.79)
Operating expense	(33,591)	(20.54)	(26,361)	(16.82)
Transportation expense	(2,459)	(1.50)	(1,764)	(1.13)
FIELD NETBACK ($) (1)	**66,452**	**40.63**	**106,097**	**67.71**

(1) Non-GAAP measure, see page 13 for details.

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

OTHER INCOME

($000s, except per boe amounts)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Processing fee income	1,170	1,168	2,118	2,128
Royalty income	95	81	206	144
Other	135	135	248	139
Total other income	1,400	1,384	2,572	2,411
Per boe ($)	1.68	1.72	1.57	1.54

Other income for the three months ended June 30, 2023 was $1.4 million ($1.68 per boe) and $1.4 million ($1.72 per boe) for the three months ended June 30, 2022. 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 processing fee income remained consistent for the three months ended June 30, 2023 compared to the three months ended June 30, 2022 as third-party throughput volumes being processed at Karve operated facilities remained stable. Processing fee income was $1.2 million ($1.40 per boe) during the three months ended June 30, 2023 and $1.2 million ($1.45 per boe) for the three months ended June 30, 2022.

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

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the three months ended June 30, 2023 and June 30, 2022:

	For the three months ended		For the six months ended	
($000s, except per boe amounts)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Staff and consulting costs	2,258	2,260	4,561	3,870
Professional fees	108	248	264	414
Office and rent costs	458	371	885	649
Other	298	304	634	642
General and administration expense (gross)	3,122	3,183	6,344	5,575
Capitalized G&A and overhead recovery	(487)	(445)	(1,314)	(1,124)
Lease liability reclassfication	(105)	(105)	(183)	(140)
General and administration expense (net)	2,530	2,633	4,847	4,311
Per boe ($)	3.03	3.28	2.95	2.75

General and administrative expenses (net) for the three months ended June 30, 2023 remained consistent at $2.5 million ($3.03 per boe) compared to $2.6 million ($3.28 per boe) for the three months ended June 30, 2022.

OPERATING LOAN AND LONG TERM DEBT

As at June 30, 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 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 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. The next review date is November 30, 2023.

As at June 30, 2023, $18.8 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 $3.0 million was drawn on the operating loan (December 31, 2022 - $3.1).

The Company has issued letters of credit of $400,000 as at June 30, 2023 (December 31, 2022 - $400,000), thereby reducing the available bank credit facility by this amount.

Bank debt as at June 30, 2023 and December 31, 2022 is as follows:

($000s)	As at June 30, 2023	As at Dec. 31, 2022
Credit Facility	19,000	20,000
Less: unamortized debt issue costs	(223)	(205)
LONG TERM DEBT	**18,777**	**19,795**
Bank operating loan	2,984	3,119
TOTAL BANK DEBT	**21,761**	**22,914**

Financing expense for the three and six months ended June 30, 2023 and June 30, 2022 is comprised of the following:

	For the three months ended		For the six months ended	
($000s)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Credit facility interest and charges	605	102	1,128	282
Operating loan interest and charges	46	79	92	136
Amortization of debt issue costs	55	40	113	86
Interest on lease liability	5	7	9	15
FINANCING EXPENSES	**711**	**228**	**1,342**	**519**

For the three months ended June 30, 2023, the effective interest rate on the credit facility was 10.27% (three months ended June 30, 2022 – 6.49%). As at June 30, 2023 the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

($000s, except per boe amounts)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Share-based compensation - options	87	153	188	328
Share-based compensation - performance warrants	497	61	999	366
Share-based compensation expense	584	214	1,187	694
Per boe ($)	0.70	0.27	0.73	0.44

Share-based compensation ("SBC") is an estimate of the fair value of the share options and performance warrants granted by the Company using the Black-Scholes valuation methodology at the grant date. The Black-Scholes pricing model requires the Company to make assumptions including share volatility, a risk-free rate, and expected life of the options and performance warrants.

SBC expense related to stock options for the three months ended June 30, 2023 was $87,000 (three months ended June 30, 2022 – $153,000) and SBC expense related to performance warrants for the three months ended June 30, 2023 was $497,000 (three months ended June 30, 2022 - $61,000) using the graded vesting method. There no stock options or performance warrants exercised during the three months ended June 30, 2023 or June 30, 2022.

As at June 30, 2023, 13,942,760 stock options and 31,811,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.47 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 (June 30, 2022 - $0.87 per option and $0.47 per warrant). The period over period 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 June 30, 2023, 13,545,259 stock options were exercisable; and at June 30, 2023, 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 three months ended June 30, 2023, DD&A expense increased to $15.7 million ($18.74 per boe) from $14.2 million ($17.63 per boe) during the three months ended June 30, 2022. This increase per boe is due to the increased capital base.

($000s, except per boe amounts)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Depletion	15,538	14,074	30,854	27,334
Depreciation and amortization	112	95	211	190
Total DD&A ($)	15,650	14,169	31,065	27,524
Per boe ($)	18.74	17.63	18.99	17.57

CAPITAL EXPENDITURES

Additions to property, plant and equipment for the three and six months ended June 30, 2023 consisted of the following:

($000s)	For the three months ended June 30, 2023	June 30, 2022	For the six months ended June 30, 2023	June 30, 2022
Drilling	5,023	4,055	17,488	12,685
Completions	3,126	150	13,005	9,569
Facilities and well equipment	5,957	7,562	21,771	16,852
Land	924	199	1,175	539
Other	271	-	377	-
TOTAL NET CAPITAL EXPENDITURES (1)	**15,301**	**11,966**	**53,816**	**39,645**

(1) Non-GAAP measure, see page 13 for details.

During the three months ended June 30, 2023, the Company drilled 7 gross (7.0 net) wells and completed and brought on production 6 gross (6.0 net) horizontal Viking wells. During the three months ended June 30, 2022, the Company drilled 4 gross (4.0 net) horizontal Viking wells and completed nil 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	June 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022
Drilled - Gross (Net) (1)	7 (7.0)	20 (20.0)	18 (18.0)	27 (27.0)
Completed - Gross (Net)	6 (6.0)	20 (20.0)	20 (20.0)	25 (25.0)
On production - Gross (Net)	6 (6.0)	20 (20.0)	20 (20.0)	25 (25.0)

For the quarter ended	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021
Drilled - Gross (Net)	4 (4.0)	19 (18.9)	19 (18.9)	29 (29.0)
Completed - Gross (Net)	0 (0.0)	24 (23.8)	18 (18.0)	28 (28.0)
On production - Gross (Net)	0 (0.0)	24 (23.8)	18 (18.0)	28 (28.0)

(1) Not included in the above table are 2 water souce wells drilled in each of 2023 and 2022.

Since November 2016, the Company drilled a total of 400 gross (394.3 net) and completed and brought on 394 gross (389.3 net) horizontal Viking wells on production.

DECOMMISSIONING LIABILITY

At June 30, 2023, the Company estimated a decommissioning liability of $18.8 million for the future abandonment and reclamation of Karve's properties (December 31, 2022 – $20.0 million). $3.3 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining $15.5 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 $187.3 million ($108.0 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 2023 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 recognized $4.4 million in SRP funding (December 31, 2022 - $4.4 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, 2021	**140,529,665**	**225,158**
Return of capital	-	(49,185)
BALANCE AT DECEMBER 31, 2022 and JUNE 30, 2023	**140,529,665**	**175,973**

SUPPLEMENTARY QUARTERLY INFORMATION

	June 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022
Petroleum and natural gas sales	57,199	59,659	63,172	65,320
Funds flow from operations (1)	28,792	31,343	27,266	32,062
Adjusted funds flow from operations (1)	30,672	31,993	28,519	32,700
Net income and comprehensive income	10,361	11,723	12,362	22,713
Income per share - basic ($)	0.07	0.08	0.10	0.16
Income per share - diluted ($)	0.07	0.07	0.07	0.15
AVERAGE SALES VOLUMES				
Oil (bbl/d)	6,120	6,189	5,609	5,477
Natural gas liquids (bbl/d)	347	320	309	359
Natural gas (Mcf/d)	16,273	14,292	13,380	14,417
TOTAL PRODUCTION (BOE/d)	**9,179**	**8,891**	**8,148**	**8,239**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	73.80	76.13	82.65	91.56
Crude oil - Canadian light sweet ($CDN/bbl)	94.99	99.73	108.15	116.77
Natural gas - AECO-C spot ($CDN/mcf)	2.43	3.23	5.24	4.46
Exchange Rate - ($US/$CAD)	0.74	0.74	0.74	0.77
FIELD NETBACK ($/BOE)				
Revenue	68.48	74.55	84.27	86.18
Royalties	(8.16)	(9.42)	(10.96)	(11.40)
Operating expense	(19.86)	(21.24)	(24.01)	(20.41)
Transportation expense	(1.64)	(1.36)	(1.09)	(1.16)
FIELD NETBACK ($/BOE) (1)	**38.82**	**42.53**	**48.21**	**53.21**
General and administration	(3.03)	(2.89)	(4.38)	(2.95)
Other income	1.68	1.46	1.64	1.81
Interest expense	(0.80)	(0.71)	(0.58)	(0.36)
Realized hedging	0.05	(0.41)	(6.86)	(8.57)
CASHFLOW NETBACK ($/BOE) (1)	**36.72**	**39.98**	**38.03**	**43.14**

(1) Non-GAAP measure, see page 13 for details.

For the quarter ended ($000s)	June 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021
Petroleum and natural gas sales	84,799	66,324	51,918	40,303
Funds flow from operations (1)	48,370	38,563	30,018	23,709
Adjusted funds flow from operations (1)	48,620	38,969	30,339	24,532
Net income and comprehensive income	27,238	8,828	10,761	30,769
Income per share - basic ($)	0.19	0.06	0.07	0.22
Income per share - diluted ($)	0.18	0.06	0.07	0.21
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,930	5,811	5,395	4,683
Natural gas liquids (bbl/d)	360	288	295	310
Natural gas (Mcf/d)	15,263	14,277	13,874	13,988
TOTAL PRODUCTION (BOE/d)	**8,834**	**8,479**	**8,002**	**7,324**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	108.41	94.29	77.19	70.56
Crude oil - Canadian light sweet ($CDN/bbl)	136.35	117.66	92.14	84.18
Natural gas - AECO-C spot ($CDN/mcf)	7.26	4.77	4.74	3.59
Exchange Rate - ($US/$CAD)	0.78	0.79	0.79	0.79
FIELD NETBACK ($/BOE)				
Revenue	105.50	86.91	70.52	59.81
Royalties	(12.66)	(8.81)	(6.24)	(5.06)
Operating expense	(17.14)	(16.49)	(16.44)	(16.33)
Transportation expense	(1.15)	(1.10)	(0.97)	(0.96)
FIELD NETBACK ($/BOE) (1)	**74.55**	**60.51**	**46.87**	**37.46**
General and administration	(3.28)	(2.20)	(4.79)	(2.54)
Other income	1.70	1.39	1.52	2.84
Interest expense	(0.22)	(0.31)	(0.43)	(0.80)
Realized hedging	(12.27)	(8.32)	(1.96)	(0.54)
CASHFLOW NETBACK ($/BOE) (1)	**60.48**	**51.07**	**41.21**	**36.42**

(1) Non-GAAP measure, see page 13 for details.

NET INCOME SUMMARY

($000s, except per boe amounts)	For the three months ended June 30, 2023 $	$/boe	For the three months ended June 30, 2022 $	$/boe
Petroleum and natural gas sales	57,199	68.48	84,799	105.50
Royalties	(6,817)	(8.16)	(10,175)	(12.66)
NET REVENUE	**50,382**	**60.32**	**74,624**	**92.84**
Other income	1,400	1.68	1,384	1.72
Gain (Loss) on financial derivative contracts	261	0.31	(7,631)	(9.49)
TOTAL REVENUE AND OTHER INCOME	**52,043**	**62.31**	**68,377**	**85.07**
Operating	16,593	19.86	13,778	17.14
Transportation	1,374	1.64	923	1.15
General and administration	2,530	3.03	2,633	3.28
Financing	711	0.85	228	0.28
Depletion, depreciation and amortization	15,650	18.74	14,169	17.63
Accretion	652	0.78	574	0.71
Share-based compensation	584	0.70	214	0.27
Exploration and evaluation - expiries	94	0.11	506	0.63
INCOME FROM OPERATIONS BEFORE TAXES	**13,855**	**16.60**	**35,352**	**43.98**
Deferred income tax expense	3,494	4.18	8,114	10.09
NET INCOME AND COMPREHENSIVE INCOME	**10,361**	**12.42**	**27,238**	**33.89**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at June 30, 2023 are as follows:

($000s)	2023	2024	2025	Thereafter	Total
Operating leases	34	17	17	14	82
Pipeline transportation	507	-	-	-	507
TOTAL COMMITMENTS	**541**	**17**	**17**	**14**	589

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at June 30, 2023, there were 140,529,665 common shares outstanding (December 31, 2022 – 140,529,665).

As at August 9, 2023, the date of this MD&A, there were 140,529,665 common shares, 13,942,760 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 meets its capital programs. Future liquidity depends primarily on cash flow generated from operations, bank credit facilities and the ability to access equity markets.

At June 30, 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

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

The Company has treated some leases as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at June 30, 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:

	For the three months ended		For the six months ended	
($000s)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Cash flow from continuing operations	29,508	49,414	58,283	74,974
Change in non-cash working capital from operating activitie:	(716)	(1,044)	1,852	11,959
FUNDS FLOW FROM OPERATIONS	**28,792**	**48,370**	**60,135**	**86,933**
Decommissioning expenditures	1,880	250	2,530	656
ADJUSTED FUNDS FLOW FROM OPERATIONS	**30,672**	**48,620**	**62,665**	**87,589**

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:

	As at	As at
($000s)	June 30, 2023	Dec. 31, 2022
Long term debt	18,777	19,795
Total current assets	(26,957)	(31,791)
Trade and other payables	24,759	34,466
Operating loan	2,984	3,119
ADJUSTED NET DEBT	**19,563**	**25,589**

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:

	For the three months ended		For the six months ended	
($000s)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Cash flow used for investing activities	22,047	9,488	56,834	30,485
Change in non-cash working capital	(6,746)	2,478	(3,018)	9,160
TOTAL NET CAPITAL EXPENDITURES	**15,301**	**11,966**	**53,816**	**39,645**

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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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