



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2022 AND MARCH 31, 2021



LETTER TO OUR SHAREHOLDERS

May 11, 2022

Dear Shareholder:

We are pleased to update you on Karve's progress since our April 12, 2022 letter to shareholders. Continued strength in commodity prices in the first quarter of 2022 generated a record adjusted funds flow from operations of \$39.0 million for the three months ended March 31, 2022 (three months ended December 31, 2021 - \$30.3 million). The Company executed a flexible and disciplined capital allocation strategy and strengthened its financial position by reducing its net debt by \$10.7 million from \$17.9 million at December 31, 2021 to \$7.2 million at March 31, 2022. Karve expects to be in a net cash position in the second quarter of 2022.

In the first quarter of 2022, the Company added production from 24 gross (24.0 net) new horizontal wells which increased average production by 6% to 8,479 boe/d from 8,002 boe/d in the fourth quarter of 2021. Total capital expenditures were \$27.7 million for the three months ended March 31, 2022 compared to \$12.2 million in three months ended March 31, 2021. Since November 2016, the Company has drilled a total of 324 gross (318.3 net) and completed and brought on 323 gross (317.3 net) horizontal Viking wells. The Company's current production is 9,100 boe/d.

As a result of the stronger commodity prices in 2022, the Company's field operating netback increased to \$60.51 per boe for the three months ended March 31, 2022, compared to \$46.87 in the fourth quarter of 2021 and \$23.78 for the three months ended March 31, 2021. This is an increase of 29% from the fourth quarter of 2021 and an increase of 154% from the first quarter of 2021.

Karve will be holding our Annual General Meeting ("AGM") on Wednesday May 11, 2022 at 2:00PM at our offices located at Suite 1700, 205 5 AVE SW, Calgary, Alberta and via teleconference. Details for both are included in the Management Information Circular that can be found on our website at www.karveenergy.com. All shareholders and stakeholders are welcome to attend the AGM.

Enclosed are the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2022. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2022 to March 31, 2022. It is dated May 11, 2022 and should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2022 and the audited consolidated financial statements for the year ended December 31, 2021. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

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

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
FINANCIAL (Canadian \$000, except per share and per boe amounts)		
Net income (loss)	8,828	(4,838)
Per share - basic	0.06	(0.03)
Per share - diluted	0.06	(0.03)
Funds flow from operations ⁽¹⁾	38,563	8,076
Per share - basic ⁽¹⁾	0.27	0.06
Per share - diluted ⁽¹⁾	0.26	0.06
Adjusted funds flow from operations ⁽¹⁾	38,969	8,546
Per share - basic ⁽¹⁾	0.28	0.06
Per share - diluted ⁽¹⁾	0.27	0.06
Capital expenditures	27,679	12,245
Adjusted (net debt) ⁽¹⁾	(7,174)	(58,655)
Total assets	407,050	362,148
Shares outstanding, weighted average (000s)	140,530	140,530
Shares outstanding, end of year (000s)	140,530	140,530
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	5,811	4,120
NGLs (bbl/d)	288	229
Natural gas (mcf/d)	14,277	12,695
Total (boe/d)	8,479	6,465
Average sales prices (excluding hedging gains and losses)		
Oil (\$/bbl)	110.78	62.28
NGLs (\$/bbl)	87.60	48.22
Natural gas (\$/mcf)	4.76	3.02
Boe basis (\$/boe)	86.91	47.32
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	86.91	47.32
Royalties	(8.81)	(3.61)
Operating expense	(16.49)	(19.06)
Transportation expense	(1.10)	(0.87)
Field netback ⁽¹⁾	60.51	23.78

(1) Non-GAAP measure, see page 14 for details.



SALES VOLUMES

Sales volumes averaged 8,479 boe/d during the three months ended March 31, 2022 compared to 6,465 boe/d for the three months ended March 31, 2021. The increase in sales volumes from the three months ended March 31, 2021 is due 70 gross wells (70.0 net) being brought on from April 1, 2021 to March 31, 2022.

	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Sales volumes		
Oil (bbl/d)	5,811	4,120
NGLs (bbl/d)	288	229
Natural gas (mcf/d)	14,277	12,695
Total (boe/d)	8,479	6,465

SALES PRICES AND REVENUE

For the three months ended March 31, 2022, the Company generated total revenue of \$66.3 million (three months ended March 31, 2021 - \$27.5 million) on average sales volumes of 8,479 boe/d. Revenue is shown before transportation expenses. The average sales price per boe for the three months ended March 31, 2022 was \$86.91 compared to \$47.32 for the three months ended March 31, 2021. The increase in average sales price during the three months ended March 31, 2022 is primarily due to the increase in crude oil prices resulting from both the correction of global over supply of crude oil and a reverse in the demand destruction caused by COVID-19.

	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
KARVE AVERAGE REALIZED PRICE ⁽¹⁾		
Revenue (\$000s)	66,324	27,535
Oil (\$/bbl)	110.78	62.28
NGLs (\$/bbl)	87.60	48.22
Natural gas (\$/mcf)	4.76	3.02
Karve realized price (\$/boe)	86.91	47.32
AVERAGE BENCHMARK PRICES ⁽²⁾		
Crude oil - WTI (\$US/bbl)	94.29	57.84
Crude oil - Canadian light sweet (\$CDN/bbl)	117.66	68.62
Natural gas - AECO-C spot (\$CDN/mcf)	4.77	3.13
Exchange Rate - (\$US/\$CAD)	0.79	0.79

(1) Excludes hedging gains and losses.

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

DERIVATIVE CONTRACTS

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

At March 31, 2022, the Company had the following commodity contracts in place:

Type	Term	Basis ⁽¹⁾	Volume (Bbl/d)	Fixed Swap Price (\$CAD/Bbl)	Current Liability (\$000s)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	82.75	(4,654)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	83.25	(4,586)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	85.50	(4,278)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	85.50	(4,274)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			2,000	84.25	(17,792)

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

At March 31, 2022 the fair value of the financial derivative contracts was a current liability position of \$17.8 million resulting in an unrealized loss of \$12.6 million for the three months ended March 31, 2022 (December 31, 2021 - \$5.2 million current liability). 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 March 31, 2022 and may be different from what will eventually be realized. Assuming all other variables remain constant, a \$5.00 USD increase in WTI would result in an unrealized loss of \$15.5 million and a derivative liability of \$20.7 million and a \$5.00 USD decrease in WTI would result in an unrealized loss of \$9.7 million and a derivative liability of \$14.9 million.



As at May 10, 2022 the fair value of the financial derivative contracts was a current derivative liability position of \$21.5 million.

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

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Unrealized (loss) on financial derivative contracts	(12,580)	(2,285)
Realized (loss) on financial derivative contracts	(6,348)	(3,761)
(LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	(18,928)	(6,046)

The Company recognized a realized loss of \$6.3 million for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$3.8 million).

ROYALTIES

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Royalties	6,726	2,101
Royalties as a % of revenue	10.1%	7.6%
Per boe (\$)	8.81	3.61

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2022 was \$6.7 million (\$8.81 per boe) compared to \$2.1 million (\$3.61 per boe) for the three months ended March 31, 2021. For the three months ended March 31, 2022, the Company's royalty rate was 10.1% of revenues (three months ended March 31, 2021 – 7.6%). The increase in royalties is primarily due to higher average commodity prices during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

OPERATING EXPENSE

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Operating expense	12,583	11,090
Per boe (\$)	16.49	19.06

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 \$12.6 million (\$16.49 per boe) during the three months ended March 31, 2022 and \$11.1 million (\$19.06 per boe) during the three months ended March 31, 2021. The decrease in operating expenses per boe is due to the majority of the Company's operating costs being of fixed nature.

TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Transportation expense	841	508
Per boe (\$)	1.10	0.87

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 \$841,000 (\$1.10 per boe) during the three months ended March 31, 2022 and \$508,000 (\$0.87 per boe) for the three months ended March 31, 2021. This increase in transportation expense period over period is primarily due to higher production volumes. 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 Mar. 31, 2022		For the three months ended Mar. 31, 2021	
	\$	\$/boe	\$	\$/boe
Revenue	66,324	86.91	27,535	47.32
Royalties	(6,726)	(8.81)	(2,101)	(3.61)
Operating expense	(12,583)	(16.49)	(11,090)	(19.06)
Transportation expense	(841)	(1.10)	(508)	(0.87)
FIELD NETBACK (\$)⁽¹⁾	46,174	60.51	13,836	23.78

(1) Non-GAAP measure, see page 14 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	
	Mar. 31, 2022	Mar. 31, 2021
Royalty income	63	873
Processing fee income	960	663
Other	4	37
Total other income	1,027	1,573
Per boe (\$)	1.35	2.70

Other income for the three months ended March 31, 2022 was \$1.0 million (\$1.35 per boe) and \$1.6 million (\$2.70 per boe) for the three months ended March 31, 2021. The other income streams from third parties relate to processing fee income, royalty income, and other income.

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests. On August 25, 2021, the Company closed a divestiture of a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments), resulting in a decrease in royalty income period over period. See Page 9 – Dispositions.

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. The increase in processing fee income for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 is primarily due to higher third-party throughput volumes being processed at Karve operated facilities.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three months ended March 31, 2022 and March 31, 2021:

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Staff and consulting costs	1,610	2,374
Professional fees	166	97
Office and rent costs	278	435
Other	338	238
General and administration expense (gross)	2,392	3,144
Capitalized G&A and overhead recovery	(679)	(460)
Lease liability reclassification	(35)	(164)
General and administration expense (net)	1,678	2,520
Per boe (\$)	2.20	4.33

General and administrative expenses (net) for the three months ended March 31, 2022 were \$1.7 million (\$2.20 per boe) and \$2.5 million (\$4.33 per boe) for the three months ended March 31, 2021. This decrease is due to an employee incentive payment made in the first quarter of 2021. For the three months ended March 31, 2021, the Company received \$329,000 million in government grants which was recorded as a \$223,000 reduction to G&A expense and \$106,000 as a reduction to operating expenses.

OPERATING LOAN AND LONG TERM DEBT

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

As at March 31, 2022, \$14.9 million (net of unamortized debt issue costs) (December 31, 2021 - \$26.8 million) was drawn on the Credit Facility and \$2.2 (December 31, 2021 - \$nil) was drawn on the operating loan.

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

Long term debt as at March 31, 2022 and December 31, 2021 is as follows:

(\$000s)	As at Mar. 31, 2022	As at Dec. 31, 2021
Credit Facility	15,000	27,000
Less: unamortized debt issue costs	(131)	(177)
LONG TERM DEBT	14,869	26,823
Bank operating loan	2,195	-
TOTAL BANK DEBT	17,064	26,823

Financing expense for the three months ended March 31, 2022 and 2021 is comprised of the following:

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Credit facility interest and charges	180	565
Operating loan interest and charges	57	22
Amortization of debt issue costs	46	22
Interest on lease liability	8	8
FINANCING EXPENSES	291	617

For the three months ended March 31, 2022, the effective interest rate on the credit facility was 4.9% (three months ended March 31, 2021 – 4.3%). As at March 31, 2022 the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Share-based compensation - options	175	349
Share-based compensation - performance warrants	305	331
Share-based compensation expense	480	680
Per boe (\$)	0.63	1.17

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

SBC expense related to stock options for the three months ended March 31, 2022 was \$175,000 (three months ended March 31, 2021 – 349,000) and SBC expense related to performance warrants for the three months ended March 31, 2022 was \$305,000 million (three months ended March 31, 2021 - \$331,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended March 31, 2022 or 2021.

As at March 31, 2022, 13,733,260 stock options and 31,887,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was \$1.79 per option and \$2.87 per warrant. The weighted average fair value of stock options and performance warrants outstanding was \$0.87 per option and \$0.47 per warrant.

At March 31, 2022, 12,200,744 stock options and 6,460,000 performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization (“DD&A”) are associated with Viking zone production assets in the Alberta Viking and also include the depreciation and amortization of corporate assets such as computer equipment and right of use assets. The net carrying value of production assets is depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves and estimated future development costs necessary to bring those reserves into production.

During the three months ended March 31, 2022, DD&A expense increased to \$13.4 million (\$17.50 per boe) from \$10.5 million (\$18.09 per boe) during the three months ended March 31, 2021. This increase due to the increase in period over period production.

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Depletion	13,260	10,396
Depreciation and amortization	95	130
Total DD&A (\$)	13,355	10,526
Per boe (\$)	17.50	18.09

CAPITAL EXPENDITURES

Additions to property, plant and equipment for the three months ended March 31, 2022 consisted of the following:

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Drilling	8,630	5,266
Completions	9,419	4,302
Facilities and well equipment	9,290	2,457
Land	340	220
TOTAL NET CAPITAL EXPENDITURES ⁽¹⁾	27,679	12,245

(1) Non-GAAP measure, see page 14 for details.

During the three months ended March 31, 2022, the Company drilled 19 gross (19.0 net) horizontal Viking wells and completed 24 gross (24.0 net) horizontal Viking wells. During the three months ended March 31, 2021, the Company drilled 10 gross (10.0 net) horizontal Viking wells and completed 10 gross (10.0 net) horizontal Viking oil wells. During 2021 and 2022, the Company continued the expansion of its waterflood program.

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

For the quarter ended	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021
Drilled - Gross (Net) ⁽¹⁾	19 (18.9)	19 (18.9)	29 (29.0)	4 (4.0)
Completed - Gross (Net)	24 (23.8)	18 (18.0)	28 (28.0)	0 (0.0)
On production - Gross (Net)	24 (23.8)	18 (18.0)	28 (28.0)	0 (0.0)

For the quarter ended	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	Jun. 30, 2020
Drilled - Gross (Net)	10 (9.9)	5 (4.9)	0 (0.0)	0 (0.0)
Completed - Gross (Net)	10 (9.9)	5 (4.9)	7 (6.9)	0 (0.0)
On production - Gross (Net)	10 (9.9)	5 (4.9)	7 (6.9)	0 (0.0)

(1) Not included in the above table are 2 water source wells and 3 other wells drilled in 2021 (2020 - 1 other well drilled)

Since November 2016, the Company drilled a total of 324 gross (318.3 net) and completed and brought on 323 gross (317.3 net) horizontal Viking wells on production.

DISPOSITIONS

On August 25, 2021, the Company sold a majority of its royalty income assets for net proceeds of \$34.1 million (after closing adjustments). The disposition was effective July 1, 2021. Transaction costs related to the disposition totalled \$429,000. The disposed assets included 275 gross sections of fee title lands and 130 gross sections of gross overriding royalty (“GORR”) lands excluding fee title and GORR lands within the Karve core Viking properties. The annualized fee income associated with the disposed assets based on income from the first six months of 2021 was approximately \$4.4 million (disposition transacted at approximately an 8 times cash flow multiple). The estimated carrying value of the assets disposed and gain on disposition are summarized below:

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

DECOMMISSIONING LIABILITY

At March 31, 2022, the Company estimated a decommissioning liability of \$20.6 million for the future abandonment and reclamation of Karve’s properties (December 31, 2021 – \$20.9 million). \$3.5 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining \$17.1 million of estimated decommissioning liability is presented as a long-term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates its total inflated, undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$182.0 million (\$102.2 million undiscounted, uninflated) (December 31, 2021 - \$180.4 million and \$101.4 million respectively), which will be incurred over the remaining life of the assets with the costs to be incurred between 2022 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2021 – 11%) and an inflation rate of 2% (December 31, 2021 – 2%).

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program (“SRP”) whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. Pursuant to the SRP, the Company was approved for up to \$5.8 million in SRP funding. To date the Company has recognized \$3.6 million in SRP funding (December 31, 2021 - \$3.1 million).

SHARE CAPITAL

(\$000s except for share amounts)	Number	Amount
Common Shares		
BALANCE AT DECEMBER 31, 2020, 2021 and MARCH 31, 2022	140,529,665	225,158



SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended (\$000s)	Mar. 31, 2022	Dec. 31, 2021	Sept. 30, 2021	Jun. 30, 2021
Petroleum and natural gas sales	66,324	51,918	40,303	33,844
Funds flow from operations ⁽¹⁾	38,563	30,018	23,709	11,485
Adjusted funds flow from operations ⁽¹⁾	38,969	30,339	24,532	12,147
Net income (loss) and comprehensive income (loss)	8,828	10,761	30,769	2,408
Income (loss) per share - basic (\$)	0.06	0.07	0.22	0.02
Income (loss) per share - diluted (\$)	0.06	0.07	0.21	0.02
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,811	5,395	4,683	4,300
Natural gas liquids (bbl/d)	288	295	310	285
Natural gas (Mcf/d)	14,277	13,874	13,988	13,788
TOTAL PRODUCTION (BOE/d)	8,479	8,002	7,324	6,883
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	94.29	77.19	70.56	66.03
Crude oil - Canadian light sweet (\$CDN/bbl)	117.66	92.14	84.18	76.29
Natural gas - AECO-C spot (\$CDN/mcf)	4.77	4.74	3.59	3.07
Exchange Rate - (\$US/\$CAD)	0.79	0.79	0.79	0.81
FIELD NETBACK (\$/BOE)				
Revenue	86.91	70.52	59.81	54.03
Royalties	(8.81)	(6.24)	(5.06)	(4.60)
Operating expense	(16.49)	(16.44)	(16.33)	(19.38)
Transportation expense	(1.10)	(0.97)	(0.96)	(1.01)
FIELD NETBACK (\$/BOE) ⁽¹⁾	60.51	46.87	37.46	29.04
General and administration	(2.20)	(4.79)	(2.54)	(2.97)
Other income	1.39	1.52	2.84	3.63
Interest expense	(0.31)	(0.43)	(0.80)	(0.98)
Realized hedging	(8.32)	(1.96)	(0.54)	(9.33)
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	51.07	41.21	36.42	19.39

(1) Non-GAAP measure, see page 14 for details.

For the quarter ended (\$000s)	Mar. 31, 2021	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020
Petroleum and natural gas sales	27,535	23,521	23,314	13,323
Funds flow from operations ⁽¹⁾	8,076	7,786	8,487	4,811
Adjusted funds flow from operations ⁽¹⁾	8,546	7,883	8,837	4,900
Net income (loss) and comprehensive income (loss)	(4,838)	(10,086)	(5,613)	(11,762)
Income (loss) per share - basic (\$)	(0.03)	(0.07)	(0.03)	(0.08)
Income (loss) per share - diluted (\$)	(0.03)	(0.07)	(0.03)	(0.08)
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,120	4,539	4,755	4,572
Natural gas liquids (bbl/d)	229	292	322	292
Natural gas (Mcf/d)	12,695	14,095	14,596	15,268
TOTAL PRODUCTION (BOE/d)	6,465	7,180	7,510	7,409
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	57.84	42.66	40.93	27.84
Crude oil - Canadian light sweet (\$CDN/bbl)	68.62	49.17	49.05	31.45
Natural gas - AECO-C spot (\$CDN/mcf)	3.13	2.65	2.27	2.01
Exchange Rate - (\$US/\$CAD)	0.79	0.77	0.75	0.72
FIELD NETBACK (\$/BOE)				
Revenue	47.32	35.61	33.74	19.76
Royalties	(3.61)	(2.59)	(2.47)	(1.47)
Operating expense	(19.06)	(17.79)	(15.72)	(12.75)
Transportation expense	(0.87)	(1.04)	(1.16)	(1.11)
FIELD NETBACK (\$/BOE) ⁽¹⁾	23.78	14.19	14.39	4.43
General and administration	(4.33)	(2.07)	(1.70)	(2.04)
Other income	2.70	2.36	2.09	1.91
Interest expense	(1.01)	(0.91)	(0.83)	(0.63)
Realized hedging	(6.46)	(1.64)	(1.16)	3.60
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	14.68	11.93	12.79	7.27

(1) Non-GAAP measure, see page 14 for details.

NET INCOME (LOSS) SUMMARY

(\$000s, except per boe amounts)	For the three months ended		For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021	Mar. 31, 2022	Mar. 31, 2021
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	66,324	86.91	27,535	47.32
Royalties	(6,726)	(8.81)	(2,101)	(3.61)
NET REVENUE	59,598	78.10	25,434	43.71
Other income	1,027	1.35	1,573	2.70
(Loss) on financial derivative contracts	(18,928)	(24.80)	(6,046)	(10.39)
TOTAL REVENUE AND OTHER INCOME	41,697	54.65	20,961	36.02
Operating	12,583	16.49	11,090	19.06
Transportation	841	1.10	508	0.87
General and administration	1,678	2.20	2,520	4.33
Financing	291	0.38	617	1.06
Depletion, depreciation and amortization	13,355	17.50	10,526	18.09
Accretion	573	0.75	596	1.02
Share-based compensation	480	0.63	680	1.17
Exploration and evaluation - expiries	362	0.47	507	0.87
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	11,534	15.13	(6,083)	(10.45)
Deferred income tax (recovery)	2,706	3.56	(1,245)	(2.14)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	8,828	11.57	(4,838)	(8.31)



CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

(\$000s)	2022	2023	Total
Operating leases	52	-	52
Pipeline transportation	742	1,005	1,747
TOTAL COMMITMENTS	794	1,005	1,799

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

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

As at May 11, 2022, the date of this MD&A, there were 140,529,665 common shares, 13,733,260 stock options and 31,887,500 performance warrants outstanding.

LIQUIDITY

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

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

OFF BALANCE SHEET ARRANGEMENTS

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

The Company has treated some leases as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at March 31, 2022.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Company has relied upon in the past will continue to be available to the Company on terms favorable to the Company and that future economic and operating conditions will not limit the Company's access to debt and equity markets. Forward-looking statements in respect of the costs anticipated being associated with the acquisition of oil and gas properties are based upon assumptions that future acquisition costs will not significantly increase from past acquisitions. Many of these factors, expectations and assumptions are based on management's knowledge and experience in the industry and on public disclosure of industry participants and analysts related to anticipated exploration and development programs, the effect of changes to regulatory, taxation and royalty regimes. The Company believes that the material factors, expectations and assumptions

reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

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

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

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

BARRELS OF OIL EQUIVALENT

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

NON-GAAP MEASUREMENTS

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

Funds flow from operations is a capital management measure and is a key measure of operating performance as it demonstrates the Company's ability to generate the cash necessary to make capital investments and repay debt. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds flow provides a useful measure of the Company's ability to generate cash that is not subject to short-term movements in non-cash operating working capital. The reconciliation between cash flow from operating activities and funds flow from operations can be found in the statement of cash flows in the annual financial statements and is presented before the change in non-cash operating working capital. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance.

Adjusted funds flow from operations represents funds flow from (used for operations) excluding transaction costs and decommissioning expenditures and is used to assess cash flows adjusted for non-routine, discretionary expenditures.

The Company reconciles funds flow from operations and adjusted funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Cash flow from continuing operations	25,560	10,879
Change in non-cash working capital from operating activities	13,003	(2,803)
FUNDS FLOW FROM OPERATIONS	38,563	8,076
Decommissioning expenditures	406	470
ADJUSTED FUNDS FLOW FROM OPERATIONS	38,969	8,546

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

Field netback is the amount of revenues received on a per unit of production basis after the royalties, operating costs, and transportation costs are deducted and used to assess profitability on a per boe basis. Field netback is a per boe measure used in operational and capital allocation decisions.

Net debt is a capital management measure and is key to assessing the Company's liquidity. Net debt is defined as long term debt plus any net working capital excluding derivative contract asset/liability and current portion of decommissioning liability. Adjusted positive working capital represents current assets less current liabilities excluding derivative assets (liabilities), current portion of decommissioning liability and current portion of lease liability and is used to assess efficiency, liquidity and the general financial strength of the Company. The following reconciles long-term debt to net debt:

(\$000s)	As at	
	Mar. 31, 2022	Dec. 31, 2021
Long term debt (NOTE 10)	14,869	26,823
Total current assets	(35,046)	(28,523)
Trade and other payables (NOTE 6)	25,156	19,647
Operating loan (NOTE 10)	2,195	-
ADJUSTED (NET DEBT)	7,174	17,947



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

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Cash Flow used for investing activities	20,997	12,001
Change in non-cash working capital	6,682	244
TOTAL NET CAPITAL EXPENDITURES	27,679	12,245

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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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