



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2024 AND MARCH 31, 2023



LETTER TO OUR SHAREHOLDERS

May 16, 2024

Dear Shareholder:

We are pleased to present our financial statements and management's discussion and analysis ("MD&A") for the three months ended March 31, 2024, along with an update on Karve's progress since our March 19, 2024 letter to shareholders.

In the first quarter of 2024, Karve generated adjusted funds flow from operations of \$24.3 million. The Company's average quarterly production was 8,669 boe/d, with current production of 9,350 boe/d. Due to cold weather, the Company experienced significant downtime averaging 484 boe/d and delays bringing on new well production until later in the first quarter and early April.

During the three months ended March 31, 2024, Karve drilled 17 gross (17.0 net) horizontal Viking wells, completed 20 gross (19.0 net) horizontal Viking wells and drilled and completed 5 gross (5.0 net) heavy oil wells in the Evi and Cold Lake areas. Production from the heavy oil wells averaged 222 bbl/d for the first quarter of 2024, with average April production of approximately 425 bbl/d. The results continue to be encouraging and the Company is currently evaluating future heavy oil development plans. During the first quarter of 2024, the Company entered into a farm-in agreement, where Karve is committed to drilling three multilateral test wells in the Cold Lake area by December 31, 2024. Karve will earn a 50% working interest in the farm-in lands upon completion of the commitment. Subsequent to the quarter end, the Company acquired additional land assets in the Cold Lake area of Alberta targeting the Mannville. With this acquisition, the Company has now acquired approximately 137 net sections of land in the Clearwater and Mannville Stack targeting heavy oil in the Evi and Cold Lake areas in northern Alberta.

Capital expenditures were \$39.0 million for the three months ended March 31, 2024, which included \$28.6 million in drilling and completions, \$10.4 million of facilities, well equipping and other. The Company continues to have low maintenance capital requirements on our low decline, pressure supported oil production in the Viking formations due to the continued success of its ongoing waterflood program.

Based on current commodity price expectations, Karve is planning a 2024 capital expenditure program of up to approximately \$103.0 million. The capital program consists of an estimated \$81.5 million on drilling and completions, \$14.0 million on facilities and waterflood, \$4.5 million on asset retirement obligations and \$3.0 million on land and other. Consistent with previous capital expenditure programs, Karve will continue to monitor and adjust its capital spending depending on market conditions.

We also congratulate Jennifer Giblin on her recent promotion to Chief Financial Officer of Karve Energy Inc. Jennifer has been with Karve since August of 2017 taking on ever increasing roles, most recently as VP Finance. She is a Chartered Professional Accountant, (CPA, CA) with over 15 years of management, accounting and finance experience in the oil and gas industry.

Karve will be holding our Annual General Meeting ("AGM") on Thursday, May 16, 2024, at 2:00 PM at our offices located at Suite 2500, 255 5th Avenue 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.

Enclosed are the Karve Energy Inc. unaudited consolidated interim financial statements and MD&A for the quarter ended March 31, 2024. 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 the 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, 2024 to March 31, 2024. It is dated May 16, 2024 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2024 and the audited consolidated financial statements for the year ended December 31, 2023. 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 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

FINANCIAL (Canadian \$000, except per share and per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Net income	5,495	11,723
Per share - basic	0.04	0.08
Per share - diluted	0.03	0.07
Funds flow from operations ⁽¹⁾	23,253	31,343
Per share - basic ⁽¹⁾	0.17	0.22
Per share - diluted ⁽¹⁾	0.15	0.20
Adjusted funds flow from operations ⁽¹⁾	24,308	31,993
Per share - basic ⁽¹⁾	0.17	0.23
Per share - diluted ⁽¹⁾	0.15	0.20
Total capital expenditures	38,997	38,515
Net debt ⁽¹⁾	(32,614)	(32,897)
Total assets	505,594	459,354
Shares outstanding, weighted average (000s)	140,530	140,530
Shares outstanding, end of period (000s)	140,530	140,530
OPERATIONAL		
Sales volumes		
Viking oil (bbl/d)	5,331	6,189
Heavy oil (bbl/d)	222	-
NGLs (bbl/d)	312	320
Natural gas (mcf/d)	16,824	14,292
Total (boe/d)	8,669	8,891
Average sales prices (excluding hedging gains and losses)		
Viking oil (\$/bbl)	88.74	95.52
Heavy oil, net of blending expense (\$/bbl)	61.40	-
NGLs (\$/bbl)	64.46	73.45
Natural gas (\$/mcf)	2.60	3.37
Boe basis (\$/boe)	63.50	74.55
Field netback (\$/boe excluding hedging gains and losses)		
Sales price	63.50	74.55
Royalties	(7.52)	(9.42)
Operating expense	(20.80)	(21.24)
Transportation expense	(1.71)	(1.36)
Field netback ⁽¹⁾	33.47	42.53

(1) Non-GAAP measure, see page 12 for details.

SALES VOLUMES

Sales volumes averaged 8,669 boe/d during the three months ended March 31, 2024 compared to 8,891 boe/d during the three months ended March 31, 2023. The decrease in sales volumes during the three months ended March 31, 2024 is mainly due to cold weather causing significant downtime, facility outages and delays bringing on production until later in the first quarter. The Company added 50 gross (49.0 net) Viking wells and 5 gross (5.0 net) heavy oil wells to production from April 1, 2023 to March 31, 2024.

	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Sales volumes		
Viking oil (bbl/d)	5,331	6,189
Heavy oil (bbl/d)	222	-
NGLs (bbl/d)	312	320
Natural gas (mcf/d)	16,824	14,292
Total (boe/d)	8,669	8,891

SALES PRICES AND REVENUE

For the three months ended March 31, 2024, the Company generated total revenue of \$50.1 million (three months ended March 31, 2023 - \$60.0 million) on average sales volumes of 8,669 boe/d. Revenue is shown before transportation expenses. The average sales price per boe for the three months ended March 31, 2024 was \$63.50 compared to \$74.55 for the three months ended March 31, 2023. The decrease in revenue period over period is due to widening oil differentials during the first quarter of 2024, lower natural gas sales prices and slightly lower sales volumes.

	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
KARVE AVERAGE REALIZED PRICE ⁽¹⁾		
Revenue (\$000s)	50,095	59,659
Viking oil (\$/bbl)	88.74	95.52
Heavy oil, net of blending expense (\$/bbl)	61.40	-
NGLs (\$/bbl)	64.46	73.45
Natural gas (\$/mcf)	2.60	3.37
Karve realized price (\$/boe)	63.50	74.55
AVERAGE BENCHMARK PRICES ⁽²⁾		
Crude oil - WTI (\$US/bbl)	76.96	76.13
Crude oil - Canadian light sweet (\$CDN/bbl)	95.45	99.73
Crude oil - WCS (\$CDN/bbl)	77.81	69.12
Natural gas - AECO-C spot (\$CDN/mcf)	2.18	3.23
Exchange Rate - (\$US/\$CAD)	0.74	0.74

(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:

	For the three months ended	
(\$000s)	Mar. 31, 2024	Mar. 31, 2023
Unrealized (loss) gain on financial derivative contracts	(228)	485
Realized (loss) on financial derivative contracts	-	(331)
(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS	(228)	154

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 March 31, 2024, the Company had the following commodity contracts in place:

Type	Term	Basis ⁽¹⁾	Volume (Bbl/d)	Put Price (\$CAD/Bbl) ⁽¹⁾	Call Price (\$CAD/Bbl) ⁽¹⁾	Liability (\$000s)
Collar	Apr. 1/24 - Jun. 30/24	WTI	1,000	95.00	120.00	228

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

At March 31, 2024, the fair value of the commodity derivative contracts outstanding was in a current liability position of \$228,000 resulting in an unrealized loss of \$228,000 (December 31, 2023 - \$nil 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, 2024 and may be different from what will eventually be realized. At March 31, 2023, the Company recorded an unrealized gain of \$204,000 and a realized loss of \$331,000.

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 March 31, 2024, the Company did not have any foreign exchange contracts outstanding. At March 31, 2023, the Company recorded an unrealized gain of \$281,000 on a foreign exchange contract.

Subsequent to March 31, 2024, the Company entered into Average Rate Collars for the notional amount of \$3.5 million USD for the period April 2024 to December 2024 with an average floor of 1.3350 and average ceiling of 1.3850.

ROYALTIES

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Royalties	5,934	7,539
Royalties as a % of revenue	11.8%	12.6%
Per boe (\$)	7.52	9.42

Royalties include crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2024 was \$5.9 million (\$7.52 per boe) compared to \$7.5 million (\$9.42 per boe) for the three months ended March 31, 2023. For the three months ended March 31, 2024, the Company’s royalty rate decreased to 11.8% of revenues compared to 12.6% during the three months ended March 31, 2023. The decrease in royalties is primarily due the decrease in average oil and natural gas sales prices and slight decrease in sales volumes.

OPERATING EXPENSE

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Operating expense	16,410	16,998
Per boe (\$)	20.80	21.24

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 lower at \$16.4 million (\$20.80 per boe) during the three months ended March 31, 2024, compared to \$17.0 million (\$21.24 per boe) during the three months ended March 31, 2023 due to a decrease in electricity costs as the Alberta power prices declined in the first quarter of 2024.

TRANSPORTATION EXPENSE

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Transportation expense	1,351	1,085
Per boe (\$)	1.71	1.36

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 (\$1.71 per boe) for the three months ended March 31, 2024 and \$1.1 million (\$1.36 per boe) during the three months ended March 31, 2023.

This increase in transportation expense per boe period over period is primarily due to increased trucking costs related to the heavy oil properties and increases in 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 three months ended		For the three months ended	
	Mar. 31, 2024		Mar. 31, 2023	
	\$	\$/boe	\$	\$/boe
Revenue	50,095	63.50	59,659	74.55
Royalties	(5,934)	(7.52)	(7,539)	(9.42)
Operating expense	(16,410)	(20.80)	(16,998)	(21.24)
Transportation expense	(1,351)	(1.71)	(1,085)	(1.36)
FIELD NETBACK (\$)⁽¹⁾	26,400	33.47	34,037	42.53

(1) Non-GAAP measure, see page 12 for details.

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

OTHER INCOME

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Processing fee income	835	948
Royalty income	-	111
Other	46	113
Total other income	881	1,172
Per boe (\$)	1.12	1.46

Other income for the three months ended March 31, 2024 was \$881,000 (\$1.12 per boe) and \$1.2 million (\$1.46 per boe) for the three months ended March 31, 2023. 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 \$835,000 (\$1.06 per boe) during the three months ended March 31, 2024 and \$948,000 (\$1.18 per boe) for the three months ended March 31, 2023. The decrease in processing fee income period over period is primarily due to lower third-party throughput volumes being processed at Karve operated facilities.

Royalty income includes freehold royalties, gross overriding royalties, royalties on fee title lands, and net profit interests. 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).

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the three months ended March 31, 2024 and March 31, 2023:

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Staff and consulting costs	2,514	2,303
Professional fees	178	156
Office and rent costs	373	427
Other	337	336
General and administration expense (gross)	3,402	3,222
Capitalized G&A and overhead recovery	(783)	(827)
Lease liability reclassification	(66)	(78)
General and administration expense (net)	2,553	2,317
Per boe (\$)	3.23	2.89

General and administrative expenses (net) for the three months ended March 31, 2024 increased to \$2.6 million (\$3.23 per boe) compared to \$2.3 million (\$2.89 per boe) for the three months ended March 31, 2023 due to an increase in staff and consulting costs.

OPERATING LOAN AND LONG TERM DEBT

As at March 31, 2024, 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 Company's debt to EBITDA ratio. The Company is also subject to a standby fee of 0.8125% to 1.3125% based on the Company's debt to EBITDA ratio. As at March 31, 2024, the Company is in compliance with all covenants. The next review date is May 31, 2024.

As at March 31, 2024, \$24.9 million (net of unamortized debt issue costs) was drawn on the credit facility (December 31, 2023 - \$14.8 million, net of unamortized debt issue costs) and \$2.8 million was drawn on the operating loan (December 31, 2023 - \$2.3 million).

The Company has issued letters of credit of \$400,000 as at March 31, 2024 (December 31, 2023 - \$400,000), thereby reducing the available bank credit facility by this amount.

Bank debt as at March 31, 2024 and December 31, 2023 is as follows:

(\$000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Credit facility	25,000	15,000
Less: unamortized debt issue costs	(120)	(157)
LONG TERM DEBT	24,880	14,843
Operating loan	2,775	2,303
TOTAL BANK DEBT	27,655	17,146

Financing expense for the three months ended March 31, 2024 and March 31, 2023 is comprised of the following:

(\$000s)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Credit facility interest and charges	341	523
Operating loan interest and charges	79	46
Amortization of debt issue costs	37	58
Interest on lease liability	22	4
FINANCING EXPENSES	479	631

For the three months ended March 31, 2024, the effective interest rate on the credit facility was 9.7% (three months ended March 31, 2023 – 8.3%). As at March 31, 2024, the Company is in compliance with all covenants.

SHARE-BASED COMPENSATION EXPENSE

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Share-based compensation - options	63	101
Share-based compensation - performance warrants	507	502
Share-based compensation expense	570	603
Per boe (\$)	0.72	0.75

Share-based compensation ("SBC") is an estimate of the fair value of the stock 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 an expected life of the stock options and performance warrants.

SBC expense related to stock options for the three months ended March 31, 2024 was \$63,000 (three months ended March 31, 2023 – \$101,000) and SBC expense related to performance warrants for the three months ended March 31, 2024 was \$507,000 (three months ended March 31, 2023 - \$502,000) using the graded vesting method. There were no stock options or performance warrants exercised during the three months ended March 31, 2024 or March 31, 2023.

As at March 31 2024, 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 stock option and performance

warrant due to the return of capital distribution paid on December 15, 2023. The weighted average fair value of stock options and performance warrants outstanding was \$0.93 per option and \$0.60 per warrant (March 31, 2023 - \$0.93 per option and \$0.60 per warrant).

At March 31, 2024, 13,584,422 stock options were vested and exercisable; and at March 31, 2024, 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 of corporate assets such as computer equipment and amortization of 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, 2024, DD&A expense decreased to \$15.2 million (\$19.26 per boe) from \$15.4 million (\$19.26 per boe) during the three months ended March 31, 2023 due to lower production volumes.

(\$000s, except per boe amounts)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Depletion	14,991	15,316
Depreciation and amortization	203	99
Total DD&A (\$)	15,194	15,415
Per boe (\$)	19.26	19.26

CAPITAL EXPENDITURES

Net capital expenditures for the three months ended March 31, 2024 and March 31, 2023 consisted of the following:

(\$000s)	For the three months ended	
	Mar. 31, 2024	Mar. 31, 2023
Drilling	19,407	12,465
Completions	9,228	9,879
Facilities and well equipment	9,959	15,814
Land	136	251
Other	267	106
TOTAL NET CAPITAL EXPENDITURES ⁽¹⁾	38,997	38,515

(1) Non-GAAP measure, see page 12 for details.

During the three months ended March 31, 2024, the Company drilled 22 gross (22.0 net) wells (Viking – 17 gross (17.0 net), heavy oil gross 5 (5.0 net)) and completed and brought on production 25 gross (24.0 net) wells (Viking – 20 gross (19.0 net), heavy oil 5 gross (5.0 net)). During the three months ended March 31, 2023, the Company drilled 20 gross (20.0 net) Viking wells and completed and brought on production 20 gross (20.0 net) Viking wells. During 2023 and 2024, the Company continued the expansion of its successful waterflood program in the Provost area of Alberta.

The following table outlines total gross and net wells brought on production:

For the quarter ended	Mar. 31, 2024	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023
Viking - Gross (Net)	20 (19.0)	8 (8.0)	16 (16.0)	6 (6.0)
Heavy - Gross (Net)	5 (5.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total - Gross (Net)	25 (24.0)	8 (8.0)	16 (16.0)	6 (6.0)

For the quarter ended	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022
Viking - Gross (Net)	20 (20.0)	20 (20.0)	25 (25.0)	0 (0.0)
Heavy - Gross (Net)	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
Total - Gross (Net)	20 (20.0)	20 (20.0)	25 (25.0)	0 (0.0)

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)
FAIR VALUE OF NET ASSETS ACQUIRED	6,161

CONSIDERATION

Cash	6,161
TOTAL PURCHASE PRICE	6,161

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 of \$13.5 million.

DECOMMISSIONING LIABILITY

At March 31, 2024, the Company estimated a decommissioning liability of \$21.7 million for the future abandonment and reclamation of Karve’s properties (December 31, 2023 – \$22.1 million). \$3.7 million is presented as a current liability as management intends to decommission certain wells within the next 12 months and the remaining \$18.0 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 at approximately \$192.0 million (\$111.6 million undiscounted, uninflated) (December 31, 2023 - \$189.6 million and \$110.6 million, respectively), which will be incurred over the remaining life of the assets between 2024 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 12% (December 31, 2023 – 12%) and an inflation rate of 2% (December 31, 2023 – 2%).

SHARE CAPITAL

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 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 December 1, 2023, and the Return of Capital was paid on December 15, 2023.

(\$000s except for share amounts)	Number	Amount
Common Shares		
BALANCE AT DECEMBER 31, 2022	140,529,665	175,973
Return of capital	-	(21,079)
BALANCE AT DECEMBER 31, 2023 AND MARCH 31, 2024	140,529,665	154,894

SUPPLEMENTARY QUARTERLY INFORMATION

	Mar. 31, 2024	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023
Petroleum and natural gas sales	50,095	57,707	62,069	57,199
Funds flow from operations ⁽¹⁾	23,253	31,328	33,352	28,792
Adjusted funds flow from operations ⁽¹⁾	24,308	31,493	34,989	30,672
Net income and comprehensive income	5,495	21,448	13,290	10,361
Income per share - basic (\$)	(0.28)	0.16	0.09	0.07
Income per share - diluted (\$)	(0.26)	0.13	0.09	0.07
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,553	5,911	5,773	6,120
Natural gas liquids (bbl/d)	312	357	345	347
Natural gas (Mcf/d)	16,824	17,375	16,139	16,273
TOTAL PRODUCTION (BOE/d)	8,669	9,164	8,808	9,179
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	76.96	78.32	82.26	73.80
Crude oil - Canadian light sweet (\$CDN/bbl)	95.45	97.55	107.29	94.99
Crude oil - WCS (\$CDN/bbl)	77.81	76.86	78.95	78.95
Natural gas - AECO-C spot (\$CDN/mcf)	2.18	2.30	2.61	2.43
Exchange Rate - (\$US/\$CAD)	0.74	0.74	0.75	0.74
FIELD NETBACK (\$/BOE)				
Revenue	63.50	68.45	76.60	68.48
Royalties	(7.52)	(8.97)	(9.05)	(8.16)
Operating expense	(20.80)	(19.26)	(20.70)	(19.86)
Transportation expense	(1.71)	(1.58)	(1.67)	(1.64)
FIELD NETBACK (\$/BOE) ⁽¹⁾	33.47	38.64	45.18	38.82
General and administration	(3.24)	(3.54)	(3.09)	(3.03)
Other income	1.12	3.22	1.63	1.68
Interest expense	(0.54)	(0.68)	(0.64)	(0.80)
Realized hedging	-	(0.29)	0.08	0.05
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	30.81	37.35	43.16	36.72
For the quarter ended (\$000s)				
	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	June 30, 2022
Petroleum and natural gas sales	59,659	63,172	65,320	84,799
Funds flow from operations ⁽¹⁾	31,343	27,266	32,062	48,370
Adjusted funds flow from operations ⁽¹⁾	31,993	28,519	32,700	48,620
Net income and comprehensive income	11,723	12,362	22,713	27,238
Income per share - basic (\$)	0.08	0.10	0.16	0.19
Income per share - diluted (\$)	0.07	0.07	0.15	0.18
AVERAGE SALES VOLUMES				
Oil (bbl/d)	6,189	5,609	5,477	5,930
Natural gas liquids (bbl/d)	320	309	359	360
Natural gas (Mcf/d)	14,292	13,380	14,417	15,263
TOTAL PRODUCTION (BOE/d)	8,891	8,148	8,239	8,834
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	76.13	82.65	91.56	108.41
Crude oil - Canadian light sweet (\$CDN/bbl)	99.73	108.15	116.77	136.35
Crude oil - WCS (\$CDN/bbl)	69.12	77.39	93.53	122.08
Natural gas - AECO-C spot (\$CDN/mcf)	3.23	5.24	4.46	7.26
Exchange Rate - (\$US/\$CAD)	0.74	0.74	0.77	0.78
FIELD NETBACK (\$/BOE)				
Revenue	74.55	84.27	86.18	105.50
Royalties	(9.42)	(10.96)	(11.40)	(12.66)
Operating expense	(21.24)	(24.01)	(20.41)	(17.14)
Transportation expense	(1.36)	(1.09)	(1.16)	(1.15)
FIELD NETBACK (\$/BOE) ⁽¹⁾	42.53	48.21	53.21	74.55
General and administration	(2.89)	(4.38)	(2.95)	(3.28)
Other income	1.46	1.64	1.81	1.70
Interest expense	(0.71)	(0.58)	(0.36)	(0.22)
Realized hedging	(0.41)	(6.86)	(8.57)	(12.27)
CASHFLOW NETBACK (\$/BOE) ⁽¹⁾	39.98	38.03	43.14	60.48

(1) Non-GAAP measure, see page 12 for details.



NET INCOME SUMMARY

(\$000s, except per boe amounts)	For the three months ended Mar. 31, 2024		For the three months ended Mar. 31, 2023	
	\$	\$/boe	\$	\$/boe
Petroleum and natural gas sales	50,095	63.50	59,659	74.55
Royalties	(5,934)	(7.52)	(7,539)	(9.42)
NET REVENUE	44,161	55.98	52,120	65.13
Other income	881	1.12	1,172	1.46
(Loss) gain on financial derivative contracts	(228)	(0.29)	154	0.19
TOTAL REVENUE AND OTHER INCOME	44,814	56.81	53,446	66.78
Operating	16,410	20.80	16,998	21.24
Transportation	1,351	1.71	1,085	1.36
General and administration	2,553	3.24	2,317	2.90
Financing	479	0.61	631	0.79
Depletion, depreciation and amortization	15,194	19.26	15,415	19.26
Accretion	663	0.84	651	0.81
Share-based compensation	570	0.72	603	0.75
Exploration and evaluation - expiries	282	0.36	339	0.42
INCOME FROM OPERATIONS BEFORE TAXES	7,312	9.27	15,407	19.25
Deferred income tax expense	1,817	2.30	3,684	4.60
NET INCOME AND COMPREHENSIVE INCOME	5,495	6.97	11,723	14.65

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at March 31, 2024, there were 140,529,665 common shares outstanding (December 31, 2023 – 140,529,665).

As at May 16, 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 March 31, 2024, the Company remains in compliance with all terms of the Credit Facility and based on current available information, management expects to comply with all terms during the subsequent 12-month period.

COMMITMENTS

During the three months ended March 31, 2024, the Company entered into a farm-in agreement with a third party where Karve is committed to drilling three multilateral test wells in the Cold Lake area with an estimated cost of \$4.5 million by December 31, 2024. Karve will earn a 50% working interest in the 6.5 sections of the farm-in lands upon completion of the commitment.

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 March 31, 2024.

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, 2024	Mar. 31, 2023
Cash flow from continuing operations	20,488	28,775
Change in non-cash working capital from operating activities	2,765	2,568
FUNDS FLOW FROM OPERATIONS	23,253	31,343
Decommissioning expenditures	1,055	650
ADJUSTED FUNDS FLOW FROM OPERATIONS	24,308	31,993

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, current portion of lease 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	As at
	Mar. 31, 2024	Dec. 31, 2023
Long term debt	24,880	14,843
Total current assets	(26,231)	(23,003)
Trade and other payables	31,190	22,625
Operating loan	2,775	2,303
NET DEBT	32,614	16,768

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, 2024	Mar. 31, 2023
Cash flow used for investing activities	30,894	34,787
Change in non-cash working capital	8,103	3,728
TOTAL NET CAPITAL EXPENDITURES	38,997	38,515

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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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