



UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2019 AND MARCH 31, 2018



CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Canadian \$000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
ASSETS		
Current Assets		
Trade and other receivables (NOTE 5)	20,408	10,690
Prepays and deposits (NOTE 6)	5,097	5,440
TOTAL CURRENT ASSETS	25,505	16,130
Property, plant and equipment (NOTE 9 & 11)	278,189	272,833
Exploration and evaluation (NOTE 9 & 12)	22,868	23,213
Right of use asset (NOTE 13)	656	-
Other long-term asset (NOTE 8)	-	2,565
TOTAL ASSETS	327,218	314,741
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 7)	22,409	20,266
Operating loan (NOTE 15)	3,670	6,109
Lease liability (NOTE 14)	373	-
Decommissioning liability (NOTE 16)	2,039	2,500
TOTAL CURRENT LIABILITIES	28,491	28,875
Long term debt (NOTE 15)	24,750	14,731
Deferred lease liability (NOTE 3)	-	416
Lease liability (NOTE 14)	683	-
Decommissioning liability (NOTE 16)	10,187	9,994
Deferred income tax liability	12,867	11,863
TOTAL LIABILITIES	76,978	65,879
SHAREHOLDERS' EQUITY		
Share capital (NOTE 17)	216,208	216,208
Contributed surplus (NOTE 17)	20,726	19,299
Accumulated earnings	13,306	13,355
TOTAL SHAREHOLDERS' EQUITY	250,240	248,862
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	327,218	314,741

COMMITMENTS (NOTE 20)

SUBSEQUENT EVENTS (NOTE 25)

The accompanying notes are an integral part of these interim financial statements.

Approved on behalf of the Board of Directors:

Signed "Donald A. Engle"

Signed "James C. Lough"

Donald A. Engle
Chairman of the Board

James C. Lough
Director

CONSOLIDATED STATEMENT OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(Canadian \$000s, except per share amounts)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
REVENUE		
Petroleum and natural gas sales (NOTE 23)	34,648	42,475
Royalties	(2,605)	(2,228)
NET REVENUE	32,043	40,247
Other income (NOTE 18)	1,988	1,583
Loss on financial derivative contracts (NOTE 21)	-	(2,982)
Loss on investment (NOTE 8)	(2,565)	-
Interest income	9	13
TOTAL REVENUE AND OTHER INCOME	31,475	38,861
EXPENSES		
Operating	10,831	14,895
Transportation	1,419	1,134
General and administration	2,146	1,623
Depletion, depreciation and amortization (NOTE 11)	13,738	10,041
Financing (NOTE 14 & 15)	347	-
Accretion (NOTE 16)	178	446
Share-based compensation (NOTE 19)	1,427	2,085
Exploration and evaluation - expiries (NOTE 12)	434	371
NET INCOME (LOSS) BEFORE TAX EXPENSE	955	8,266
TAX EXPENSE		
Deferred income tax expense	1,004	2,835
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(49)	5,431
INCOME (LOSS) PER SHARE (\$) (NOTE 17)		
Basic	-	0.04
Diluted	-	0.03

The accompanying notes are an integral part of these interim financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(Canadian \$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
SHARE CAPITAL		
Balance, beginning of period	216,208	216,061
BALANCE, END OF PERIOD	216,208	216,061
CONTRIBUTED SURPLUS		
Balance, beginning of period	19,299	12,215
Share-based compensation (NOTE 19)	1,427	2,085
BALANCE, END OF PERIOD	20,726	14,300
EARNINGS (DEFICIT)		
Balance, beginning of period	13,355	(17,202)
Net income (loss) and comprehensive income (loss)	(49)	5,431
BALANCE, END OF PERIOD	13,306	(11,771)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Canadian \$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	(49)	5,431
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 11)	13,738	10,041
Accretion expense (NOTE 16)	178	446
Exploration and evaluation (NOTE 12)	434	371
Deferred lease expense	-	47
Share-based compensation (NOTE 19)	1,427	2,085
Loss on investment (NOTE 8)	2,565	-
Unrealized gain on financial derivatives (NOTE 21)	-	2,230
Deferred income tax expense	1,004	2,835
Non-cash financing expense	33	-
Decommissioning expenditures (NOTE 16)	(461)	(1,118)
FUNDS FLOW FROM OPERATIONS	18,869	22,368
Change in non-cash working capital (NOTE 23)	(3,240)	363
CASH FLOW FROM OPERATING ACTIVITIES	15,629	22,731
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 12)	(108)	(325)
Property, plant and equipment (NOTE 11)	(18,977)	(25,357)
Change in non-cash working capital (NOTE 23)	(4,202)	4,672
CASH FLOW USED FOR INVESTING ACTIVITIES	(23,287)	(21,010)
FINANCING ACTIVITIES		
Operating line (NOTE 15)	(2,440)	-
Financing lease expense (NOTE 14)	(112)	-
Increase in long term debt (NOTE 15)	10,000	-
Change in non-cash working capital (NOTE 23)	210	210
CASH FLOW FROM FINANCING ACTIVITIES	7,658	210
Decrease in cash and cash equivalents	-	1,931
Cash and cash equivalents, beginning of period	-	11,524
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	13,455

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at March 31, 2019 and for the three months ended March 31, 2019 and 2018. (Tabular amounts in thousands of Canadian dollars, unless otherwise stated. Amounts in text are in Canadian dollars unless otherwise stated).

1. REPORTING ENTITY

Karve Energy Inc. (“Karve” or the “Company”) is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and 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.”.

The consolidated financial statements of the Company are comprised of Karve and its wholly-owned subsidiary “DTC Energy Inc.” which was incorporated under the laws of the Province of Alberta.

Karve’s head office is located at Suite 1700, 205 5 Avenue SW, Calgary Alberta, T2P 2V7.

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

The condensed interim consolidated financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

The financial statements were approved and authorized for issue by Karve’s Board of Directors on May 8, 2019.

Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for the revaluation to fair value of certain financial assets and financial liabilities, as required under IFRS and described in the significant accounting policies in NOTE 3 below. The financial statements are measured and presented in Canadian dollars as the functional currency of the Company.

All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those in the December 31, 2018 audited financial statements, except as noted in NOTE 3 and for income taxes. Income taxes for interim periods are accrued using the income tax rate that would be applicable to the expected annual net income (loss).

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Actual results may differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in NOTE 3 of the December 31, 2018 audited consolidated financial statements, except for those relating to the adoption of IFRS 16 described below in NOTE 3.

3. CHANGES IN ACCOUNTING POLICIES

a) Impact of Adoption of IFRS 16

On January 1, 2019, the Company adopted the new accounting standard IFRS 16 Leases (“IFRS 16”). IFRS 16 replaces IAS 17 Leases (“IAS 17”), IFRIC 4 Determining Whether an Arrangement Contains a Lease (“IFRIC 4”), the accounting for onerous lease liabilities which were previously measured under IAS 37 Provisions (“IAS 37”) and other related IFRS interpretations. IFRS 16 prescribes a single recognition and measurement model for lease contracts and requires the recognition of a right of use asset and corresponding lease liability for most leases, including subleases.

The Company elected to adopt IFRS 16 using the prescribed modified retrospective approach (simplified method) by recognizing an opening balance sheet adjustment for the Company’s discounted right of use assets and corresponding lease liabilities as at January 1, 2019. Accordingly, there was no opening adjustment to retained earnings and the comparative 2018 consolidated

statements of comprehensive income (loss) and cash flows have not been restated to reflect the accounting presentation prescribed under IFRS 16.

At the date of transition, the Company recognized a lease liability of \$1.1 million in respect of long-term minimum commitments associated with corporate office lease arrangements under IFRS 16. The net balance sheet impact on transition was \$738,000 due to the derecognition of a \$416,000 deferred lease liability previously recognized on the balance sheet under IAS 37, now recognized under IFRS 16. The previously recognized deferred lease liability is netted against the right of use asset. Under previous IFRS standards, office lease arrangements were recognized as general and administrative expenses as incurred. Karve is the lessee for substantially all in-scope office lease arrangements. At January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated right of use asset. In this case, no impairment assessment was performed under IAS 36 Impairment of Assets.

The following table summarizes the balance sheet adjustment for the adoption of IFRS 16 as at January 1, 2019:

Opening Balance Sheet	Dec. 31, 2018 (previous IFRS)	Adoption of IFRS 16	Jan. 1, 2019 (new IFRS)
Right of use asset	-	738	738
Lease liability	-	1,154	1,154
Deferred lease liability	416	-	-

Karve has elected to apply the practical expedient exemption to scope-out non-cancellable low-value and short-term lease arrangements. The Company has also elected to not recognize contractual arrangements that previously had not met the definition of a lease under IFRIC 4 at the inception of the contract. These out-of-scope contractual arrangements continue to be recognized in net income (loss) as incurred.

At the inception of a contract, Karve assesses if an agreement contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For all in-scope lease arrangements, a right of use asset and corresponding lease liability is initially recognized at the commencement date and measured at the net present value of all future non-cancellable lease payments at the commencement date of the contract. The lease payments are discounted using the rate implicit in the lease unless that rate is not readily determined, in which case, the Company's incremental borrowing rate is utilized. The estimated lease term consists of all non-cancellable periods under the contract and includes periods covered by an extension or termination option if the Company is reasonably certain that it will exercise the option.

Right of use assets are depreciated to net income (loss) over the term of the contract using the straight line method. The depreciation of right of use assets that are utilized in respect of development activities is initially capitalized to property, plant and equipment ("PP&E") and then depleted to net income (loss) over the remaining life of the developed assets once they are ready for use in the manner intended by management. Lease liabilities are accreted upwards toward their settlement value over the expected life of the contract in order to reflect the passage of time. Lease payments reduce the lease liability and are reflected as a financing activity in the consolidated statement of cash flows. Right of use assets and lease liabilities are remeasured at each reporting period to reflect any contract modifications or reassessments that impact the remaining cash outflows under the contract.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all the pronouncements will be adopted in the Company's accounting policies in the annual period in which they are first required.

5. TRADE AND OTHER RECEIVABLES

(\$000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
Trade	18,713	7,956
Joint venture	2,108	2,828
GST	-	285
Allowance for doubtful accounts	(413)	(379)
TRADE AND OTHER RECEIVABLES	20,408	10,690



In determining the recoverability of receivables, the Company uses the ECL model and considers the age of the outstanding receivable and the credit worthiness of the counterparties. The Company recorded a provision of \$413,000 at March 31, 2019 as it determined certain joint venture receivables were uncollectible using the ECL model (December 31, 2018 - \$379,000).

Of the Company's accounts receivable at March 31, 2019, approximately 59% was receivable from two oil marketers (36% and 23%). At December 31, 2018, approximately 17% was receivable from two oil marketers (9% and 8%). Accounts receivable outstanding greater than ninety days at March 31, 2019 was \$1.7 million (December 31, 2018 - \$222,000).

6. PREPAIDS AND DEPOSITS

(\$000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
Prepays	4,923	5,284
Deposits	174	156
PREPAIDS AND DEPOSITS	5,097	5,440

7. TRADE AND OTHER PAYABLES

(\$000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
Trade	13,414	12,519
Accrued	7,087	6,869
Royalties	1,248	747
Joint venture	660	131
TRADE AND OTHER PAYABLES	22,409	20,266

8. OTHER LONG-TERM ASSET

On June 14, 2018 the Company acquired a 41% shareholding in a privately held oil and gas company ("PrivateCo") for \$3.0 million in conjunction with the non-core asset disposition (NOTE 10). As the Company has significant influence over PrivateCo's operations, it accounts for the investment using the equity method.

(\$000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
Balance, beginning of period	2,565	-
Investment in PrivateCo	-	3,000
Equity share of loss	(2,565)	(435)
BALANCE, END OF PERIOD	-	2,565

The net loss of PrivateCo for the three months ended March 31, 2019 was \$7.8 million.

9. ACQUISITIONS

The Company accounts for business combinations using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

Alliance Acquisition

On October 31, 2018, the Company acquired assets in the Alliance area of Alberta ("Alliance Acquisition") that complement Karve's existing asset base for a total purchase price of \$10.7 million. At the time of acquisition, the assets were producing approximately 900 boe/d, and include future drilling locations in the Alliance area. The effective date of the acquisition was May 1, 2018.

(\$000s)	
Net working capital	1,251
Property, plant and equipment	37,122
Decommissioning liabilities	(5,544)
Deferred tax liabilities	(5,969)
FAIR VALUE OF NET ASSETS ACQUIRED	26,860

CONSIDERATION	
Cash	10,720
TOTAL PURCHASE PRICE	10,720
GAIN ON ACQUISITION	(16,140)

During the year ended December 31, 2018, the Company incurred \$34,000 of transaction costs for the Alliance Acquisition which were included in "Transaction costs" in the Company's consolidated statement of net income (loss) and comprehensive income (loss).

Other Miscellaneous Acquisitions

Throughout 2018, the Company acquired various working interests, land, light oil producing properties, royalty interests, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

(\$000s)	
Property, plant and equipment	1,432
Decommissioning liabilities	(22)
FAIR VALUE OF NET ASSETS ACQUIRED	1,410

CONSIDERATION	
Cash	1,410
TOTAL PURCHASE PRICE	1,410

10. DISPOSITIONS

On June 14, 2018, the Company closed a divestiture of its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of \$30.7 million. The disposition is effective March 1, 2018. The disposition includes the majority of the non-core and non-Viking oil assets acquired in the Provost Acquisition.

The carrying value of assets and associated decommissioning liabilities disposed during the year ended December 31, 2018 are summarized below:

(\$000s)	
Property, plant and equipment (NOTE 11)	40,855
Exploration and evaluation assets (NOTE 12)	228
Decommissioning liabilities (NOTE 16)	(13,284)
Net working capital	2,856
CARRYING VALUE OF NET ASSETS DISPOSED	30,655
CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS	30,655

As a result of the disposition, the Company's tax pools have been reduced by 80% Canadian Oil and Gas Property Expense (COGPE) and 20% - Class 41 of the proceeds received.



11. PROPERTY, PLANT AND EQUIPMENT

The following tables reconcile movement of property, plant and equipment (“PP&E”) during the period:

(\$000s)	As at	
	Mar. 31, 2019	Dec. 31, 2018
Petroleum and natural gas assets at cost	356,553	337,618
Corporate assets at cost	809	733
Property, plant and equipment at cost	357,362	338,351
Accumulated depletion and depreciation	(79,173)	(65,518)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	278,189	272,833

Petroleum and Natural Gas Assets

COST (\$000s)	
Balance at December 31, 2017	221,202
Additions	117,492
Acquisitions (NOTE 9)	38,872
Transfers from exploration and evaluation assets (NOTE 12)	589
Change in decommissioning provision (NOTE 16)	318
Dispositions	(40,855)
BALANCE AT DECEMBER 31, 2018	337,618
Additions	18,901
Transfers from exploration and evaluation assets (NOTE 12)	19
Change in decommissioning provision (NOTE 16)	15
BALANCE AT MARCH 31, 2019	356,553
ACCUMULATED DEPLETION (\$000s)	
Balance at December 31, 2017	22,807
Depletion	42,592
BALANCE AT DECEMBER 31, 2018	65,399
Depletion	13,615
BALANCE AT MARCH 31, 2019	79,014
NET CARRYING AMOUNT, DECEMBER 31, 2018	272,219
NET CARRYING AMOUNT, MARCH 31, 2019	277,539

At March 31, 2019, future development and production costs of \$298.3 million (December 31, 2018 - \$304.5 million) are included in costs subject to depletion.

The Company assessed for indicators of impairment and there were no indicators of impairment at March 31, 2019 or at December 31, 2018.

General and administration costs capitalized by the Company during the three months ended March 31, 2019 were \$279,000 (three months ended March 31, 2018 – \$421,000).

Corporate Assets

COST (\$000s)	
Balance at December 31, 2017	215
Additions	518
BALANCE AT DECEMBER 31, 2018	733
Additions	76
BALANCE AT MARCH 31, 2019	809
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2017	37
Depreciation and amortization	82
BALANCE AT DECEMBER 31, 2018	119
Depreciation and amortization	40
BALANCE AT MARCH 31, 2019	159
NET CARRYING AMOUNT, DECEMBER 31, 2018	614
NET CARRYING AMOUNT, MARCH 31, 2019	650

12. EXPLORATION AND EVALUATION

Exploration and evaluation assets consist of the Company's undeveloped land, seismic, geological and geophysical costs and exploration projects that are pending the determination of technical feasibility.

(\$000s)	
Balance at December 31, 2017	23,281
Additions	1,651
Transfers to petroleum and natural gas assets (NOTE 11)	(589)
Expiries	(902)
Disposals (NOTE 10)	(228)
BALANCE AT DECEMBER 31, 2018	23,213
Additions	108
Transfers to petroleum and natural gas assets (NOTE 11)	(19)
Expiries	(434)
BALANCE AT MARCH 31, 2019	22,868

The Company assessed for indicators of impairment and there were no indicators of impairment at March 31, 2019 or at December 31, 2018.

13. RIGHT OF USE ASSETS

The following table reconciles the movement of right of use assets during the period:

(\$000s)	
Balance at January 1, 2019	738
Additions	-
BALANCE AT MARCH 31, 2019	738
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at January 1, 2019	-
Depreciation and amortization	(82)
BALANCE AT MARCH 31, 2019	(82)
NET CARRYING AMOUNT, MARCH 31, 2019	656

14. LEASE LIABILITY

The company has lease liabilities for office space. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease liabilities were measured at a discounted value of lease payments using a weighted average incremental borrowing rate of 5% at January 1, 2019.

(\$000s)	
Balance at January 1, 2019	1,154
Interest expense	14
Lease payments	(112)
BALANCE AT MARCH 31, 2019	1,056
Lease liability - current	373
Lease liability - long term	683
TOTAL LEASE LIABILITY AT MARCH 31, 2019	1,056

Undiscounted cash outflows related to lease liabilities are:

(\$000s)	Within 1 year	1 to 5 years	Total
Lease payments	495	761	1,256

The following table provides a reconciliation of the commitments at December 31, 2018 to the Company's lease liabilities at January 1, 2019 on the adoption of IFRS 16:

(\$000s)	
Lease reported in commitments at December 31, 2018	8,726
Less: Agreements that do not contain a lease	(7,470)
Less: Impact of discounting	(102)
LEASE LIABILITY AT JANUARY 1, 2019	1,154

15. OPERATING LOAN AND LONG TERM DEBT

On December 3, 2018 the Corporation increased its bank credit facilities to \$100.0 million comprised of \$90.0 million syndicated committed facility ("Credit Facility") and a \$10.0 million operating loan. The Credit Facility is a committed 364 days + 1 year and extendible annually. The Credit Facility and operating line incur interest based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 0.50 and 3.50 percent depending on the type of borrowing and the Corporation's debt to EBITDA ratio. The Corporation is also subject to a standby fee of 0.3375 percent to 0.7875 percent based on the Corporation's debt to EBITDA ratio. The next annual review date is May 31, 2019.

Previously, the Corporation had a \$25.0 million revolving operating demand loan facility with a Canadian chartered bank.

As at March 31, 2019, \$24.8 million (net of unamortized debt issue costs) (December 31, 2018 - \$14.7 million) was drawn on the Credit Facility and \$3.7 million (December 31, 2018 - \$6.1 million) was drawn on the operating loan.

Long term debt as at March 31, 2019 and December 31, 2018 is as follows:

(\$000s)	As at Mar. 31, 2019	As at Dec. 31, 2018
Credit Facility	25,000	15,000
less: unamortized debt issue costs	(250)	(269)
LONG TERM DEBT	24,750	14,731
Operating loan	3,670	6,109
CARRYING VALUE OF DEBT	28,420	20,840

Financing expense for the three months ended March 31, 2019 and 2018 is comprised of the following:

(\$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Credit Facility interest and charges	257	-
Operating loan interest and charges	57	-
Amortization of debt issue costs	19	-
Interest on lease liability	14	-
FINANCING EXPENSES	347	-

For the three months ended March 31, 2019, the effective interest rate on the credit facility was 4.03 percent.

16. DECOMMISSIONING LIABILITY

At the end of the operating life of the Company's facilities and properties and upon retirement of its oil and natural gas assets, decommissioning costs will be incurred by the Company to abandon and reclaim the wells and facilities. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities and the discount rate applied in measuring the liability. The liability, the related asset and the expense are impacted by estimates with respect to the costs and timing of decommissioning.

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately \$174.3 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2037 and 2059. The estimated future cash flows have been discounted using a credit adjusted rate of 8% and an inflation rate of 2%. At March 31, 2019, a 1% decrease in the discount rate used would create approximately a \$4.7 million increase in the decommissioning liability, and a 1% increase in the discount rate used would create approximately a \$3.4 million decrease in the decommissioning liability.

The following table shows changes in the decommissioning liability:

(\$000s)	As at	As at
	Mar. 31, 2019	Dec. 31, 2018
Balance, beginning of period	12,494	24,211
Decommissioning liabilities incurred during the period	15	318
Decommissioning liabilities acquired through acquisitions (NOTE 9)	-	5,565
Decommissioning liabilities settled during the period	(461)	(5,411)
Accretion expense during the period	178	1,095
Disposal	-	(13,284)
BALANCE, END OF PERIOD	12,226	12,494
Decommissioning liability - current	2,039	2,500
Decommissioning liability - long term	10,187	9,994
TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD	12,226	12,494

17. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

b) Issued and Outstanding Common Shares

(\$000s except for share amounts)	Number	Amount
Common Shares		
Balance at December 31, 2017	137,199,270	216,061
Issued on exercise of options and performance warrants	70,000	113
Allocation of contributed surplus - exercise of options and performance warrants	-	34
BALANCE AT DECEMBER 31, 2018 & MARCH 31, 2019	137,269,270	216,208



During the year ended December 31, 2018, 10,000 vested stock options were exercised at a weighted average exercise price of \$1.65 per share for gross and net proceeds of \$16,500 and 60,000 vested performance warrants were exercised at a weighted average exercise price of \$1.60 per share for gross and net proceeds of \$96,000. During the three month ended March 31, 2019 there were no shares issued.

c) Contributed Surplus

(\$000s)	As at	
	Mar. 31, 2019	Dec. 31, 2018
Balance, beginning of period	19,299	12,215
Share-based compensation - options	665	4,082
Share-based compensation - warrants	762	3,036
Transfer to share capital on exercise of options and performance warrants	-	(34)
BALANCE, END OF PERIOD	20,726	19,299

d) Per Share Amounts

(\$000s except per share amounts)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Net income (loss) for the period	(49)	5,431
Net income (loss) for the period	(49)	5,431
Weighted average number of shares - basic	137,269,270	137,199,270
Dilutive impact of share based compensation plans	-	29,311,927
Weighted average number of shares - diluted	137,269,270	166,511,197
Net income (loss) per share - basic	-	0.04
Net income (loss) per share - diluted	-	0.03

At March 31, 2019, 13,242,260 stock options and 15,725,000 performance warrants were excluded from the fully diluted calculation as they are anti-dilutive.

18. OTHER INCOME

The following table presents the composition of amounts included in Other Income in the consolidated statement of net income (loss) and comprehensive income (loss):

(\$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Processing fee income	974	788
Royalty income	974	738
Other	40	57
TOTAL OTHER INCOME	1,988	1,583

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities.

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

Other income relates to road use income, seismic licensing income, and contract operating income.

19. SHARE-BASED COMPENSATION

The following table summarizes the Company's share-based compensation:

(\$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Share-based compensation - options	665	1,264
Share-based compensation - performance warrants	762	821
TOTAL SHARE-BASED COMPENSATION	1,427	2,085

a) Stock Options

Effective June 15, 2016, the Company adopted a new stock option plan under which officers, management, employees, directors and consultants of the Company are eligible to receive grants. Under the stock option plan, which was approved by the Board of

Directors, the granted stock options vest to the grantee over a three-year period, the grantee has the right to exercise the stock options for five years from the date of the grant and the stock options terminate 30 days following the termination of the grantee's employment. All stock options vest and may be exercisable in the event of a change of control or initial public offering. The maximum number of outstanding stock options under the plan is limited to 10% of the common shares outstanding. The number of stock options and the exercise price is set by the Board of Directors at the time of grant.

Share-based compensation related to stock options during the three months ended March 31, 2019 was \$665,000 (three months ended March 31, 2018 - \$1.3 million).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2017 through to March 31, 2019:

	Number	Wtd. Avg. Exercise Price (\$)
Balance at December 31, 2017	13,214,927	1.54
Granted	965,000	2.37
Forfeited	(727,667)	1.92
Exercised	(10,000)	1.65
BALANCE AT DECEMBER 31, 2018 & MARCH 31, 2019	13,442,260	1.57

There were 10,000 stock options exercised during the year ended December 31, 2018 and 5,871,828 stock options were exercisable at December 31, 2018. There were no stock options exercised in the three months ended March 31, 2019. As at March 31, 2019 there were 5,973,495 options exercisable.

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at March 31, 2019 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
\$0.85	2.21	3,405,644	2,164,869
\$1.00 - \$1.99	2.33	2,326,023	1,485,119
\$2.00 - \$3.00	2.62	7,710,593	2,323,507
	3.04	13,442,260	5,973,495

The fair value of each option granted or acquired is estimated on the date of grant or acquisition using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Weighted average fair value of options granted	-	1.12
Risk-free Interest rate (%)	-	1.99%
Expected life (years)	-	5.0
Estimated volatility of underlying common shares (%)	-	54%
Weighted average grant date share price	-	2.33
Forfeiture rate	-	-
Expected dividend yield (%)	-	-

The expected volatility of the options granted is based on the historical volatility of publicly traded peer companies that in management's judgement have similar characteristics to the Company and are therefore a good indicator of the expected volatility of the Company.



b) Performance Warrants

There were no performance warrants issued by the Board of Directors during the year ended December 31, 2018 (year ended December 31, 2017 – 17,937,500). The performance warrants entitle the holder to purchase one common share of the Company and have the following vesting dates and exercise prices:

	2016 Issuance	2017 Issuance
Warrants granted	16,125,000	17,937,500
Issue date	\$1.50	\$3.00
First anniversary	\$1.70	\$3.40
Second anniversary	\$1.90	\$3.80
Third anniversary	\$2.10	\$4.20
Fourth anniversary	\$2.30	\$4.60

The right to exercise the performance warrants is subject to a performance event taking place which includes the occurrence of any of the following (i) the Company raising a minimum of \$25.0 million through a private placement, excluding the securities issued as part of the recapitalization that occurred in June 2016 (ii) the occurrence of an initial public offering on a recognized Canadian or U.S. stock exchange, or (iii) a change of control. Only vested performance warrants based on the schedule above will become exercisable if the Company achieves performance event (i). In the event of performance event (ii) and (iii), all performance warrants outstanding which have not vested or become exercisable in accordance with their terms shall vest and become exercisable immediately.

Share-based compensation related to performance warrants during the three months ended March 31, 2019 was \$762,000 (three months ended March 31, 2018 - \$821,000).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2016 through to March 31, 2019:

	Number	Wtd. Avg. Exercise Price (\$)
Balance at December 31, 2017	33,812,500	2.90
Exercised	(60,000)	1.60
Forfeited	(1,267,000)	3.68
BALANCE AT DECEMBER 31, 2018 & MARCH 31, 2019	32,485,500	2.88

There were no performance warrants exercised during the three months ended March 31, 2019 (year ended December 31, 2018 - 60,000 performance warrants exercised) and 6,470,000 performance warrants were exercisable at March 31, 2019 and December 31, 2018.

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at March 31, 2019 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
\$1.50 to \$2.99	2.31	15,725,000	6,470,000
\$3.00 to \$3.99	3.50	10,056,300	-
\$4.00 to \$4.60	3.50	6,704,200	-
	2.92	32,485,500	6,470,000

20. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2019 are as follows:

(\$000s)	2019	2020	2021	2022	Therafter	Total
Operating leases	24	-	-	-	-	24
Pipeline transportation	1,829	1,481	1,449	985	1,005	6,749
TOTAL ANNUAL COMMITMENTS	1,853	1,481	1,449	985	1,005	6,773

On February 15, 2018, the Company entered into a five year take or pay commitment with a major midstream company wherein a pipeline will be constructed and paid for by the midstream company which came on stream in the first quarter of 2019.

21. FINANCIAL INSTRUMENTS

The Company has exposure to credit, liquidity, interest, and foreign currency risk from its use of financial instruments. Further qualitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Karve's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

a) Fair Value of Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, deposits, derivative assets, trade and other payables, operating loan, and long term debt.

There are three levels of fair value by which a financial instrument can be classified:

Level 1 - Quoted prices in active markets for identical assets and liabilities such as traded securities on a registered exchange where there are a sufficient frequency and volume of transactions to provide ongoing pricing information.

Level 2 - Inputs other than quoted prices that are observable for the asset and liability either directly and indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and

Level 3 - Inputs that are not based on observable market data.

The fair value of cash and cash equivalents, trade and other receivables, deposits, and trade and other payables approximate their carrying amounts due to their short-term maturities. The fair value of the amounts drawn on the operating loan and long term debt is equal to its carrying amount as the facilities bear interest at floating rates and credit spreads that are indicative of market rates.

The following table summarizes Karve's financial instruments at March 31, 2019:

(\$000s)	Loans and receivables	Financial liabilities	Total carrying value
Assets			
Trade and other receivables	20,408	-	20,408
Deposits	174	-	174
	20,582	-	20,582
Liabilities			
Trade and other payables	-	22,409	22,409
Operating loan	3,670	-	3,670
Long term debt	24,750	373	25,123
	28,420	22,782	51,202

The following table summarizes Karve's financial instruments at December 31, 2018:

(\$000s)	Loans and receivables	Financial liabilities	Total carrying value
Assets			
Trade and other receivables	10,690	-	10,690
Deposits	156	-	156
	10,846	-	10,846
Liabilities			
Trade and other payables	-	20,266	20,266
Operating loan	6,109	-	6,109
Long term debt	14,731	-	14,731
	20,840	20,266	41,106

b) Risk Associated with Financial Assets and Liabilities

Commodity Price Risk

Due to the volatile nature of natural gas and oil commodity prices, the Company is potentially exposed to adverse consequences if commodity prices decline. The Company is exposed to commodity price movements as part of its operations, particularly in relation to the prices received for its oil and gas production. Oil and gas is sensitive to numerous worldwide factors, many of which are beyond the Company's control. Changes in global supply and demand fundamentals in the oil and gas market and geopolitical events can significantly affect oil and gas prices. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company's oil production is sold under short-term contracts, exposing it to the risk of near-term price movements depending on marketing conditions, it is the Company's policy to hedge a portion of its crude oil sales through the use of financial derivative contracts. The Company does not apply hedge accounting to these contracts.

At March 31, 2019 and at December 31, 2018, the Company did not have any commodity contracts in place.

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that bank debt is at a floating or short-term rate of interest. The Corporation is exposed to interest rate risk in relation to interest expense on its long term debt and operating loan facility. The Credit Facility and operating line incur interest based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 0.50 and 3.50 percent depending on the type of borrowing and the Corporation's debt to EBITDA ratio, and is subject to an annual standby fee on the undrawn portion. As at March 31, 2019, \$25.0 million (December 31, 2018 - \$15.0 million) was drawn on the Credit facility (\$24.8 million – net of amortized debt issue costs). Currently the Corporation has not entered into any agreements to manage this risk. An increase in the interest rate by 1% would result in a decrease to net income (loss) before tax of \$65,000 for the three months ended March 31, 2019 (three months ended March 31, 2018 - \$nil). A decrease in the interest rate by 1% would result in an increase to net income (loss) before tax of \$65,000 for the three months ended March 31, 2019 (three months ended March 31, 2018 - \$nil).

Liquidity Risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt, and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures, and assessing the amount of equity or debt financing available. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available.

As at March 31, 2019, the Corporation considers itself to be well-capitalized, with adjusted working capital (adjusted for unused portions of the credit facility and derivative contract liability) in excess of current commitments.

A contractual maturity analysis for Karve's financial liabilities as at March 31, 2019 is as follows:

(\$000s)	Within 1 year	1 to 5 years	More than 5 years	Total
Trade and other payables	22,409	-	-	22,409
Operating loan	3,670	-	-	3,670
Long term debt	-	24,750	-	24,750
TOTAL	26,079	24,750	-	50,829

22. CAPITAL MANAGEMENT

a) Capital Base

In order to continue the Company's future exploration and development program, the Company must maintain a strong capital base to enable access to equity and debt markets. The Company continually monitors the risk/reward profile of its exploration and development projects and the economic indicators in the market including commodity prices, interest rates and foreign

exchange rates. After considering these factors, revisions to the Company's capital budget is made upon the approval of the Board of Directors.

The Company considers shareholders' capital and net debt/adjusted positive working capital (excluding derivative assets and current portion decommissioning liability) as components of its capital base. The Company can access or increase capital through the issuance of shares, through bank borrowings (based on reserves) and by building cash reserves by reducing its capital expenditure program.

The following table represents the net capital of the Company:

(\$000s)	As at	
	Mar. 31, 2019	Dec. 31, 2018
Shareholders' capital	250,240	248,862
Total current assets	25,505	16,130
Trade and other payables	(22,409)	(20,266)
Operating loan	(3,670)	(6,109)
Long term debt	(24,750)	(14,731)
NET DEBT	(25,324)	(24,976)
CAPITAL BASE	224,916	223,886

The Company monitors its capital based primarily on its adjusted positive working capital (net debt) to annualized funds flow ratio. Adjusted positive working capital (net debt) and annualized funds flow are non-GAAP measures. Adjusted positive working capital is defined as working capital excluding derivative assets and current portion of decommissioning liability. Net debt is defined as long term debt plus any net working capital deficiency excluding derivative contract asset/liability, current portion of decommissioning liability, and current portion of lease liability. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital for the Company's most recent quarter, multiplied by four. To facilitate the management and control its' capital base, the Company prepares annual operating and capital expenditure budgets. The budgets are updated when critical factors change. These include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and Company specific factors or assumptions such as the Company's drilling results and its production profile. The Company's Board of Directors approves the budget and changes thereto. At March 31, 2019, the Company had net debt of \$25.3 million (December 31, 2018 – \$25.0 million).

The Company's share capital is not subject to external restrictions, but the Company does have key covenants of the credit facilities that include standard business operating covenants. As at March 31, 2019, the Company is in compliance with all covenants.

23. SUPPLEMENTAL INFORMATION

The following table presents the composition of changes in non-cash working capital and the allocation to operating and investing activities:

(\$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 5)	(9,718)	(1,162)
Prepays and deposits (NOTE 6)	343	(1,044)
Trade and other payables (NOTE 7)	2,143	7,451
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	(7,232)	5,245
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	(3,240)	363
Investing activities	(4,202)	4,672
Financing activities	210	210
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	(7,232)	5,245



The following table presents the composition of petroleum & natural gas sales by product:

(\$000s)	For the three months ended	
	Mar. 31, 2019	Mar. 31, 2018
Crude oil	31,059	35,698
Natural gas liquids	744	2,049
Natural gas	2,845	4,728
TOTAL PETROLEUM AND NATURAL GAS SALES	34,648	42,475

24. RELATED PARTY DISCLOSURES

The Company received a total of \$0.8 million of gas processing income and royalty income (three months ended March 31, 2018 - nil) from PrivateCo. PrivateCo is a company with some common directors with Karve. Gas processing income and royalty income are based on standard third party agreements. As at March 31, 2019, \$2.2 million is included in accounts receivable for final statement of adjustments, gas processing income, and royalty income for amounts due from PrivateCo (year ended December 31, 2018 - \$2.4 million).

25. SUBSEQUENT EVENTS

a) Minor Acquisitions

On April 11, 2019, the Company closed a minor acquisition to acquire additional working interest in oil and gas assets in the Company's core area for total consideration of \$111,000, subject to customary closing adjustments. The effective date of the acquisition is Feb 1, 2019. The consideration was paid through issuance of 44,445 common shares of the Company.

b) Stock Option Grant

Subsequent to March 31, 2019, 200,000 stock options were granted to certain employee/s of the Company at an exercise price of \$2.50 per share under the Company's Stock Option Plan.