



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED**

**MARCH 31, 2020 AND MARCH 31, 2019**



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(Canadian \$000s)	As at Mar 31, 2020	As at Dec 31, 2019
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	9,097	-
Trade and other receivables (NOTE 3)	8,989	17,990
Prepays and deposits (NOTE 4)	4,913	5,295
Derivative assets (NOTE 17)	4,393	-
<b>TOTAL CURRENT ASSETS</b>	<b>27,392</b>	<b>23,285</b>
Property, plant and equipment (NOTE 7 & 8)	331,567	334,881
Exploration and evaluation (NOTE 8)	21,828	22,837
Right of use asset (NOTE 9)	328	410
Deferred income tax	1,518	2,381
<b>TOTAL ASSETS</b>	<b>382,633</b>	<b>383,794</b>
<b>LIABILITIES</b>		
Current Liabilities		
Trade and other payables (NOTE 5)	23,704	15,464
Operating loan (NOTE 11)	-	5,956
Lease liability (NOTE 10)	431	529
Decommissioning liability (NOTE 12)	742	1,128
<b>TOTAL CURRENT LIABILITIES</b>	<b>24,877</b>	<b>23,077</b>
Long term debt (NOTE 11)	61,933	57,858
Lease liability (NOTE 10)	157	188
Decommissioning liability (NOTE 12)	9,574	18,055
<b>TOTAL LIABILITIES</b>	<b>96,541</b>	<b>99,178</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (NOTE 13)	225,158	225,158
Contributed surplus (NOTE 13)	23,804	22,224
Accumulated earnings	37,130	37,234
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>286,092</b>	<b>284,616</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>382,633</b>	<b>383,794</b>

### COMMITMENTS (NOTE 16)

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 STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

(Canadian \$000s, except per share amounts)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
<b>REVENUE</b>		
Petroleum and natural gas sales (NOTE 19)	27,947	34,648
Royalties	(2,252)	(2,605)
<b>NET REVENUE</b>	<b>25,695</b>	<b>32,043</b>
Other income (NOTE 14)	1,645	1,988
Gain on financial derivative contracts (NOTE 17)	4,393	-
Loss on investment (NOTE 6)	-	(2,565)
Interest income	-	9
<b>TOTAL REVENUE AND OTHER INCOME</b>	<b>31,733</b>	<b>31,475</b>
<b>EXPENSES</b>		
Operating	11,127	10,831
Transportation	1,128	1,419
General and administration	1,715	2,146
Depletion, depreciation and amortization (NOTE 8 & 9)	13,465	13,738
Financing (NOTE 10 & 11)	661	347
Accretion (NOTE 12)	384	178
Share-based compensation (NOTE 15)	1,580	1,427
Exploration and evaluation - expiries (NOTE 8)	915	434
<b>NET INCOME BEFORE TAX EXPENSE</b>	<b>758</b>	<b>955</b>
<b>TAX EXPENSE</b>		
Deferred income tax expense	862	1,004
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(104)</b>	<b>(49)</b>
<b>LOSS PER SHARE (\$) (NOTE 13)</b>		
Basic	-	-
Diluted	-	-

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

(Canadian \$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
<b>SHARE CAPITAL</b>		
<b>BALANCE, BEGINNING AND END OF PERIOD</b>	<b>225,158</b>	<b>216,208</b>
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	22,224	19,299
Share-based compensation (NOTE 15)	1,580	1,427
<b>BALANCE, END OF PERIOD</b>	<b>23,804</b>	<b>20,726</b>
<b>EARNINGS</b>		
Balance, beginning of period	37,234	13,355
Net loss and comprehensive loss	(104)	(49)
<b>BALANCE, END OF PERIOD</b>	<b>37,130</b>	<b>13,306</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Canadian \$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss and comprehensive loss	(104)	(49)
<b>ITEMS NOT AFFECTING CASH:</b>		
Depletion, depreciation and amortization (NOTE 8 & 9)	13,465	13,738
Accretion expense (NOTE 12)	384	178
Exploration and evaluation (NOTE 8)	915	434
Unrealized gain on foreign exchange	(103)	-
Share-based compensation (NOTE 15)	1,580	1,427
Loss on investment (NOTE 6)	-	2,565
Unrealized gain on financial derivatives (NOTE 17)	(4,393)	-
Deferred income tax expense	862	1,004
Non-cash financing expense (NOTE 11)	83	33
Decommissioning expenditures (NOTE 12)	(230)	(461)
<b>FUNDS FLOW FROM OPERATIONS</b>	<b>12,459</b>	<b>18,869</b>
Change in non-cash working capital (NOTE 19)	13,191	(3,240)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>25,650</b>	<b>15,629</b>
 <b>INVESTING ACTIVITIES</b>		
Exploration and evaluation (NOTE 8)	(133)	(108)
Property, plant and equipment (NOTE 8)	(18,863)	(18,977)
Change in non-cash working capital (NOTE 19)	4,537	(4,202)
<b>CASH FLOW USED FOR INVESTING ACTIVITIES</b>	<b>(14,459)</b>	<b>(23,287)</b>
 <b>FINANCING ACTIVITIES</b>		
Operating line (NOTE 11)	(5,956)	(2,440)
Financing lease expense (NOTE 10)	(138)	(112)
Long term debt (NOTE 11)	4,000	10,000
Change in non-cash working capital (NOTE 19)	-	210
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(2,094)</b>	<b>7,658</b>
Increase in cash and cash equivalents	9,097	-
Cash and cash equivalents, beginning of period	-	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>9,097</b>	<b>-</b>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

These interim consolidated financial statements are as at March 31, 2020 and for the three months ended March 31, 2020 and 2019. 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.”. On July 15, 2019, the Company amalgamated with High Ground 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 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 financial statements.

The financial statements were approved and authorized for issue by Karve’s Board of Directors on May 13, 2020.

#### 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. 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, 2019 audited financial statements, except 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 2 of the December 31, 2019 audited consolidated financial statements.

### 3. TRADE AND OTHER RECEIVABLES

(\$000s)	As at	As at
	Mar 31, 2020	Dec 31, 2019
Trade	7,489	16,814
Joint venture	1,993	1,680
GST	11	-
Allowance for doubtful accounts	(504)	(504)
<b>TRADE AND OTHER RECEIVABLES</b>	<b>8,989</b>	<b>17,990</b>

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 did not record an additional provision at March 31, 2020 as it was determined that all remaining joint venture receivables were collectible using the ECL model (December 31, 2019 - \$504,000).

Of the Company's accounts receivable at March 31, 2020, approximately 39% was receivable from two oil marketers (27% and 12%). At December 31, 2019, approximately 54% was receivable from two oil marketers (39% and 15%). Accounts receivable outstanding greater than ninety days at March 31, 2020 was \$1.6 million (December 31, 2019 - \$2.3 million).

### 4. PREPAIDS AND DEPOSITS

(\$000s)	As at	As at
	Mar 31, 2020	Dec 31, 2019
Prepays	4,815	5,197
Deposits	98	98
<b>PREPAIDS AND DEPOSITS</b>	<b>4,913</b>	<b>5,295</b>

### 5. TRADE AND OTHER PAYABLES

(\$000s)	As at	As at
	Mar 31, 2020	Dec 31, 2019
Trade	16,335	7,689
Accrued	6,486	5,871
Royalties	556	1,102
GST	-	399
Joint venture	327	403
<b>TRADE AND OTHER PAYABLES</b>	<b>23,704</b>	<b>15,464</b>

### 6. 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 a non-core asset disposition. As the Company had significant influence over PrivateCo's operations, it had accounted for the investment using the equity method.

(\$000s)	As at	As at
	Mar 31, 2020	Dec 31, 2019
Balance, beginning of period	-	2,565
Investment in PrivateCo	-	(2,565)
Equity share of loss	-	-
<b>BALANCE, END OF PERIOD</b>	<b>-</b>	<b>-</b>

The investment in PrivateCo was written down to nil in early 2019. On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of \$1.0 million. As such, the Company realized a 2019 net loss on investment of \$1.6 million. The net loss of PrivateCo for the period from January 1, 2019 to July 18, 2019 was \$8.3 million.

## 7. 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.

### High Ground Energy Inc. Acquisition

On July 15, 2019, the Company acquired all the issued and outstanding common shares of High Ground Energy Inc. (“High Ground”) for total consideration of \$8.8 million and assumption of estimated net debt of \$32.0 million, including all severance and transaction costs. The acquisition was financed by issuing 3.2 million shares of Karve with an estimated fair value of \$2.75 per common share.

The Acquisition adds sweet, light oil-weighted Viking assets which are contiguous to Karve’s existing core area at Monitor, including approximately 2,000 boe/d of production (52% liquids). The Acquisition increases Karve’s dominant footprint in the Alberta Viking and enables near term expansion of the Company’s waterflood project on acquired lands.

The following table summarizes the fair value of the net assets acquired and the preliminary allocation of the purchase price:

(\$000s)	
Property, plant and equipment	40,566
Cash	965
Derivative asset	531
Deferred tax asset	13,833
Net working capital deficiency	(1,856)
Bank debt	(31,150)
Decommissioning liabilities	(3,308)
<b>FAIR VALUE OF NET ASSETS ACQUIRED</b>	<b>19,581</b>
<b>CONSIDERATION</b>	
Issue of common shares	8,798
<b>TOTAL PURCHASE PRICE</b>	<b>8,798</b>
<b>GAIN ON ACQUISITION</b>	<b>(10,783)</b>

During the year ended December 31, 2019, the Company incurred \$299,000 of transaction costs for the High Ground Acquisition which were included in “Transaction costs” in the Company’s consolidated statement of net income and comprehensive income.

The Company’s 2019 consolidated statement of net income and comprehensive income includes the results of the operations for the period following closing of the High Ground Acquisition on July 15, 2019 to December 31, 2019 and includes \$10.1 million of revenue and \$6.0 million of net income relating to the High Ground Acquisition. If the acquisition had closed on January 1, 2019, the Company’s pro-forma revenue and net income are estimated to have been \$165.9 million and \$25.8 million respectively for the year ended December 31, 2019. This pro-forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been in effect on the date indicated, or the results that may be obtained in the future.

### Other Miscellaneous Acquisitions

During the year ended December 31, 2019, the Company acquired various working interests, land, light oil producing properties, royalty interest, and reserves. The fair value of the net assets acquired was \$3.9 million and as consideration, the Company paid cash of \$3.8 million and issued common shares valued at \$0.1 million.



## 8. CAPITAL ASSETS

The following table reconciles movement of Petroleum and natural gas (“P&NG”) assets, corporate assets, and exploration and evaluation (“E&E”) assets during the period:

	Petroleum and Natural Gas Assets	Corporate Assets	Total Property, Plant and Equipment	Exploration & Evaluation Assets
<b>COST (\$000s)</b>				
BALANCE AT DECEMBER 31, 2018	337,618	733	338,351	23,213
Additions	69,584	83	69,667	1,178
Acquisitions (NOTE 7)	44,645	-	44,645	-
Transfers to (from) PN&G/E&E assets	187	-	187	(187)
Change in decommissioning provision (NOTE 12)	6,625	-	6,625	-
Expiries	-	-	-	(1,367)
<b>BALANCE AT DECEMBER 31, 2019</b>	<b>458,659</b>	<b>816</b>	<b>459,475</b>	<b>22,837</b>
Additions	18,863	-	18,863	133
Transfers to (from) PN&G/E&E assets	227	-	227	(227)
Change in decommissioning provision (NOTE 12)	(9,021)	-	(9,021)	-
Expiries	-	-	-	(915)
<b>BALANCE AT MARCH 31, 2020</b>	<b>468,728</b>	<b>816</b>	<b>469,544</b>	<b>21,828</b>
<b>ACCUMULATED DD&amp;A (\$000s)</b>				
BALANCE AT DECEMBER 31, 2018	65,399	119	65,518	-
Depletion, depreciation and amortization	58,915	161	59,076	-
<b>BALANCE AT DECEMBER 31, 2019</b>	<b>124,314</b>	<b>280</b>	<b>124,594</b>	-
Depletion, depreciation and amortization	13,344	39	13,383	-
<b>BALANCE AT MARCH 31, 2020</b>	<b>137,658</b>	<b>319</b>	<b>137,977</b>	-
<b>NET CARRYING AMOUNT, DECEMBER 31, 2019</b>	<b>334,345</b>	<b>536</b>	<b>334,881</b>	<b>22,837</b>
<b>NET CARRYING AMOUNT, MARCH 31, 2020</b>	<b>331,070</b>	<b>497</b>	<b>331,567</b>	<b>21,828</b>

### Petroleum and Natural Gas Assets

At March 31, 2020, future development and production costs of \$377 million (December 31, 2019 - \$415.3 million) are included in costs subject to depletion.

As at March 31, 2020, the Company performed an impairment indicator assessment of its petroleum and natural gas assets and determined that there were impairment indicators based on the significant decrease in oil pricing during March 2020. Based on the reduction in oil pricing, the Company performed an impairment test and it was determined that the recoverable amount was greater than the carrying amount. The recoverable amount was determined based on fair value less costs of disposal (Level 3). The fair values were calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates at March 31, 2020. Key assumptions used to determine the recoverable amount (future cash flows from reserves) include petroleum and natural gas prices, costs to develop and the discount rate. Discounted future cash flows are determined by applying a discount rate of 11%. The Company used internally prepared reserve estimates.

The forward prices as at March 31, 2020 used to determine future cash flows from petroleum and natural gas reserves were:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 <sup>(1)</sup>
WTI crude oil (USD/bbl)	29.17	40.45	49.17	53.28	55.66	56.87	58.01	59.17	60.35	61.56
AECO natural gas (\$/MMBtu)	1.74	2.20	2.38	2.45	2.53	2.60	2.66	2.72	2.79	2.85
Exchange Rate (CAD/USD) <sup>(2)</sup>	0.71	0.73	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

(1) Forecast benchmark commodity prices are assumed to increase by 2% in each year after 2029 to the end of the reserve life.

(2) Forecast exchange rate is assumed to remain at 0.75 CAD/USD each year after 2029 to the end of the reserve life.

As at March 31, 2020, a one percent increase in the assumed discount rate and/or a five percent decrease in forecast operating cash flows would result in the following pre-tax impairment expense being recognized:

(\$000s)	Impairment expense
1% increase in discount rate	19,048
5% decrease in cash flow	15,641
1% increase in discount rate and 5% decrease in cash flow	33,846

There were no indicators of impairment at December 31, 2019.



General and administration costs capitalized by the Company during the three months ended March 31, 2020 were \$306,000 (three months ended March 31, 2019 - \$279,000).

### 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.

The Company assessed for indicators of impairment and there were no indicators of impairment at March 31, 2020 or at December 31, 2019.

## 9. RIGHT OF USE ASSETS

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

(\$000s)	
Balance at December 31, 2019	738
Additions	-
<b>BALANCE AT MARCH 31, 2020</b>	<b>738</b>
<b>ACCUMULATED DEPRECIATION AND AMORTIZATION</b>	
Balance at December 31, 2019	(328)
Depreciation and amortization	(82)
<b>BALANCE AT MARCH 31, 2020</b>	<b>(410)</b>
<b>NET CARRYING AMOUNT, MARCH 31, 2020</b>	<b>328</b>

## 10. 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 December 31, 2019	717
Interest expense	9
Lease payments	(138)
<b>BALANCE AT MARCH 31, 2020</b>	<b>588</b>
Lease liability - current	431
Lease liability - long term	157
<b>TOTAL LEASE LIABILITY AT MARCH 31, 2020</b>	<b>588</b>

Undiscounted cash outflows related to lease liabilities are:

(\$000s)	Within 1 year	1 to 5 years	Total
Lease payments	458	164	622

## 11. OPERATING LOAN AND LONG TERM DEBT

On December 3, 2018 the Corporation secured bank credit facilities of \$100.0 million comprised of \$90.0 million syndicated committed facility ("Credit Facility") and a \$10.0 million operating loan (previously a \$25.0 million revolving operating demand facility). The Credit Facility is a committed 364 days + 1 year and extendible upon agreement 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 Company 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, 2020. The Company is currently in the annual review process with its syndicate of lenders.

As at March 31, 2020, \$61.9 million (net of unamortized debt issue costs) (December 31, 2019 - \$57.9 million) was drawn on the Credit Facility and \$nil million (December 31, 2019 - \$6.0 million) was drawn on the operating loan.

Long term debt as at March 31, 2020 and December 31, 2019 is as follows:

(\$000s)	As at Mar 31, 2020	As at Dec 31, 2019
Credit facility	62,000	58,000
Less: unamortized debt issue costs	(67)	(142)
<b>LONG TERM DEBT</b>	<b>61,933</b>	<b>57,858</b>
Operating loan	-	5,956
<b>CARRYING VALUE OF BANK DEBT</b>	<b>61,933</b>	<b>63,814</b>

Financing expense for the three months ended March 31, 2020 and 2019 is comprised of the following:

(\$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Credit facility interest and charges	552	257
Operating loan interest and charges	26	57
Amortization of debt issue costs	74	19
Interest on lease liability (NOTE 10)	9	14
<b>FINANCING EXPENSES</b>	<b>661</b>	<b>347</b>

For the three months ended March 31, 2020, the effective interest rate on the credit facility was 3.9 percent (three months ended March 31, 2019 – 4.03 percent).

## 12. 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 \$194.0 million (\$100.4 million undiscounted, uninflated), which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2060. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2019 – 8%) and an inflation rate of 2% (December 31, 2019 – 2%). The change in estimate for the three months ended March 31, 2020 relates to an increase to the credit adjusted discount rate. The change in estimate for the year ended December 31, 2019 relates to a change in the estimated timing of abandonment and reclamation expenses.

The following table shows changes in the decommissioning liability:

(\$000s)	As at Mar 31, 2020	As at Dec 31, 2019
Balance, beginning of period	19,183	12,494
Decommissioning liabilities incurred during the period	20	90
Decommissioning liabilities acquired through acquisitions (NOTE 7)	-	3,534
Decommissioning liabilities settled during the period	(230)	(4,284)
Accretion expense during the period	384	814
Change in estimate	(9,041)	6,535
<b>BALANCE, END OF PERIOD</b>	<b>10,316</b>	<b>19,183</b>
Decommissioning liability - current	742	1,128
Decommissioning liability - long term	9,574	18,055
<b>TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD</b>	<b>10,316</b>	<b>19,183</b>

### 13. 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
<b>Common Shares</b>		
Balance at December 31, 2018	137,269,270	216,208
Issued common shares	3,243,729	8,909
Issued on exercise of options and performance warrants	16,666	27
Allocation of contributed surplus - exercise of options	-	14
<b>BALANCE AT DECEMBER 31, 2019 and MARCH 31, 2020</b>	<b>140,529,665</b>	<b>225,158</b>

During the year ended December 31, 2019 the Company issued 3.2 million common shares at \$2.75 per common share to fund the High Ground acquisition. During the year ended December 31, 2019, 16,666 vested stock options were exercised for common shares at a weighted average price of \$1.65 per share for gross and net proceeds of \$27,000.

#### c) Contributed Surplus

(\$000s)	As at Mar 31, 2020	As at Dec 31, 2019
Balance, beginning of period	22,224	19,299
Share-based compensation - options	822	2,556
Share-based compensation - warrants	758	2,978
Options exercised	-	(2,596)
Transfer to share capital on exercise of options and performance warrants	-	(13)
<b>BALANCE, END OF PERIOD</b>	<b>23,804</b>	<b>22,224</b>

#### d) Per Share Amounts

(\$000s except per share amounts)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Net loss for the period	(104)	(49)
Weighted average number of shares - basic	140,529,665	137,269,270
Dilutive impact of share-based compensation plans	-	-
Weighted average number of shares - diluted	<b>140,529,665</b>	<b>137,269,270</b>
<b>Net loss per share - basic</b>	-	-
<b>Net loss per share - diluted</b>	-	-

At March 31, 2020, 8,857,668 stock options and 12,560,000 performance warrants were excluded from the fully diluted calculation as they are anti-dilutive.

### 14. OTHER INCOME

The following table presents the composition of amounts included in Other Income in the consolidated statements of net loss and comprehensive loss:

(\$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Royalty income	723	974
Processing fee income	786	974
Other	136	40
<b>TOTAL OTHER INCOME</b>	<b>1,645</b>	<b>1,988</b>

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

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

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

## 15. SHARE-BASED COMPENSATION

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

(\$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Share-based compensation - options	822	665
Share-based compensation - performance warrants	758	762
<b>TOTAL SHARE-BASED COMPENSATION</b>	<b>1,580</b>	<b>1,427</b>

### 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 seven 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. Stock option grants and the option exercise price are set by the Board of Directors at the time of grant. On November 6, 2019, an extension of 2 years to the expiry date (from 5 years to 7 years) for options outstanding has been approved by the board and is to be approved by the Shareholders on May 13, 2020.

Share-based compensation expense related to stock options during the three months ended March 31, 2020 was \$822,000 (three months ended March 31, 2019 - \$665,000).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2018 through to March 31, 2020:

	Number	Wtd. Avg. Exercise Price (\$)
Balance at December 31, 2018	13,442,260	1.57
Granted	3,908,499	2.26
Forfeited	(611,334)	2.16
Exercised	(3,055,165)	1.40
<b>BALANCE AT DECEMBER 31, 2019</b>	<b>13,684,260</b>	<b>1.78</b>
Granted	150,000	2.25
<b>BALANCE AT MARCH 31, 2020</b>	<b>13,834,260</b>	<b>1.79</b>

There were no stock options exercised during the three months ended March 31, 2020. As at March 31, 2020, there were 7,251,533 stock options were exercisable. There were 3,055,165 stock options exercised during the year ended December 31, 2019 and 7,191,533 stock options were exercisable at December 31, 2019.

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at March 31, 2020 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
\$0.85	3.21	2,320,976	2,320,976
\$1.00 - \$1.99	3.31	1,687,357	1,687,357
\$2.00 - \$3.00	5.26	9,825,927	3,243,200
	<b>4.70</b>	<b>13,834,260</b>	<b>7,251,533</b>



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, 2020	Mar 31, 2019
Weighted average fair value of options granted	1.14	-
Risk-free Interest rate (%)	0.78%	-
Expected life (years)	5.0	-
Estimated volatility of underlying common shares (%)	60%	-
Weighted average grant date share price	2.25	-
Forfeiture rate	4%	-
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 three months ended March 31, 2020 (year ended December 31, 2019 – nil).

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. On November 6, 2019, an extension of 2 years to the expiry date (from 5 years to 7 years) for performance warrants has been approved by the Board of directors.

Share-based compensation expense related to performance warrants during the three months ended March 31, 2020 was \$758,000 (three months ended March 31, 2019 - \$762,000).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2018 through to March 31, 2020:

	Wtd. Avg.	
	Number	Exercise Price (\$)
BALANCE AT December 31, 2018	32,485,500	2.88
Forfeited	(356,000)	3.67
<b>BALANCE AT DECEMBER 31, 2019 and MARCH 31, 2020</b>	<b>32,129,500</b>	<b>2.87</b>

There were no performance warrants exercised during the three months ended March 31, 2020 (year ended December 31, 2019 - nil) and 6,460,000 performance warrants were exercisable at March 31, 2020 and December 31, 2019

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at March 31, 2020 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
\$1.50 to \$2.99	3.31	15,700,000	6,460,000
\$3.00 to \$3.99	4.49	9,857,700	-
\$4.00 to \$4.60	4.49	6,571,800	-
	<b>3.91</b>	<b>32,129,500</b>	<b>6,460,000</b>

## 16. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2020 are as follows:

Commitments (\$000s)	2020	2021	2022	Thereafter	Total
Operating leases	24	-	-	-	24
Pipeline transportation	1,070	1,449	985	1,005	4,509
<b>TOTAL COMMITMENTS</b>	<b>1,094</b>	<b>1,449</b>	<b>985</b>	<b>1,005</b>	<b>4,533</b>

## 17. 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, 2020:

(\$000s)	Loans and receivables	Financial liabilities	Total carrying value	Total fair value
<b>Assets</b>				
Cash and cash equivalents	9,097	-	9,097	9,097
Trade and other receivables	8,989	-	8,989	8,989
Deposits	98	-	98	98
	<b>18,184</b>	-	<b>18,184</b>	<b>18,184</b>
<b>Liabilities</b>				
Trade and other payables	-	23,704	23,704	23,704
Operating loan	-	-	-	-
Long term debt	61,933	-	61,933	61,933
	<b>61,933</b>	<b>23,704</b>	<b>85,637</b>	<b>85,637</b>

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

(\$000s)	Loans and receivables	Financial liabilities	Total carrying value	Total fair value
<b>Assets</b>				
Trade and other receivables	17,990	-	17,990	17,990
Deposits	98	-	98	98
	<b>18,088</b>	-	<b>18,088</b>	<b>18,088</b>
<b>Liabilities</b>				
Trade and other payables	-	15,464	15,464	15,464
Operating loan	5,956	-	5,956	5,956
Long term debt	57,858	-	57,858	57,858
	<b>63,814</b>	<b>15,464</b>	<b>79,278</b>	<b>79,278</b>

## 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 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, 2020, the Company had the following commodity contracts in place.

#### WTI Crude Oil Derivative Contracts:

Type	Term	Basis <sup>(1)</sup>	Volume (Bbl/d)	Swap Price (\$CAD/Bbl) <sup>(1)</sup>	Current Asset (\$000s)
Fixed price swap	Apr. 1/20 - Jun. 30/20	WTI	3,000	47.60	3,296
Fixed price swap	Jul. 1/20 - Dec. 31/20	WTI	1,000	45.10	(113)
<b>TOTAL VOLUME AND WEIGHTED AVERAGE PRICE</b>			<b>4,000</b>	<b>46.98</b>	<b>3,183</b>

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



WTI Crude Oil Differential Derivative Contracts in place as at March 31, 2020:

Type	Term	Basis <sup>(1)</sup>	Volume (Bbl/d)	Swap Price (\$CAD/Bbl) <sup>(1)</sup>	Current Asset (\$000s)
Fixed price swap	May 1/20 - Jun. 30/20	MSW	3,000	11.30	1,210
<b>TOTAL VOLUME AND WEIGHTED AVERAGE PRICE</b>			<b>3,000</b>	<b>11.30</b>	<b>1,210</b>

(1) Mixed Sweet Blend ("MSW")

At March 31, 2020, the fair value of the financial derivative contract was a current asset position of \$4.4 million resulting in an unrealized gain of \$4.4 million. The fair value, or mark-to-market value, of this contract is based on the estimated amount that would have been received or paid to settle the contract as at March 31, 2020 and may be different from what will eventually be realized. Assuming all other variables remain constant, a \$5.00 USD increase (decrease) in WTI would result in a \$6.0 million (decrease) increase in the unrealized gain (loss). The Company did not have any commodity contracts in place at December 31, 2019.

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

(\$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Unrealized gain on financial derivative contracts	4,393	-
<b>GAIN ON FINANCIAL DERIVATIVE CONTRACTS</b>	<b>4,393</b>	<b>-</b>

### 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 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 Company's debt to EBITDA ratio, and is subject to an annual standby fee on the undrawn portion. As at March 31, 2020, \$62.0 million (December 31, 2019 - \$58.0 million) was drawn on the Credit facility (\$61.9 million – net of amortized debt issue costs). Currently the Corporation has not entered into any agreements to manage this risk. An increase (decrease) in the interest rate by 1% would result in an increase (decrease) to net loss before tax of \$112,000 for the three months ended March 31, 2020 (three months ended March 31, 2019 - \$65,000).

### 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. Given the global measures put into place to limit the spread of a novel strain of the coronavirus ("COVID-19"), the ability to forecast cash flows is challenging (Note 18).

As at March 31, 2020, the Corporation considers itself to be well-capitalized, with adjusted working capital (adjusted for unused portions of the credit facility) in excess of current commitments.

A contractual maturity analysis for the Company's financial liabilities as at March 31, 2020 is as follows:

(\$000s)	More than			Total
	Within 1 year	1 to 5 years	5 years	
Trade and other payables	23,704	-	-	23,704
Long term debt	-	61,933	-	61,933
<b>TOTAL</b>	<b>23,704</b>	<b>61,933</b>	<b>-</b>	<b>85,637</b>

## 18. 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, 2020	As at Dec 31, 2019
Shareholders' capital	286,092	284,616
Total current assets	22,999	23,285
Trade and other payables	(23,704)	(15,464)
Operating loan	-	(5,956)
Long term debt	(61,933)	(57,858)
<b>NET DEBT</b>	<b>(62,638)</b>	<b>(55,993)</b>
<b>CAPITAL BASE</b>	<b>223,454</b>	<b>228,623</b>

The Company monitors its capital based primarily on its Net debt to annualized funds flow ratio. Net debt and annualized funds flow are non-GAAP measures. 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, 2020, the Company had net debt of \$62.6 million (December 31, 2019 – \$55.9 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, 2020, the Company is in compliance with all covenants.

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At March 31, 2020, 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. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for a recovery in such prices, pipeline and transportation capacity constraints, and the effects of the Coronavirus (COVID-19), preparation of financial forecasts is challenging.

## 19. 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, 2020	Mar 31, 2019
<b>CHANGES IN NON-CASH WORKING CAPITAL:</b>		
Trade and other receivables (NOTE 3)	9,106	(9,718)
Prepays and deposits (NOTE 4)	382	343
Trade and other payables (NOTE 5)	8,240	2,143
<b>TOTAL CHANGES IN NON-CASH WORKING CAPITAL</b>	<b>17,728</b>	<b>(7,232)</b>
<b>CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:</b>		
Operating activities	13,191	(3,240)
Investing activities	4,537	(4,202)
Financing activities	-	210
<b>TOTAL CHANGES IN NON-CASH WORKING CAPITAL</b>	<b>17,728</b>	<b>(7,232)</b>

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

(\$000s)	For the three months ended	
	Mar 31, 2020	Mar 31, 2019
Crude oil	24,086	31,059
Natural gas liquids	859	744
Natural gas	3,002	2,845
<b>TOTAL PETROLEUM AND NATURAL GAS SALES</b>	<b>27,947</b>	<b>34,648</b>

## 20. RELATED PARTY DISCLOSURES

PrivateCo was a company with some common directors with Karve. On July 18, 2019, the investment in PrivateCo was disposed of for total cash proceeds of \$1.0 million and the Karve staff resigned from the PrivateCo Board of Directors. For the period from January 1, 2019 to July 18, 2019, the Company received a total of \$1.9 million of gas processing income and royalty income (year ended December 31, 2018 - \$1.9 million) from PrivateCo, based on standard third-party agreements.