



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND MARCH 31, 2021**



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian \$000s)	As at Mar. 31, 2022	As at Dec. 31, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	-	5,277
Trade and other receivables (NOTE 3)	30,098	18,478
Prepays and deposits (NOTE 4)	4,948	4,768
TOTAL CURRENT ASSETS	35,046	28,523
Property, plant and equipment (NOTE 6 & 7)		
Exploration and evaluation (NOTE 6)	353,530	339,764
Right of use asset (NOTE 8)	18,097	18,259
	377	426
TOTAL ASSETS	407,050	386,972
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 5)	25,156	19,647
Operating loan (NOTE 10)	2,195	-
Derivative Liability (NOTE 16)	17,792	5,212
Lease liability (NOTE 9)	299	253
Decommissioning liability (NOTE 11)	3,543	4,222
TOTAL CURRENT LIABILITIES	48,985	29,334
Long term debt (NOTE 10)		
Lease liability (NOTE 9)	14,869	26,823
Decommissioning liability (NOTE 11)	276	349
Deferred income tax liability	17,069	16,630
	10,190	7,483
TOTAL LIABILITIES	91,389	80,619
SHAREHOLDERS' EQUITY		
Share capital (NOTE 12)	225,158	225,158
Contributed surplus (NOTE 12)	31,125	30,645
Accumulated earnings	59,378	50,550
TOTAL SHAREHOLDERS' EQUITY	315,661	306,353
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	407,050	386,972

COMMITMENTS (NOTE 15)

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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Canadian \$000s, except per share amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
REVENUE		
Petroleum and natural gas sales (NOTE 18)	66,324	27,535
Royalties	(6,726)	(2,101)
PETROLEUM AND NATURAL GAS SALES, NET OF ROYALTIES	59,598	25,434
Other income (NOTE 13)	1,027	1,573
Loss on financial derivative contracts (NOTE 16)	(18,928)	(6,046)
TOTAL REVENUE AND OTHER INCOME	41,697	20,961
EXPENSES		
Operating	12,583	11,090
Transportation	841	508
General and administration	1,678	2,520
Depletion, depreciation and amortization (NOTE 6, 8, & 11)	13,355	10,526
Financing (NOTE 10)	291	617
Accretion (NOTE 11)	573	596
Share-based compensation (NOTE 14)	480	680
Exploration and evaluation - expiries (NOTE 6)	362	507
NET INCOME (LOSS) BEFORE TAX EXPENSE	11,534	(6,083)
TAX EXPENSE		
Deferred income tax expense (recovery)	2,706	(1,245)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	8,828	(4,838)
INCOME (LOSS) PER SHARE (\$) (NOTE 12)		
Basic	0.06	(0.03)
Diluted	0.06	(0.03)

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



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Canadian \$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
SHARE CAPITAL		
BALANCE, BEGINNING AND END OF PERIOD	225,158	225,158
CONTRIBUTED SURPLUS		
Balance, beginning of period	30,645	27,948
Share-based compensation (NOTE 14)	480	680
BALANCE, END OF PERIOD	31,125	28,628
EARNINGS		
Balance, beginning of period	50,550	11,450
Net income (loss) and comprehensive income (loss)	8,828	(4,838)
BALANCE, END OF PERIOD	59,378	6,612

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian \$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	8,828	(4,838)
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 6, 8, & 11)	13,355	10,526
Accretion expense (NOTE 11)	573	596
Exploration and evaluation (NOTE 6)	362	507
Unrealized loss on foreign exchange	31	5
Share-based compensation (NOTE 14)	480	680
Unrealized loss on financial derivatives (NOTE 16)	12,580	2,285
Deferred income tax expense (recovery)	2,706	(1,245)
Non-cash financing expense (NOTE 10)	54	30
Decommissioning expenditures (NOTE 11)	(406)	(470)
FUNDS FLOW FROM OPERATIONS	38,563	8,076
Change in non-cash working capital (NOTE 18)	(13,003)	2,803
CASH FLOW FROM OPERATING ACTIVITIES	25,560	10,879
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 6)	(340)	(220)
Property, plant and equipment (NOTE 6)	(27,339)	(12,025)
Change in non-cash working capital (NOTE 18)	6,682	244
CASH FLOW USED FOR INVESTING ACTIVITIES	(20,997)	(12,001)
FINANCING ACTIVITIES		
Operating line (NOTE 10)	2,195	(1,714)
Financing lease expense (NOTE 9)	(35)	(164)
Increase in long term debt (NOTE 10)	-	3,000
Repayment of long term debt (NOTE 10)	(12,000)	-
CASH FLOW (USED FOR) FROM FINANCING ACTIVITIES	(9,840)	1,122
Decrease in cash and cash equivalents	(5,277)	-
Cash and cash equivalents, beginning of period	5,277	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements are as at March 31, 2022 and for the three months ended March 31, 2022 and 2021. Tabular amounts are 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 11, 2022.

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, 2021 audited consolidated 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, 2021 audited consolidated financial statements.

3. TRADE AND OTHER RECEIVABLES

(\$000s)	As at Mar. 31, 2022	As at Dec. 31, 2021
Trade	28,712	17,180
Joint venture	1,745	1,626
Allowance for doubtful accounts	(359)	(328)
TRADE AND OTHER RECEIVABLES	30,098	18,478

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 carries a provision of \$359,000 at March 31, 2022 as it determined certain joint venture receivables were uncollectible using the ECL model (December 31, 2021 - \$328,000).

Of the Company's accounts receivable at March 31, 2022, approximately 70% was receivable from two oil marketers (37% and 33%). At December 31, 2021, approximately 63% was receivable from two oil marketers (34% and 29%). Accounts receivable outstanding greater than ninety days at March 31, 2022 was \$729,000 (December 31, 2021 - \$1.2 million).

4. PREPAIDS AND DEPOSITS

(\$000s)	As at Mar. 31, 2022	As at Dec. 31, 2021
Prepays	4,935	4,755
Deposits	13	13
PREPAIDS AND DEPOSITS	4,948	4,768

5. TRADE AND OTHER PAYABLES

(\$000s)	As at Mar. 31, 2022	As at Dec. 31, 2021
Trade	12,909	10,958
Accrued	7,905	6,231
Royalties	2,577	1,682
GST	906	338
Joint venture	859	438
TRADE AND OTHER PAYABLES	25,156	19,647

6. 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
COST (\$000s)				
BALANCE AT DECEMBER 31, 2020	490,305	982	491,287	21,125
Additions	70,204	6	70,210	531
Transfers to (from) P&NG/E&E assets	516	-	516	(516)
Change in decommissioning provision (NOTE 11)	1,541	-	1,541	-
Expiries	-	-	-	(2,881)
Dispositions (NOTE 7)	(777)	-	(777)	-
BALANCE AT DECEMBER 31, 2021	561,789	988	562,777	18,259
Additions	27,339	-	27,339	340
Transfers to (from) P&NG/E&E assets	140	-	140	(140)
Change in decommissioning provision (NOTE 11)	22	-	22	-
Expiries	-	-	-	(362)
BALANCE AT MARCH 31, 2022	589,290	988	590,278	18,097
ACCUMULATED DD&A (\$000s)				
BALANCE AT DECEMBER 31, 2020	174,301	463	174,764	-
Depletion, depreciation and amortization	48,061	188	48,249	-
BALANCE AT DECEMBER 31, 2021	222,362	651	223,013	-
Depletion, depreciation and amortization	13,689	46	13,735	-
BALANCE AT MARCH 31, 2022	236,051	697	236,748	-
NET CARRYING AMOUNT, DECEMBER 31, 2021	339,427	337	339,764	18,259
NET CARRYING AMOUNT, MARCH 31, 2022	353,239	291	353,530	18,097

Petroleum and Natural Gas Assets

At March 31, 2022, future development and production costs of \$437.9 million (December 31, 2021 - \$446.4 million) are included in costs subject to depletion.

General and administration costs capitalized by the Company during the three months ended March 31, 2022 were \$679,000 (three months ended March 31, 2021 – \$215,000).

The Company assessed for indicators of impairment and there were no indicators of impairment at March 31, 2022 or December 31, 2021.

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, 2022 or December 31, 2021.

7. DISPOSITIONS

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

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

8. RIGHT OF USE ASSETS

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

(\$000s)	
Balance at December 31, 2021	1,312
Additions	-
BALANCE AT MARCH 31, 2022	1,312
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2021	(886)
Depreciation and amortization	(49)
BALANCE AT MARCH 31, 2022	(935)
NET CARRYING AMOUNT, MARCH 31, 2022	377

9. 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 April 1, 2021.

(\$000s)	
Balance at December 31, 2021	602
Interest expense	8
Lease payments	(35)
BALANCE AT MARCH 31, 2022	575

	As at Mar. 31, 2022	As at Dec. 31, 2021
Lease liability - current	299	253
Lease liability - long term	276	349
TOTAL LEASE LIABILITY AT MARCH 31, 2022	575	602

The Company’s office lease agreement is effective from April 1, 2021 to February 28, 2024.

Undiscounted cash outflows related to lease liabilities are:

(\$000s)	Within 1 year	1 to 5 years	Total
Lease payments	326	291	617

10. OPERATING LOAN AND LONG TERM DEBT

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

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

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

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

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

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

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Credit facility interest and charges	180	565
Operating loan interest and charges	57	22
Amortization of debt issue costs	46	22
Interest on lease liability (NOTE 9)	8	8
FINANCING EXPENSES	291	617

For the three months ended March 31, 2022, the effective interest rate on the credit facility was 4.9% (three months ended March 31, 2021 – 4.3%).

11. 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 \$182.0 million (\$102.2 million undiscounted, uninflated) (December 31, 2021 - \$180.4 million and \$101.4 million respectively), which will be incurred over the remaining life of the assets with the costs to be incurred between 2022 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 11% (December 31, 2021 – 11%) and an inflation rate of 2% (December 31, 2021 – 2%). The change in estimate for the year ended December 31, 2021, relates to a change in the estimated timing of abandonment and reclamation expenses.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program ("SRP") whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. Pursuant to the SRP, the Company was approved for up to \$5.8 million in SRP funding. To date the Company has recognized \$3.6 million in SRP funding (December 31, 2021 - \$3.1 million). When work is completed and paid to third party contractors, decommissioning liability is reduced with an off-setting credit to depletion, depreciation and amortization in the consolidated statement of income (loss) and comprehensive income (loss).

The following table shows changes in the decommissioning liability:

(\$000s)	As at	As at
	Mar. 31, 2022	Dec. 31, 2021
Balance, beginning of period	20,852	21,659
Decommissioning liabilities incurred during the period	22	76
Decommissioning liabilities settled during the period	(406)	(1,847)
Decommissioning liabilities settled during the period through SRP	(429)	(2,887)
Accretion expense during the period	573	2,386
Change in estimate	-	1,465
BALANCE, END OF PERIOD	20,612	20,852
Decommissioning liability - current	3,543	4,222
Decommissioning liability - long term	17,069	16,630
TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD	20,612	20,852

12. 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, 2020, 2021 and MARCH 31, 2022	140,529,665	225,158

c) Contributed Surplus

(\$000s)	As at	As at
	Mar. 31, 2022	Dec. 31, 2021
Balance, beginning of period	30,645	27,948
Share-based compensation - options	175	1,394
Share-based compensation - warrants	305	1,303
BALANCE, END OF PERIOD	31,125	30,645

d) Per Share Amounts

(\$000s except per share amounts)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Net income (loss) for the period	8,828	(4,838)
Weighted average number of shares - basic	140,529,665	140,529,665
Dilutive impact of share-based compensation plans	5,410,732	-
Weighted average number of shares - diluted	145,940,397	140,529,665
Net income (loss) per share - basic	0.06	(0.03)
Net income (loss) per share - diluted	0.06	(0.03)

At March 31, 2021, 8,799,335 stock options and 12,560,000 performance warrants were excluded from the fully diluted calculation as they were anti-dilutive.



13. OTHER INCOME

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

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Royalty income	63	873
Processing fee income	960	663
Other	4	37
TOTAL OTHER INCOME	1,027	1,573

Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests. On August 25, 2021, the Company sold of a majority of its royalty income assets, effective July 1, 2021, for net proceeds of \$34.1 million (after closing adjustments). See NOTE 7 – Dispositions.

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

14. SHARE-BASED COMPENSATION

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

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Share-based compensation - options	175	349
Share-based compensation - performance warrants	305	331
TOTAL SHARE-BASED COMPENSATION	480	680

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 was approved by the Board of Directors.

Share-based compensation expense related to stock options during the three months ended March 31, 2022 was \$175,000 (three months ended March 31, 2021 - \$349,000).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2020 through to March 31, 2022:

	Wtd. Avg. Exercise	
	Number	Price (\$)
Balance at December 31, 2020	13,848,260	1.79
Granted	200,000	2.25
Forfeited	(312,000)	2.19
BALANCE AT DECEMBER 31, 2021	13,736,260	1.79
Forfeited	(3,000)	2.00
BALANCE AT MARCH 31, 2022	13,733,260	1.79

There were no stock options exercised during the three months March 31, 2022. As at March 31, 2022 there were 12,200,744 options exercisable. There were no stock options exercised during the year ended December 31, 2021. As at December 31, 2021 there were 12,087,078 options exercisable.

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at March 31, 2022 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
\$0.85	1.21	2,320,976	2,320,976
\$1.00 - \$1.99	1.30	1,667,357	1,667,357
\$2.00 - \$3.00	3.42	9,744,927	8,212,411
	2.79	13,733,260	12,200,744

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 March 31, 2021. There were no options granted for the three months ended March 31, 2022.

	For the three months ended Mar. 31, 2021
Weighted average fair value of options granted	1.20
Risk-free Interest rate (%)	0.92%
Expected life (years)	5.0
Estimated volatility of underlying common shares (%)	63%
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, 2022 (year ended December 31, 2021 – 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 was approved by the Board of Directors.

Share-based compensation expense related to performance warrants during the three months ended March 31, 2022 was \$305,000 (three months ended March 31, 2021 - \$331,000).



The following table sets forth a reconciliation of performance warrant activity from December 31, 2020 through to March 31, 2022:

	Number	Wtd. Avg. Exercise Price (\$)
Balance at December 31, 2020	32,067,500	2.87
Forfeited	(174,000)	3.80
BALANCE AT DECEMBER 31, 2021	31,893,500	2.87
Forfeited	(6,000)	3.80
BALANCE AT MARCH 31, 2022	31,887,500	2.87

There were no performance warrants exercised during the three months ended March 31, 2022 (year ended December 31, 2021 - nil) and 6,460,000 performance warrants were exercisable at March 31, 2022 and December 31, 2021.

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at March 31, 2022 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
\$1.50 to \$2.99	1.31	15,700,000	6,460,000
\$3.00 to \$3.99	2.49	9,712,500	-
\$4.00 to \$4.60	2.49	6,475,000	-
	1.91	31,887,500	6,460,000

15. COMMITMENTS

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

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

16. 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 (liabilities), 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 values of the derivative contracts used for risk management as at March 31, 2022 were measured using level 2 observable inputs, including quoted prices received from financial institutions based on published forward price curves as at the measurement date, using the remaining contracted oil and natural gas volumes.

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, 2022:

(\$000s)	Amortized cost	Total fair value
Assets		
Trade and other receivables	30,098	30,098
Deposits	13	13
	30,111	30,111
Liabilities		
Operating loan (NOTE 10)	2,195	2,195
Trade and other payables	25,156	25,156
Derivative liability (NOTE 16)	17,792	17,792
Long term debt	14,869	14,869
	60,012	60,012

The following table summarizes Karve's financial instruments at December 31, 2021:

(\$000s)	Amortized cost	Total fair value
Assets		
Cash and cash equivalents	5,277	5,277
Trade and other receivables	18,478	18,478
Deposits	13	13
	23,768	23,768
Liabilities		
Trade and other payables	19,647	19,647
Derivative liability (NOTE 16)	5,212	5,212
Long term debt	26,823	26,823
	51,682	51,682

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. These factors could be impacted by the rate at which global energy markets transition to lower carbon-based economies. 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 2022, the Company had the following commodity contracts in place:

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

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

At March 31, 2022 the fair value of the financial derivative contracts was a current liability position of \$17.8 million resulting in an unrealized loss of \$12.6 million for the three months ended March 31, 2022 (December 31, 2021 - \$5.2 million current liability). The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at March 31, 2022 and may be different from what will eventually be realized. Assuming all other variables remain constant, a \$5.00 USD increase in WTI would result in an unrealized loss of \$15.5 million and a derivative liability of \$20.7 million and a \$5.00 USD decrease in WTI would result in an unrealized loss of \$9.7 million and a derivative liability of \$14.9 million.

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

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

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 1.75% and 4.75% 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, 2022, \$15.0 million (December 31, 2021 - \$27.0 million) was drawn on the Credit facility (\$14.9 million – net of amortized debt issue costs). Currently the Company 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 income (loss) before tax of \$48,000 for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$136,000).

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.

A contractual maturity analysis for the Company's financial liabilities as at March 31, 2022 is as follows:

(\$000s)	Within 1 year	1 to 5 years	Total
Bank indebtedness	2,195	-	2,195
Trade and other payables	25,156	-	25,156
Derivative liability	17,792	-	17,792
Lease liabilities	326	291	617
Long term debt	-	14,869	14,869
TOTAL	45,469	15,160	60,629

A contractual maturity analysis for the Company's financial liabilities as at December 31, 2021 is as follows:

(\$000s)	Within 1 year	1 to 5 years	Total
Trade and other payables	19,647	-	19,647
Derivative liability	5,212	-	5,212
Lease liabilities	219	433	652
Long term debt	-	26,823	26,823
TOTAL	25,078	27,256	52,334

17. 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 are 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, 2022	As at Dec. 31, 2021
Shareholders' capital	315,661	306,353
Total current assets	35,046	28,523
Trade and other payables	(25,156)	(19,647)
Operating loan	(2,195)	-
Long term debt	(14,869)	(26,823)
NET DEBT	(7,174)	(17,947)
CAPITAL BASE	308,487	288,406

The Company monitors its capital based primarily on its Net debt to annualized funds flow ratio. 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, 2022, the Company had net debt of \$7.2 million (December 31, 2021 – \$17.9 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, 2022, the Company is in compliance with all covenants and management expects to comply with all terms during the subsequent 12-month period.



18. 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, 2022	Mar. 31, 2021
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 3)	(11,650)	(1,653)
Prepays and deposits (NOTE 4)	(180)	209
Trade and other payables (NOTE 5)	5,509	4,491
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	(6,321)	3,047
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	(13,003)	2,803
Investing activities	6,682	244
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	(6,321)	3,047

The following table provides a detailed breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

(\$000s)	Long term	Lease
	debt	liabilities
Balance at December 31, 2020	53,374	156
Additions	-	574
Cash flows	(26,682)	(128)
Amortization of debt issuance costs	131	-
BALANCE AT DECEMBER 31, 2021	26,823	602
Cash flows	(12,000)	(27)
Amortization of debt issuance costs	46	-
BALANCE AT MARCH 31, 2022	14,869	575

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

(\$000s)	For the three months ended	
	Mar. 31, 2022	Mar. 31, 2021
Crude oil	57,938	23,096
Natural gas liquids	2,273	993
Natural gas	6,113	3,446
TOTAL PETROLEUM AND NATURAL GAS SALES	66,324	27,535