



**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED**  
**SEPTEMBER 30, 2022 AND SEPTEMBER 30, 2021**



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian \$000s)	As at Sept. 30, 2022	As at Dec. 31, 2021
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	2,208	5,277
Trade and other receivables (NOTE 3)	21,718	18,478
Prepays and deposits (NOTE 4)	7,547	4,768
<b>TOTAL CURRENT ASSETS</b>	<b>31,473</b>	<b>28,523</b>
Property, plant and equipment (NOTE 6 & 7)	373,663	339,764
Exploration and evaluation (NOTE 6)	17,570	18,259
Right of use asset (NOTE 8)	279	426
<b>TOTAL ASSETS</b>	<b>422,985</b>	<b>386,972</b>
<b>LIABILITIES</b>		
Current Liabilities		
Trade and other payables (NOTE 5)	35,769	19,647
Derivative liability (NOTE 16)	4,378	5,212
Lease liability (NOTE 9)	305	253
Decommissioning liability (NOTE 11)	4,136	4,222
<b>TOTAL CURRENT LIABILITIES</b>	<b>44,588</b>	<b>29,334</b>
Long term debt (NOTE 10)	19,862	26,823
Lease liability (NOTE 9)	101	349
Decommissioning liability (NOTE 11)	16,446	16,630
Deferred income tax liability	25,133	7,483
<b>TOTAL LIABILITIES</b>	<b>106,130</b>	<b>80,619</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (NOTE 12)	175,973	225,158
Contributed surplus (NOTE 12)	31,553	30,645
Accumulated earnings	109,329	50,550
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>316,855</b>	<b>306,353</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>422,985</b>	<b>386,972</b>

### 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 AND COMPREHENSIVE INCOME

(Canadian \$000s, except per share amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
<b>REVENUE</b>				
Petroleum and natural gas sales (NOTE 18)	65,320	40,303	216,443	101,682
Royalties	(8,641)	(3,409)	(25,542)	(8,392)
<b>PETROLEUM AND NATURAL GAS SALES, NET OF ROYALTIES</b>	<b>56,679</b>	<b>36,894</b>	<b>190,901</b>	<b>93,290</b>
Other income (NOTE 13)	1,371	1,916	3,782	5,763
Gain (Loss) on financial derivative contracts (NOTE 16)	4,686	(4,190)	(21,873)	(11,978)
Gain on disposition (NOTE 7)	-	33,318	-	33,318
<b>TOTAL REVENUE AND OTHER INCOME</b>	<b>62,736</b>	<b>67,938</b>	<b>172,810</b>	<b>120,393</b>
<b>EXPENSES</b>				
Operating	15,466	11,001	41,827	34,234
Transportation	876	647	2,640	1,787
General and administration	2,237	1,714	6,548	6,095
Depletion, depreciation and amortization (NOTE 6, 8, & 11)	13,405	11,743	40,929	32,973
Financing (NOTE 10)	308	587	827	1,849
Accretion (NOTE 11)	575	596	1,722	1,788
Share-based compensation (NOTE 14)	214	659	908	2,048
Exploration and evaluation - expiries (NOTE 6)	113	601	981	1,958
Transaction costs (NOTE 7)	-	429	-	429
<b>NET INCOME BEFORE TAX EXPENSE</b>	<b>29,542</b>	<b>39,961</b>	<b>76,428</b>	<b>37,232</b>
<b>TAX EXPENSE</b>				
Deferred income tax expense	6,829	9,192	17,649	8,893
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>22,713</b>	<b>30,769</b>	<b>58,779</b>	<b>28,339</b>
<b>INCOME PER SHARE (\$) (NOTE 12)</b>				
Basic	0.16	0.22	0.42	0.20
Diluted	0.15	0.21	0.38	0.19

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		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
<b>SHARE CAPITAL</b>				
Balance, beginning of period	225,158	225,158	225,158	225,158
Return of capital (NOTE 12)	(49,185)	-	(49,185)	-
<b>BALANCE, END OF PERIOD</b>	<b>175,973</b>	<b>225,158</b>	<b>175,973</b>	<b>225,158</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance, beginning of period	31,339	29,337	30,645	27,948
Share-based compensation (NOTE 14)	214	659	908	2,048
<b>BALANCE, END OF PERIOD</b>	<b>31,553</b>	<b>29,996</b>	<b>31,553</b>	<b>29,996</b>
<b>EARNINGS</b>				
Balance, beginning of period	86,616	9,020	50,550	11,450
Net income and comprehensive income	22,713	30,769	58,779	28,339
<b>BALANCE, END OF PERIOD</b>	<b>109,329</b>	<b>39,789</b>	<b>109,329</b>	<b>39,789</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian \$000s) For the three months ended Sept. 30, 2022 For the nine months ended Sept. 30, 2021 Sept. 30, 2022 Sept. 30, 2021

### CASH PROVIDED BY (USED IN):

#### OPERATING ACTIVITIES

Net income and comprehensive income	22,713	30,769	58,779	28,339
<b>ITEMS NOT AFFECTING CASH:</b>				
Depletion, depreciation and amortization (NOTE 6, 8, & 11)	13,405	11,743	40,929	32,973
Accretion expense (NOTE 11)	575	596	1,722	1,788
Exploration and evaluation (NOTE 6)	113	601	981	1,958
Unrealized loss (gain) on foreign exchange	1	(15)	21	(9)
Share-based compensation (NOTE 14)	214	659	908	2,048
Gain on disposition (NOTE 7)	-	(33,318)	-	(33,318)
Unrealized (gain) loss on financial derivatives (NOTE 16)	(11,183)	3,827	(834)	2,008
Deferred income tax expense	6,829	9,192	17,649	8,893
Non-cash financing expense (NOTE 10)	33	49	134	116
Decommissioning expenditures (NOTE 11)	(638)	(394)	(1,294)	(1,526)
<b>FUNDS FLOW FROM OPERATIONS</b>	<b>32,062</b>	<b>23,709</b>	<b>118,995</b>	<b>43,270</b>
Change in non-cash working capital (NOTE 18)	5,691	(3,726)	(6,268)	(6,229)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>37,753</b>	<b>19,983</b>	<b>112,727</b>	<b>37,041</b>

#### INVESTING ACTIVITIES

Exploration and evaluation (NOTE 6)	(86)	(109)	(625)	(438)
Property, plant and equipment (NOTE 6)	(35,940)	(27,102)	(75,046)	(45,049)
Property, plant and equipment dispositions (NOTE 7)	-	34,095	-	34,095
Change in non-cash working capital (NOTE 18)	7,191	5,417	16,351	9,415
<b>CASH FLOW (USED FOR) FROM INVESTING ACTIVITIES</b>	<b>(28,835)</b>	<b>12,301</b>	<b>(59,320)</b>	<b>(1,977)</b>

#### FINANCING ACTIVITIES

Operating line (NOTE 10)	-	(1,027)	-	(5,513)
Financing lease expense (NOTE 9)	(79)	-	(219)	(164)
Increase in long term debt (NOTE 10)	19,837	-	19,928	3,870
Repayment of long term debt (NOTE 10)	-	(28,500)	(27,000)	(30,500)
Return of capital (NOTE 12)	(49,185)	-	(49,185)	-
<b>CASH FLOW USED FOR FINANCING ACTIVITIES</b>	<b>(29,427)</b>	<b>(29,527)</b>	<b>(56,476)</b>	<b>(32,307)</b>
(Decrease) Increase in cash and cash equivalents	(20,509)	2,757	(3,069)	2,757
Cash and cash equivalents, beginning of period	22,717	-	5,277	-
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>2,208</b>	<b>2,757</b>	<b>2,208</b>	<b>2,757</b>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements are as at September 30, 2022 and for the three and nine months ended September 30, 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

These interim consolidated financial statements (the “financial statements”) are presented under International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim consolidated financial statements, including International Accounting Standard (“IAS”) 34 Interim Financial Reporting and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2021. Certain information and disclosures included in the notes to the annual consolidated financial statements are condensed herein or are disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2021.

The financial statements were approved and authorized for issue by Karve’s Board of Directors on November 10, 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 Sept. 30, 2022	As at Dec. 31, 2021
Trade	20,548	17,180
Joint venture	1,522	1,626
Allowance for doubtful accounts	(352)	(328)
<b>TRADE AND OTHER RECEIVABLES</b>	<b>21,718</b>	<b>18,478</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 carries a provision of \$352,000 at September 30, 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 September 30, 2022, approximately 63% was receivable from two oil marketers (39% and 24%). At December 31, 2021, approximately 63% was receivable from two oil marketers (34% and 29%). Accounts receivable outstanding greater than ninety days at September 30, 2022 was \$932,000 (December 31, 2021 - \$1.2 million).

### 4. PREPAIDS AND DEPOSITS

(\$000s)	As at Sept. 30, 2022	As at Dec. 31, 2021
Prepays	7,476	4,755
Deposits	71	13
<b>PREPAIDS AND DEPOSITS</b>	<b>7,547</b>	<b>4,768</b>

### 5. TRADE AND OTHER PAYABLES

(\$000s)	As at Sept. 30, 2022	As at Dec. 31, 2021
Trade	21,250	10,958
Accrued	12,111	6,231
Royalties	1,414	1,682
GST	145	338
Joint venture	849	438
<b>TRADE AND OTHER PAYABLES</b>	<b>35,769</b>	<b>19,647</b>

## 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
<b>COST (\$000s)</b>				
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)	-
<b>BALANCE AT DECEMBER 31, 2021</b>	<b>561,789</b>	<b>988</b>	<b>562,777</b>	<b>18,259</b>
Additions	75,046	-	75,046	625
Transfers to (from) P&NG/E&E assets	333	-	333	(333)
Change in decommissioning provision (NOTE 11)	57	-	57	-
Expiries	-	-	-	(981)
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>637,225</b>	<b>988</b>	<b>638,213</b>	<b>17,570</b>
<b>ACCUMULATED DD&amp;A (\$000s)</b>				
BALANCE AT DECEMBER 31, 2020	174,301	463	174,764	-
Depletion, depreciation and amortization	48,061	188	48,249	-
<b>BALANCE AT DECEMBER 31, 2021</b>	<b>222,362</b>	<b>651</b>	<b>223,013</b>	-
Depletion, depreciation and amortization	41,400	137	41,537	-
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>263,762</b>	<b>788</b>	<b>264,550</b>	-
<b>NET CARRYING AMOUNT, DECEMBER 31, 2021</b>	<b>339,427</b>	<b>337</b>	<b>339,764</b>	<b>18,259</b>
<b>NET CARRYING AMOUNT, SEPTEMBER 30, 2022</b>	<b>373,463</b>	<b>200</b>	<b>373,663</b>	<b>17,570</b>

### Petroleum and Natural Gas Assets

At September 30, 2022, future development and production costs of \$404.4 million (December 31, 2021 - \$446.4 million) are included in costs subject to depletion.

General and administration costs capitalized by the Company during the nine months ended September 30, 2022 were \$1.2 million (nine months ended September 30, 2021 – \$769,000).

The Company assessed for indicators of impairment and there were no indicators of impairment at September 30, 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 September 30, 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
<b>CARRYING VALUE OF NET ASSETS DISPOSED</b>	<b>777</b>
<b>CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS</b>	<b>34,095</b>
<b>GAIN ON DISPOSITION</b>	<b>33,318</b>

## 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	-
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>1,312</b>
<b>ACCUMULATED DEPRECIATION AND AMORTIZATION</b>	
Balance at December 31, 2021	(886)
Depreciation and amortization	(147)
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>(1,033)</b>
<b>NET CARRYING AMOUNT, SEPTEMBER 30, 2022</b>	<b>279</b>

## 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	23
Lease payments	(219)
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>406</b>

	As at Sept. 30, 2022	As at Dec. 31, 2021
Lease liability - current	305	253
Lease liability - long term	101	349
<b>TOTAL LEASE LIABILITY AT SEPTEMBER 30, 2022</b>	<b>406</b>	<b>602</b>

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	107	433

## 10. OPERATING LOAN AND LONG TERM DEBT

As at September 30, 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 2023.

As at September 30, 2022, \$19.9 million (net of unamortized debt issue costs) was drawn on the Credit Facility (December 31, 2021 - \$26.8 million, net of unamortized debt issue costs) and \$nil was drawn on the operating loan (December 31, 2021 - \$nil). The Company has issued letters of credit of \$951,000 as at September 30, 2022 (December 31, 2021 - \$951,000), thereby reducing the available bank credit facility by this amount.

Long term debt as at September 30, 2022 and December 31, 2021 is as follows:

(\$000s)	As at Sept. 30, 2022	As at Dec. 31, 2021
Credit Facility	20,000	27,000
Less: unamortized debt issue costs	(138)	(177)
<b>LONG TERM DEBT</b>	<b>19,862</b>	<b>26,823</b>

Financing expense for the three and nine months ended September 30, 2022 and 2021 is comprised of the following:

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Credit facility interest and charges	204	507	486	1,678
Operating loan interest and charges	71	31	207	55
Amortization of debt issue costs	25	39	111	89
Interest on lease liability (NOTE 9)	8	10	23	27
<b>FINANCING EXPENSES</b>	<b>308</b>	<b>587</b>	<b>827</b>	<b>1,849</b>

For the nine months ended September 30, 2022, the effective interest rate on the credit facility was 7.1% (nine months ended September 30, 2021 – 4.4%).

## 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 \$183.3 million (\$102.3 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 \$3.9 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 and comprehensive income.

The following table shows changes in the decommissioning liability:

(\$000s)	As at Sept. 30, 2022	As at Dec. 31, 2021
Balance, beginning of period	20,852	21,659
Decommissioning liabilities incurred during the period	57	76
Decommissioning liabilities settled during the period	(1,294)	(1,847)
Decommissioning liabilities settled during the period through SRP	(755)	(2,887)
Accretion expense during the period	1,722	2,386
Change in estimate	-	1,465
<b>BALANCE, END OF PERIOD</b>	<b>20,582</b>	<b>20,852</b>
Decommissioning liability - current	4,136	4,222
Decommissioning liability - long term	16,446	16,630
<b>TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD</b>	<b>20,582</b>	<b>20,852</b>

## 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
<b>Common Shares</b>		
<b>BALANCE AT DECEMBER 31, 2020, and 2021</b>	<b>140,529,665</b>	<b>225,158</b>
Return of capital	-	(49,185)
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>140,529,665</b>	<b>175,973</b>

On July 1, 2022, the Company notified its Shareholders that the Company would reduce its stated capital by \$49.2 million in the aggregate, representing a Return of Capital of \$0.35 per Common Share. The Company distributed that amount to the holders of the Common Shares (the "Return of Capital"). The record date for determining the holders of Common Shares entitled to receive the Return of Capital was the close of business on July 15, 2022 and the Return of Capital was paid on July 29, 2022.

### c) Contributed Surplus

(\$000s)	As at Sept. 30, 2022	As at Dec. 31, 2021
Balance, beginning of period	30,645	27,948
Share-based compensation - options	489	1,394
Share-based compensation - warrants	419	1,303
<b>BALANCE, END OF PERIOD</b>	<b>31,553</b>	<b>30,645</b>

### d) Per Share Amounts

(\$000s except per share amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Net income for the period	22,713	30,769	58,779	28,339
Weighted average number of shares - basic	140,529,665	140,529,665	140,529,665	140,529,665
Dilutive impact of share-based compensation plans	12,660,926	5,409,620	12,660,926	5,409,620
Weighted average number of shares - diluted	<b>153,190,591</b>	<b>145,939,285</b>	<b>153,190,591</b>	<b>145,939,285</b>
<b>Net income per share - basic</b>	<b>0.16</b>	<b>0.22</b>	<b>0.42</b>	<b>0.20</b>
<b>Net income per share - diluted</b>	<b>0.15</b>	<b>0.21</b>	<b>0.38</b>	<b>0.19</b>



### 13. OTHER INCOME

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

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Royalty income	72	857	216	3,072
Processing fee income	1,264	985	3,392	2,533
Other	35	74	174	158
<b>TOTAL OTHER INCOME</b>	<b>1,371</b>	<b>1,916</b>	<b>3,782</b>	<b>5,763</b>

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		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Share-based compensation - options	161	340	489	1,063
Share-based compensation - performance warrants	53	319	419	985
<b>TOTAL SHARE-BASED COMPENSATION</b>	<b>214</b>	<b>659</b>	<b>908</b>	<b>2,048</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 was approved by the Board of Directors. Share-based compensation expense related to stock options during the three and nine months ended September 30, 2022 was \$161,000 and \$489,000 (three and nine months ended September 30, 2021 - \$340,000 and \$1.1 million).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2020 through to September 30, 2022:

	Number	Wtd. Avg. Exercise Price (\$) <sup>(1)</sup>
Balance at December 31, 2020	13,848,260	1.44
Granted	200,000	1.90
Forfeited	(312,000)	1.84
<b>BALANCE AT DECEMBER 31, 2021</b>	<b>13,736,260</b>	<b>1.44</b>
Granted	297,500	3.09
Forfeited	(81,000)	1.80
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>13,952,760</b>	<b>1.47</b>

(1) Weighted average exercise prices have been adjusted due to the \$0.35 per share return of capital distribution paid on July 29, 2022.

There were no stock options exercised during the nine months September 30, 2022. As at September 30, 2022 there were

12,197,745 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 September 30, 2022 were as follows:

Exercise Price Range <sup>(1)</sup>	Wtd. Avg. Contractual Life	Number of options outstanding	Number of options exercisable
\$0.50	0.71	2,320,976	2,320,976
\$0.51 - \$1.64	0.80	1,667,357	1,667,357
\$1.65 - \$3.09	3.04	9,964,427	8,209,412
	<b>2.39</b>	<b>13,952,760</b>	<b>12,197,745</b>

(1) Exercise prices have been adjusted due to the \$0.35 per share return of capital distribution paid on July 29, 2022.

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 nine months ended September 30, 2022. There were 297,500 options granted for the nine months ended September 30, 2022.

	For the nine months ended Sept. 30, 2022
Weighted average fair value of options granted	1.66
Risk-free Interest rate (%)	2.83%
Expected life (years)	5.0
Estimated volatility of underlying common shares (%)	61%
Weighted average grant date share price	3.09
Forfeiture rate	3%
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 nine months ended September 30, 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 <sup>(1)</sup>	2017 Issuance <sup>(1)</sup>
Warrants granted	16,125,000	17,937,500
Issue date	\$1.15	\$2.65
First anniversary	\$1.35	\$3.05
Second anniversary	\$1.55	\$3.45
Third anniversary	\$1.75	\$3.85
Fourth anniversary	\$1.95	\$4.25

(1) Exercise prices have been adjusted due to the \$0.35 per share return of capital distribution paid on July 29, 2022.

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 and nine months ended September 30, 2022 was \$53,000 and \$419,000 (three and nine months ended September 30, 2021 - \$319,000 and \$985,000).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2020 through to September 30, 2022:

	Number	Wtd. Avg. Exercise Price (\$) <sup>(1)</sup>
Balance at December 31, 2020	32,067,500	2.52
Forfeited	(174,000)	3.45
<b>BALANCE AT DECEMBER 31, 2021</b>	<b>31,893,500</b>	<b>2.51</b>
Forfeited	(62,000)	3.45
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>31,831,500</b>	<b>2.51</b>

(1) Weighted average exercise prices have been adjusted due to the \$0.35 per share return of capital distribution paid on July 29, 2022.

There were no performance warrants exercised during the nine months ended September 30, 2022 (year ended December 31, 2021 - nil) and 6,460,000 performance warrants were exercisable at September 30, 2022 and December 31, 2021.

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at September 30, 2022 were as follows:

Exercise Price Range <sup>(1)</sup>	Wtd. Avg. Contractual Life	Number of warrants outstanding	Number of warrants exercisable
\$1.15 to \$2.64	0.81	15,700,000	6,460,000
\$2.65 to \$3.64	1.99	9,678,900	-
\$3.65 to \$4.25	1.99	6,452,600	-
	<b>1.41</b>	<b>31,831,500</b>	<b>6,460,000</b>

(1) Exercise prices have been adjusted due to the \$0.35 per share return of capital distribution paid on July 29, 2022.

## 15. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at September 30, 2022 are as follows:

(\$000s)	2022	2023	Total
Operating leases	26	78	104
Pipeline transportation	248	1,005	1,253
<b>TOTAL COMMITMENTS</b>	<b>274</b>	<b>1,083</b>	<b>1,357</b>

## 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 September 30, 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 September 30, 2022:

(\$000s)	Amortized cost	Total fair value
<b>Assets</b>		
Cash and cash equivalents	2,208	2,208
Trade and other receivables	21,718	21,718
Deposits	71	71
	<b>23,997</b>	<b>23,997</b>
<b>Liabilities</b>		
Trade and other payables	35,769	35,769
Derivative liability (NOTE 16)	4,378	4,378
Long term debt	19,862	19,862
	<b>60,009</b>	<b>60,009</b>

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

(\$000s)	Amortized cost	Total fair value
<b>Assets</b>		
Cash and cash equivalents	5,277	5,277
Trade and other receivables	18,478	18,478
Deposits	13	13
	<b>23,768</b>	<b>23,768</b>
<b>Liabilities</b>		
Trade and other payables	19,647	19,647
Derivative liability (NOTE 16)	5,212	5,212
Long term debt	26,823	26,823
	<b>51,682</b>	<b>51,682</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. 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 September 30, 2022, the Company had the following commodity contracts in place:

Type	Term	Basis <sup>(1)</sup>	Volume (Bbl/d)	Fixed Swap Price (\$CAD/Bbl)	Current Liability (\$000s)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	82.75	(1,162)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	83.25	(1,140)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	85.50	(1,036)
Fixed price swap	Jan. 1/22 - Dec. 31/22	WTI	500	85.50	(1,040)
<b>TOTAL VOLUME AND WEIGHTED AVERAGE PRICE</b>			<b>2,000</b>	<b>84.25</b>	<b>(4,378)</b>

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

At September 30, 2022 the fair value of the financial derivative contracts was a current liability position of \$4.4 million resulting in an unrealized gain for the three and nine months ended September 30, 2022 of \$11.2 million and \$834,000, respectively (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 September 30, 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 gain of \$10.2 million for the three months ended September 30, 2022, and a derivative liability of \$5.4 million; and a \$5.00 USD decrease in WTI would result in an unrealized gain of \$12.2 million for the three months ended September 30, 2022, and a derivative liability of \$3.4 million.

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

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Unrealized gain (loss) financial derivative contracts	11,183	(3,827)	834	(2,008)
Realized (loss) on financial derivative contracts	(6,497)	(363)	(22,707)	(9,970)
<b>GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS</b>	<b>4,686</b>	<b>(4,190)</b>	<b>(21,873)</b>	<b>(11,978)</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 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 September 30, 2022, \$20.0 million (December 31, 2021 - \$27.0 million) was drawn on the Credit facility. 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 before tax of \$95,000 for the nine months ended September 30, 2022 (nine months ended September 30, 2021 - \$115,000).

### 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 September 30, 2022 is as follows:

(\$000s)	Within 1 year	1 to 5 years	Total
Trade and other payables	35,769	-	35,769
Derivative liability	4,378	-	4,378
Lease liabilities	326	107	433
Long term debt	-	19,862	19,862
<b>TOTAL</b>	<b>40,473</b>	<b>19,969</b>	<b>60,442</b>

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
<b>TOTAL</b>	<b>25,078</b>	<b>27,256</b>	<b>52,334</b>

## 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' equity and net debt (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 Sept. 30, 2022	As at Dec. 31, 2021
Shareholders' Equity	316,855	306,353
Total current assets	31,473	28,523
Trade and other payables	(35,769)	(19,647)
Long term debt	(19,862)	(26,823)
<b>NET DEBT</b>	<b>(24,158)</b>	<b>(17,947)</b>
<b>CAPITAL BASE</b>	<b>292,697</b>	<b>288,406</b>

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 September 30, 2022, the Company had net debt of \$24.2 million (December 31, 2021 – net debt of \$17.9 million).

On July 1, 2022, the Company notified its Shareholders that the Company would reduce its stated capital by \$49.2 million in the aggregate, representing a Return of Capital of \$0.35 per Common Share. The Company distributed that amount to the holders



of the Common Shares (the "Return of Capital"). The record date for determining the holders of Common Shares entitled to receive the Return of Capital was the close of business on July 15, 2022 and the Return of Capital was paid on July 29, 2022.

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 September 30, 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		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
<b>CHANGES IN NON-CASH WORKING CAPITAL:</b>				
Trade and other receivables (NOTE 3)	7,047	(3,234)	(3,260)	(6,396)
Prepays and deposits (NOTE 4)	(1,212)	(1,044)	(2,779)	(883)
Trade and other payables (NOTE 5)	7,047	5,969	16,122	10,465
<b>TOTAL CHANGES IN NON-CASH WORKING CAPITAL</b>	<b>12,882</b>	<b>1,691</b>	<b>10,083</b>	<b>3,186</b>
<b>CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:</b>				
Operating activities	5,691	(3,726)	(6,268)	(6,229)
Investing activities	7,191	5,417	16,351	9,415
<b>TOTAL CHANGES IN NON-CASH WORKING CAPITAL</b>	<b>12,882</b>	<b>1,691</b>	<b>10,083</b>	<b>3,186</b>

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
<b>Balance at December 31, 2020</b>	53,374	156
Additions	-	574
Cash flows	(26,682)	(128)
Amortization of debt issuance costs	131	-
<b>BALANCE AT DECEMBER 31, 2021</b>	<b>26,823</b>	<b>602</b>
Additions	19,928	-
Cash flows	(27,000)	(196)
Amortization of debt issuance costs	111	-
<b>BALANCE AT SEPTEMBER 30, 2022</b>	<b>19,862</b>	<b>406</b>

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

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2022	Sept. 30, 2021	Sept. 30, 2022	Sept. 30, 2021
Crude oil	56,978	34,413	186,958	86,255
Natural gas liquids	2,679	1,716	7,976	4,053
Natural gas	5,663	4,174	21,509	11,374
<b>TOTAL PETROLEUM AND NATURAL GAS SALES</b>	<b>65,320</b>	<b>40,303</b>	<b>216,443</b>	<b>101,682</b>