UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2025 AND JUNE 30, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian $000s)	As at June 30, 2025	As at Dec. 31, 2024
ASSETS		
Current Assets		
Cash and cash equivalents	-	433
Trade and other receivables (NOTE 3)	13,850	17,984
Prepaids and deposits (NOTE 4)	6,604	5,872
Derivative asset (NOTE 15)	803	-
TOTAL CURRENT ASSETS	21,257	24,289
Property, plant and equipment (NOTE 6, 7 & 8)	426,768	426,084
Exploration and evaluation (NOTE 6 & 7)	15,567	16,007
Right of use asset (NOTE 8)	1,187	1,361
TOTAL ASSETS	**464,779**	**467,741**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 5)	16,703	17,361
Return of capital payable (NOTE 12)	-	21,139
Operating loan (NOTE 10)	2,991	-
Derivative liability (NOTE 15)	-	836
Lease liability (NOTE 9)	338	327
Decommissioning liability (NOTE 11)	3,058	3,950
TOTAL CURRENT LIABILITIES	**23,090**	**43,613**
Long term debt (NOTE 10)	14,630	-
Lease liability (NOTE 9)	935	1,092
Decommissioning liability (NOTE 11)	25,274	24,952
Deferred income tax liability	49,294	47,497
TOTAL LIABILITIES	**113,223**	**117,154**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 12)	129,115	134,147
Contributed surplus (NOTE 12)	37,166	36,769
Accumulated earnings	185,275	179,671
TOTAL SHAREHOLDERS' EQUITY	**351,556**	**350,587**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**464,779**	**467,741**

SUBSEQUENT EVENTS (NOTE 18)

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 $000s, except per share amounts)	For the three months ended June 30, 2025	For the three months ended June 30, 2024	For the six months ended June 30, 2025	For the six months ended June 30, 2024
REVENUE				
Petroleum and natural gas sales (NOTE 17)	39,649	57,443	81,091	107,538
Royalties	(4,793)	(6,922)	(9,860)	(12,856)
PETROLEUM AND NATURAL GAS SALES, NET OF ROYALTIES	34,856	50,521	71,231	94,682
Other income (NOTE 13)	792	903	1,426	1,784
Gain (loss) on financial derivative contracts (NOTE 15)	1,630	(40)	1,514	(268)
TOTAL REVENUE AND OTHER INCOME	37,278	51,384	74,171	96,198
EXPENSES				
Operating	15,107	17,344	29,250	33,754
Transportation	1,355	1,658	2,487	3,009
General and administration	3,012	2,852	6,239	5,405
Depletion, depreciation and amortization (NOTE 7 & 8)	13,475	16,263	25,429	31,457
Financing (NOTE 10)	496	751	882	1,230
Accretion (NOTE 11)	723	664	1,446	1,327
Share-based compensation (NOTE 14)	378	564	397	1,134
Exploration and evaluation - expiries (NOTE 7)	365	31	642	313
TOTAL EXPENSES	34,911	40,127	66,772	77,629
NET INCOME BEFORE TAX EXPENSE	2,367	11,257	7,399	18,569
TAX EXPENSE				
Deferred income tax expense	645	2,310	1,795	4,127
NET INCOME AND COMPREHENSIVE INCOME	1,722	8,947	5,604	14,442
INCOME PER SHARE ($) (NOTE 12)				
Basic	0.01	0.06	0.04	0.10
Diluted	0.01	0.06	0.04	0.09

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Canadian $000s)	For the six months ended June 30, 2025	June 30, 2024
SHARE CAPITAL		
Balance, beginning of period	**134,147**	**154,894**
Exercise of stock options (NOTE 12)	-	146
Allocation of contributed surplus - exercise of options	-	246
Substantial issuer bid (NOTE 12)	(5,032)	-
BALANCE, BEGINNING AND END OF PERIOD	**129,115**	**155,286**
CONTRIBUTED SURPLUS		
Balance, beginning of period	36,769	34,816
Share-based compensation (NOTE 14)	397	1,134
Stock options exercised (NOTE 12)	-	(246)
BALANCE, END OF PERIOD	**37,166**	**35,704**
EARNINGS		
Balance, beginning of period	179,671	178,513
Net income and comprehensive income	5,604	14,442
BALANCE, END OF PERIOD	**185,275**	**192,955**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian $000s)	For the three months ended June 30, 2025	For the three months ended June 30, 2024	For the six months ended June 30, 2025	For the six months ended June 30, 2024
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income and comprehensive income	1,722	8,947	5,604	14,442
ITEMS NOT AFFECTING CASH:				
Depletion, depreciation and amortization (NOTE 7 & 8)	13,475	16,263	25,429	31,457
Accretion expense (NOTE 11)	723	664	1,446	1,327
Exploration and evaluation (NOTE 7)	365	31	642	313
Unrealized loss on foreign exchange	-	3	-	3
Share-based compensation (NOTE 14)	378	564	397	1,134
Unrealized (gain) loss on financial derivatives (NOTE 15)	(1,246)	(142)	(1,639)	86
Deferred income tax expense	645	2,310	1,795	4,127
Non-cash financing expense (NOTE 10)	80	65	135	124
Decommissioning expenditures (NOTE 11)	(1,560)	(1,123)	(2,028)	(2,178)
FUNDS FLOW FROM OPERATIONS	**14,582**	**27,582**	**31,781**	**50,835**
Change in non-cash working capital (NOTE 17)	630	(1,030)	3,065	(3,795)
CASH FLOW FROM OPERATING ACTIVITIES	**15,212**	**26,552**	**34,846**	**47,040**
INVESTING ACTIVITIES				
Exploration and evaluation (NOTE 7)	(197)	(1,653)	(304)	(1,789)
Property, plant and equipment (NOTE 7)	(2,291)	(9,365)	(25,825)	(48,226)
Change in non-cash working capital (NOTE 17)	(8,403)	(6,658)	(318)	1,445
CASH FLOW USED FOR INVESTING ACTIVITIES	**(10,891)**	**(17,676)**	**(26,447)**	**(48,570)**
FINANCING ACTIVITIES				
Operating line (NOTE 10)	2,991	3,224	2,991	3,696
Financing lease expense (NOTE 9)	(116)	(113)	(182)	(179)
Stock options excercised (NOTE 14)	-	146	-	146
Substantial issuer bid (NOTE 12)	(5,032)	-	(5,032)	-
Increase in long term debt (NOTE 10)	12,690	12,000	41,530	32,000
Repayment of long term debt (NOTE 10)	(15,000)	(24,133)	(27,000)	(34,133)
Change in non-cash working capital (NOTE 17)	-	-	(21,139)	-
CASH FLOW USED (FOR) FROM FINANCING ACTIVITIES	**(4,467)**	**(8,876)**	**(8,832)**	**1,530**
Change in cash and cash equivalents	(146)	-	(433)	-
Cash and cash equivalents, beginning of period	146	-	433	-
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 condensed consolidated financial statements are as at and for the three and six months ended June 30, 2025 and 2024. 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 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. and continued the amalgamated Company as Karve Energy Inc.

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

Karve's head office is located at Suite 2500, 255 5 Avenue SW, Calgary Alberta, T2P 3G6.

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

The interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements, under International Accounting Standard ("IAS") 34 Interim Financial Reporting. These financial statements have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2024. 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 financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2024.

The financial statements were approved and authorized for issue by Karve's Board of Directors on August 12, 2025.

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, 2024 audited annual 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.

Principles of Consolidation

The financial statements include the accounts of Karve and its subsidiary. Subsidiaries are entities controlled by the Company. They are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at June 30, 2025, the Company has one wholly-owned subsidiary, DTC Energy Inc. The financial statements of the subsidiary are prepared for the same reporting period as Karve, using uniform accounting policies. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation.

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, 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, 2024 audited annual consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1"), to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. These amendments are effective for periods beginning on or after January 1, 2024. The Company adopted the amendments to IAS 1, along with any consequential amendments. These changes did not have a material impact on the financial statements.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. These amendments are effective for periods beginning on or after January 1, 2024. The Company adopted the amendments to IAS 1, along with any consequential amendments. These changes did not have a material impact on the financial statements.

New accounting standards and amendments not yet adopted

Presentation and Disclosure in Financial Statements

In April 2024, the International Accounting Standards Board issued IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18") to replace IAS 1. IFRS 18 sets out requirements for the presentation and disclosure of information in the financial statements including a new structure for the Statement of Profit and Loss, disclosure of Management-defined performance measures and enhanced principles on aggregation and disaggregation. In addition, interest paid will be classified under financing activities on the Statement of Cash Flows which could result in a material change under IFRS 18. This standard is effective for annual reporting periods beginning on or after January 1, 2027, including for interim financial statements. The Company is still assessing the full impact of this amendment.

Financial Instruments and Financial Instruments: Disclosures

IFRS 9 *Financial Instruments* and *IFRS 7 Financial Instruments: Disclosures* were amended in May 2024 to clarify the date of recognition and derecognition of financial assets and liabilities. The amendments are effective for fiscal years beginning on or after January 1, 2026, with early adoption permitted. The Company is evaluating the impact that this amendment will have on the financial statements.

3. TRADE AND OTHER RECEIVABLES

($000s)	As at June 30, 2025	As at Dec. 31, 2024
Trade	13,166	17,242
Joint venture	917	975
Allowance for doubtful accounts	(233)	(233)
TRADE AND OTHER RECEIVABLES	**13,850**	**17,984**

Of the Company's accounts receivable at June 30, 2025, approximately 81% was receivable from three oil marketers (38%, 30% and 13%). At December 31, 2024, approximately 75% was receivable from three oil marketers (39%, 19% and 17%). Accounts receivable outstanding greater than ninety days at June 30, 2025 was $493,000 (December 31, 2024 - $519,000).

4. PREPAIDS AND DEPOSITS

($000s)	As at June 30, 2025	As at Dec. 31, 2024
Prepaids	6,490	5,812
Deposits	114	60
PREPAIDS AND DEPOSITS	**6,604**	**5,872**

5. TRADE AND OTHER PAYABLES

($000s)	As at June 30, 2025	As at Dec. 31, 2024
Trade	7,753	6,897
Accrued	6,007	6,522
Royalties	2,108	2,414
GST	398	760
Joint venture	437	768
TRADE AND OTHER PAYABLES	**16,703**	**17,361**

6. DISPOSITIONS

On December 5, 2024 and December 11, 2024, the Company completed the sale of all of its heavy oil assets in the Evi and Greater Cold Lake areas, effective December 1, 2024 and November 18, 2024, respectively, for total proceeds of $25.8 million (after closing adjustments). The average 2024 production from these assets totalled approximately 311 bbl/d.

The disposition included all of the assets in the heavy oil cash generating unit. The carrying value of the assets disposed was $55.0 million, resulting in a loss on disposition of $29.2 million. The Company incurred transaction costs of $249,000 associated with the disposition of its heavy oil assets.

($000s)	
Exploration and evaluation assets	13,153
Property, plant and equipment	42,007
Decommissioning liabilities	(182)
CARRYING VALUE OF NET ASSETS DISPOSED	**54,978**
CONSIDERATION	
Cash	25,827
LOSS ON DISPOSITION	**29,151**

7. 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:

COST ($000s)	Petroleum and Natural Gas Assets	Corporate Assets	Total Property, Plant and Equipment	Exploration & Evalutation Assets
BALANCE AT DECEMBER 31, 2023	765,089	1,988	767,077	27,696
Additions	95,461	480	95,941	2,725
Transfers to (from) P&NG/E&E assets	882	-	882	(882)
Change in decommissioning provision (NOTE 11)	8,666	-	8,666	-
Dispositions (NOTE 6)	(42,007)	-	(42,007)	(13,153)
Expiries	-	-	-	(379)
BALANCE AT DECEMBER 31, 2024	**828,091**	**2,468**	**830,559**	**16,007**
Additions	25,825	-	25,825	304
Transfers to (from) P&NG/E&E assets	102	-	102	(102)
Change in decommissioning provision (NOTE 11)	12	-	12	-
Expiries	-	-	-	(642)
BALANCE AT JUNE 30, 2025	**854,030**	**2,468**	**856,498**	**15,567**
ACCUMULATED DD&A ($000s)				
BALANCE AT DECEMBER 31, 2023	339,589	1,065	340,654	-
Depletion, depreciation and amortization	63,491	330	63,821	-
BALANCE AT DECEMBER 31, 2024	**403,080**	**1,395**	**404,475**	**-**
Depletion, depreciation and amortization	25,078	177	25,255	-
BALANCE AT JUNE 30, 2025	**428,158**	**1,572**	**429,730**	**-**
NET CARRYING AMOUNT, DECEMBER 31, 2024	**425,011**	**1,073**	**426,084**	**16,007**
NET CARRYING AMOUNT, JUNE 30, 2025	**425,872**	**896**	**426,768**	**15,567**

Petroleum and Natural Gas Assets

At June 30, 2025, future development and production costs of $553.3 million (December 31, 2024 - $564.9 million) are included in costs subject to depletion.

General and administration costs capitalized by the Company during the six months ended June 30, 2025 were $402,000 (six months ended June 30, 2024 - $704,000).

The Company assessed for indicators of impairment and there were no indicators of impairment at June 30, 2025 or December 31, 2024.

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 June 30, 2025 or December 31, 2024.

8. RIGHT OF USE ASSETS

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

($000s)	
Balance at December 31, 2024	3,050
Additions	-
BALANCE AT JUNE 30, 2025	**3,050**
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2024	(1,689)
Depreciation and amortization	(174)
BALANCE AT JUNE 30, 2025	**(1,863)**
NET CARRYING AMOUNT, JUNE 30, 2025	**1,187**

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. On October 5, 2023, the Company entered into a new office lease agreement effective from December 1, 2023 to November 30, 2028. Lease liabilities were measured at a discounted value of lease payments using a weighted average incremental borrowing rate of 5% at December 1, 2023.

($000s)	
Balance at December 31, 2024	1,419
Interest expense	36
Lease payments	(182)
BALANCE AT JUNE 30, 2025	**1,273**

	As at June 30, 2025	As at Dec. 31, 2024
Lease liability - current	338	327
Lease liability - long term	935	1,092
TOTAL LEASE LIABILITY AT END OF PERIOD	**1,273**	**1,419**

Undiscounted cash outflows related to lease liabilities are:

($000s)	Within 1 year	1 to 5 years	Total
Lease payments	401	1,010	1,411

10. OPERATING LOAN AND LONG TERM DEBT

As at June 30, 2025, the Company had total available bank credit facilities of $55.0 million, comprised of a $48.0 million Credit Facility and a $7.0 million operating loan. The credit facility is a committed 364 days + 1 year and extendible upon agreement annually; and amounts outstanding are shown as long term debt on the Company's balance sheet. The operating loan is shown as a current liability. The credit facility and operating loan incur interest based on the applicable Canadian prime rate or Canadian Overnight Repo Rate Average ("CORRA") plus between 2.25% and 5.25% depending on the type of borrowing and the Company's debt to EBITDA ratio. The Company is also subject to a standby fee of 0.8125% to 1.3125% based on the Company's debt to EBITDA ratio. As at June 30, 2025, the Company is in compliance with all covenants. The Company completed its annual review in April 2025 with no substantial changes to the terms of the credit facility.

As at June 30, 2025, $14.6 million (net of unamortized debt issue costs) (December 31, 2024 - $nil) was drawn on the Credit Facility and $3.0 million (December 31, 2024 - $nil) was drawn on the operating loan.

The Company has issued letters of credit of $400,000 as at June 30, 2025 (December 31, 2024 - $400,000), thereby reducing the available bank credit facility by this amount.

Bank debt as at June 30, 2025 and December 31, 2024 is as follows:

($000s)	As at June 30, 2025	As at Dec. 31, 2024
Credit facility	15,000	-
Less: unamortized debt issue costs	(370)	-
LONG TERM DEBT	**14,630**	**-**
Operating loan	2,991	-
TOTAL BANK DEBT	**17,621**	**-**

Financing expense for the three and six months ended June 30, 2025 and June 30, 2024 is comprised of the following:

	For the three months ended		For the six months ended	
($000s)	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Credit facility interest and charges	349	635	601	976
Operating loan interest and charges	67	51	146	130
Amortization of debt issue costs	62	44	99	81
Interest on lease liability (NOTE 9)	18	21	36	43
FINANCING EXPENSES	**496**	**751**	**882**	**1,230**

For the six months ended June 30, 2025, the effective interest rate on the bank credit facility was 8.34% (June 30, 2024 – 8.83%).

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 at approximately $187.6 million ($110.7 million undiscounted, uninflated) (December 31, 2024 - $186.4 million and $110.1 million respectively), which will be incurred over the remaining life of the assets with the costs to be incurred between 2025 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 10% (December 31, 2024 – 10%) and an inflation rate of 2% (December 31, 2024 – 2%). The change in estimate for the year ended December 31, 2024 relates to a decrease to the credit adjusted discount rate from 12% to 10% and acceleration of abandonment timing.

The following table shows changes in the decommissioning liability:

($000s)	As at June 30, 2025	As at Dec. 31, 2024
Balance, beginning of period	28,902	22,094
Decommissioning liabilities incurred during the period	12	56
Decommissioning liabilites disposed of (NOTE 6)	-	(182)
Decommissioning liabilities settled during the period	(2,028)	(4,331)
Accretion expense during the period	1,446	2,655
Change in estimate	-	8,610
BALANCE - END OF PERIOD	**28,332**	**28,902**
Decommissioning liability - current	3,058	3,950
Decommissioning liability - long term	25,274	24,952
TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD	**28,332**	**28,902**

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, 2023	**140,529,665**	**154,894**
Issued on exercise of stock options	400,000	146
Allocation of contributed surplus - exercise of options	-	246
Return of capital	-	(21,139)
BALANCE AT DECEMBER 31, 2024	**140,929,665**	**134,147**
Substantial issue bid	(8,385,915)	(5,032)
BALANCE AT JUNE 30, 2025	**132,543,750**	**129,115**

On April 1, 2025, the board of directors authorized a substantial issuer bid pursuant to which the Company offered to purchase for cancellation up to $15.0 million of its common shares from its shareholders for cash (the "Offer"). The Offer was for a maximum of up to 30,000,000 common shares or approximately 21.3% of Karve's total issued and outstanding common shares. Under the offer, which expired on May 13, 2025, the Company cancelled 8.4 million common shares at the price of $0.60 per common share, representing an aggregate purchase price of $5.0 million. Payment and settlement of the common shares occurred on May 28, 2025.

On December 17, 2024, the Company notified its Shareholders that the Company would reduce its stated capital by $21.1 million in the aggregate, representing a Return of Capital (the "Return of Capital") of $0.15 per Common Share. The record date for determining the holders of Common Shares entitled to receive the Return of Capital was the close of business on January 8, 2025, and the Return of Capital was paid on January 15, 2025.

c) Contributed Surplus

($000s)	As at June 30, 2025	As at Dec. 31, 2024
Balance, beginning of period	36,769	34,816
Share-based compensation - options	397	164
Share-based compensation - warrants	-	2,035
Transfer to share capital on exercise of options	-	(246)
BALANCE, END OF PERIOD	**37,166**	**36,769**

d) Per Share Amounts

	For the three months ended		For the six months ended	
($000s except per share amounts)	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Net income for the period	1,722	8,947	5,604	14,442
Weighted average number of shares - basic	137,854,829	140,582,412	139,400,741	140,556,039
Dilutive impact of share-based compensation plans	10,995,096	13,537,007	10,995,096	13,537,007
Weighted average number of shares - diluted	**148,849,925**	**154,119,419**	**150,395,837**	**154,093,046**
Net income per share - basic	**0.01**	**0.06**	**0.04**	**0.10**
Net income per share - diluted	**0.01**	**0.06**	**0.04**	**0.09**

The dilutive impact of share-based compensation plans exclude the impact of 16.5 million weighted average shares that were anti-dilutive for the six months ended June 30, 2025 (year ended December 31, 2024 – 17.2 million weighted average shares).

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:

	For the three months ended		For the six months ended	
($000s)	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Processing fee income	749	840	1,317	1,675
Other	43	63	109	109
TOTAL OTHER INCOME	**792**	**903**	**1,426**	**1,784**

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:

	For the three months ended		For the six months ended	
($000s)	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Share-based compensation - options	378	56	397	119
Share-based compensation - performance warrants	-	508	-	1,015
TOTAL SHARE-BASED COMPENSATION	**378**	**564**	**397**	**1,134**

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 from the date of the grant to date of expiry 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.

Share-based compensation expense related to stock options during the three and six months ended June 30, 2025 was $378,000 and $397,000 (three and six months ended June 30, 2024 - $56,000 and $119,000).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2023 through to June 30, 2025:

	Number	Wtd. Avg. Exercise Price ($) (1)
BALANCE AT DECEMBER 31, 2023	**13,882,760**	**0.57**
Exercised	(400,000)	0.22
Forfeited	(75,000)	0.70
Expired	(1,055,000)	0.70
BALANCE AT DECEMBER 31, 2024	**12,352,760**	**0.57**
Granted	2,005,000	0.70
Forfeited	(265,000)	0.70
BALANCE AT JUNE 30, 2025	**14,092,760**	**0.59**

(1) Weighted average exercise prices have been adjusted for $0.70 per stock option reprice on June 10, 2025.

On May 14, 2025, an extension of three years to the expiry date for options issued prior to 2025 was approved by the Board of Directors. On June 10, 2025, the Company's Board of Directors unanimously approved a repricing of 10,504,634 options outstanding that had an exercise price greater than $0.80 per option to $0.70 per option.

There were no stock options exercised during the six months ended June 30, 2025. As at June 30, 2025, there were 11,983,590 options vested and exercisable. There were 400,000 stock options exercised during the year ended December 31, 2024 and there were 12,236,923 options vested and exercisable as at December 31, 2024.

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at June 30, 2025 were as follows:

Exercise Price Range (1)(2)	Wtd. Avg. Contractual Life	Number of options outstanding	Number of options exercisable
$0.20	2.90	1,961,976	1,961,976
$0.21 - $0.35	3.00	1,626,357	1,626,357
$0.36 - $0.70	5.13	10,504,427	8,395,257
	4.58	**14,092,760**	**11,983,590**

(1) Exercise prices have been adjusted for $0.70 per stock option reprice on June 10, 2025.

The fair value of each option granted, modified 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 six months ended June 30, 2025
Weighted average fair value of options granted (1)	0.52
Risk-free Interest rate (%)	2.64%
Expected life (years)	5.0
Estimated volatility of underlying common shares (%)	66%
Weighted average grant date share price	2.64
Forfeiture rate	4%
Expected dividend yield (%)	-

(1) Weighted average fair value of options granted have been adjusted for $0.70 per stock option reprice on June 10, 2025.

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 six months ended June 30, 2025 (year ended December 31, 2024 – nil).

The performance warrant entitles the holder to purchase one common share of the Company and were originally granted with 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 two years to the expiry date (from five years to seven years) for performance warrants was approved by the Board of Directors. On November 25, 2022, an extension of two years to the expiry (from seven years to nine years) for performance warrants outstanding was approved by the Board of Directors.

Share-based compensation expense related to performance warrants during the three and six months ended June 30, 2025 was $nil (three and six months ended June 30, 2024 - $508,000 and $1.0 million).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2023 through to June 30, 2025:

	Number	Wtd. Avg. Exercise Price ($) (1)
BALANCE AT DECEMBER 31, 2023	**31,811,500**	**2.21**
Expired	(4,400,000)	2.24
BALANCE AT DECEMBER 31, 2024	**27,411,500**	**2.21**
Forfeited	(60,000)	3.15
BALANCE AT JUNE 30, 2025	**27,351,500**	**2.21**

(1) Weighted average exercise prices have been adjusted $0.35, $0.15 and $0.15 per performance warrant due to the return of capital distribution paid on July 29, 2022, December 15, 2023 and January 15, 2025, respectively.

There were no performance warrants exercised during the six months ended June 30, 2025 (year ended December 31, 2024 - nil) and 5,620,000 performance warrants were vested and exercisable at June 30, 2025 (as at December 31, 2024 – 5,620,000).

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at June 30, 2025 were as follows:

Exercise Price Range (1)	Wtd. Avg. Contractual Life	Number of warrants outstanding	Number of warrants exercisable
$0.85 to $2.34	0.06	13,600,000	5,620,000
$2.35 to $3.34	1.25	8,250,900	-
$3.35 to $3.95	1.25	5,500,600	-
	0.66	**27,351,500**	**5,620,000**

(1) Weighted average exercise prices have been adjusted $0.35, $0.15 and $0.15 per performance warrant due to the return of capital distribution paid on July 29, 2022, December 15, 2023 and January 15, 2025, respectively.

Subsequent to June 30, 2025, the Company's Board of Directors unanimously approved a grant of 19,881,500 new performance warrants ("2025 Warrants"). The grant is subject to a surrender condition whereby the issuance of the 2025 Warrants shall be conditional on the surrender of all 27,351,500 currently outstanding 2016 and 2017 Warrants held by all grantees. The 2025 Warrants have an exercise price of one-third at each of the following $0.85, $1.20 and $1.40. The warrants vest at such time the current market price or liquidity value per common share exceeds the exercise price per share noted. On July 19, 2025, 13.6 million 2016 warrants expired.

15. 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, foreign exchange contracts, 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 June 30, 2025 were measured using level 2 observable inputs. This includes 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) and forward exchange rates, respectively.

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 June 30, 2025:

($000s)	Amortized cost	Total fair value
Assets		
Trade and other receivables (NOTE 3)	13,850	13,850
Deposits (NOTE 4)	114	114
Derivative asset (NOTE 15)	803	803
	14,767	**14,767**
Liabilities		
Operating loan (NOTE 10)	2,991	2,991
Trade and other payables (NOTE 5)	16,703	16,703
Long term debt (NOTE 10)	14,630	14,630
	34,324	**34,324**

The following table summarizes Karve's financial instruments at December 31, 2024:

($000s)	Amortized cost	Total fair value
Assets		
Cash and cash equivalents	433	433
Trade and other receivables (NOTE 3)	17,984	17,984
Deposits (NOTE 4)	60	60
	18,477	**18,477**
Liabilities		
Trade and other payables (NOTE 5)	17,361	17,361
Return of capital payable (NOTE 12)	21,139	21,139
Derivative liability (NOTE 15)	836	836
	39,336	**39,336**

b) Risk Associated with Financial Assets and Liabilities

Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, and interest rates will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company utilizes financial derivative contracts to manage certain market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

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

($000s)	For the three months ended June 30, 2025	For the three months ended June 30, 2024	For the six months ended June 30, 2025	For the six months ended June 30, 2024
Unrealized gain (loss) on financial derivative contracts	1,246	142	1,639	(86)
Realized gain (loss) on financial derivative contracts	384	(182)	(125)	(182)
GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	**1,630**	**(40)**	**1,514**	**(268)**

i) 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 using financial derivative contracts. The Company does not apply hedge accounting to these contracts.

At June 30, 2025, the Company had the following commodity contracts in place:

Type	Term	Basis[(1)]	Volume (Bbl/d)	Put Price ($CAD/Bbl)[(1)]	Call Price ($CAD/Bbl)[(1)]	Current Liability ($000s)
Collar	Oct. 1/25 - Dec. 31/25	WTI	250	75.00	91.00	(7)
Swap	Jul. 1/25 - Sept 30/25	WTI	250	98.10	-	268
Swap	Oct. 1/25 - Dec. 31/25	WTI	500	95.25	-	542
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,000**	**90.90**	**-**	**803**

(1) Nymex WTI monthly average in $CAD.

At June 30, 2025, the fair value of the commodity derivative contracts outstanding was in a current asset position of $803,000 (December 31, 2024 – current liability of $836,000), resulting in an unrealized gain of $1.6 million for the six months ended June 30, 2025 (six months ended June 30, 2024 – unrealized loss of $31,000). 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 June 30, 2025, and may be different from what will eventually be realized. For the six months ended June 30, 2025, the Company realized a loss of $125,000 (six months ended June 30, 2024 – loss of $182,000) on its commodity derivative contracts.

Subsequent to June 30, 2025, the Company entered into the following derivative contract:

Type	Term	Basis[(1)]	Volume (Bbl/d)	Put Price ($CAD/Bbl)[(1)]
Swap	Jan. 1/26 - Mar. 31/26	WTI	500	90.05

(1) Nymex WTI monthly average in $CAD.

ii) Foreign Exchange Risk

The Company is exposed to the risk of changes in the U.S./Canadian dollar exchange rate ("USD/CAD") on crude oil sales based on U.S. dollar benchmark prices. Foreign exchange risk is mitigated by entering into foreign exchange contracts.

The Company did not have any foreign exchange contracts outstanding as at June 30, 2025. At December 31, 2024, the fair value of the foreign exchange contract was $nil as all of the contracts expired on December 31, 2024. During the year ended December 31, 2024, the Company realized a loss of $181,000 on the foreign exchange contracts.

iii) 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 Canadian Overnight Repo Rate Average ("CORRA") plus between 2.25% and 5.25% 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 June 30, 2025, $15.0 million (December 31, 2024 - $nil) 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 $90,000 for the six months ended June 30, 2025 (six months ended June 30, 2024 - $117,000).

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 June 30, 2025 is as follows:

($000s)	Within 1 year	1 to 5 years	Total
Operating loan	2,991	-	2,991
Trade and other payables	16,703	-	16,703
Lease liabilities	401	1,010	1,411
Long term debt	-	14,630	14,630
TOTAL	**20,095**	**15,640**	**35,735**

A contractual maturity analysis for the Company's financial liabilities as at December 31, 2024 is as follows:

($000s)	Within 1 year	1 to 5 years	Total
Trade and other payables	17,361	-	17,361
Return of capital payable	21,139	-	21,139
Derivative liability	836	-	836
Lease liabilities	398	1,195	1,593
TOTAL	**39,734**	**1,195**	**40,929**

16. 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 as components of its capital base. Net debt is defined as long term debt plus any net working capital excluding derivative contract asset/liability and current portion of decommissioning liability. 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 June 30, 2025	As at Dec. 31, 2024
Shareholders' Equity	351,556	350,587
Total current assets	20,454	24,289
Trade and other payables	(16,703)	(17,361)
Return of capital payable	-	(21,139)
Operating loan	(2,991)	-
Long term debt	(14,630)	-
NET DEBT	**(13,870)**	**(14,211)**
CAPITAL BASE	**337,686**	**336,376**

The Company monitors its capital based primarily on its net debt to annualized funds flow ratio. 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 of 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, 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 June 30, 2025, the Company had net debt of $13.9 million (December 31, 2024 – $14.2 million).

The Company's share capital is not subject to external restrictions, but the Company does have key covenants of its credit facilities that include standard business operating covenants. As at June 30, 2025, the Company is in compliance with all covenants and management expects to comply with all terms during the subsequent 12-month period.

17. SUPPLEMENTAL INFORMATION

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
CHANGES IN NON-CASH WORKING CAPITAL:				
Trade and other receivables (NOTE 3)	1,561	1,625	4,134	(1,988)
Prepaids and deposits (NOTE 4)	(1,246)	(3,126)	(732)	(2,740)
Trade and other payables (NOTE 5)	(8,088)	(6,187)	(655)	2,378
Return of capital payable (NOTE 12)	-	-	(21,139)	-
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**(7,773)**	**(7,688)**	**(18,392)**	**(2,350)**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:				
Operating activities	630	(1,030)	3,065	(3,795)
Investing activities	(8,403)	(6,658)	(318)	1,445
Financing activities	-	-	(21,139)	-
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**(7,773)**	**(7,688)**	**(18,392)**	**(2,350)**

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

($000s)	Long term debt	Lease liabilties
BALANCE AT DECEMBER 31, 2023	14,843	1,723
Increase in long term debt	62,996	-
Repayment of long term debt	(78,000)	(304)
Amortization of debt issuance costs	161	-
BALANCE AT DECEMBER 31, 2024	**-**	**1,419**
Increase in long term debt	41,530	-
Repayment of long term debt	(27,000)	(146)
Amortization of debt issuance costs	100	-
BALANCE AT JUNE 30, 2025	**14,630**	**1,273**

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Crude oil	35,604	53,064	72,509	97,352
Natural gas liquids	1,507	1,958	3,008	3,789
Natural gas	2,538	2,421	5,574	6,397
TOTAL PETROLEUM AND NATURAL GAS SALES	**39,649**	**57,443**	**81,091**	**107,538**

18. SUBSEQUENT EVENTS

Subsequent to June 30, 2025, the Company's Board of Directors unanimously approved a grant of 19,881,500 new performance warrants ("2025 Warrants"). The grant is subject to a surrender condition whereby the issuance of the 2025 Warrants shall be conditional on the surrender of all 27,351,500 currently outstanding 2016 and 2017 Warrants held by all grantees. The 2025 Warrants have an exercise price of one-third at each of the following $0.85, $1.20 and $1.40. The warrants vest at such time the current market price or liquidity value per common share exceeds the exercise price per share noted. On July 19, 2025, 13.6 million 2016 warrants expired.