KARVE ENERGY INC

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2024 AND MARCH 31, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian $000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
ASSETS		
Current Assets		
Trade and other receivables (NOTE 3)	21,228	17,614
Prepaids and deposits (NOTE 4)	5,003	5,389
TOTAL CURRENT ASSETS	26,231	23,003
Property, plant and equipment (NOTE 6 & 8)	450,618	426,423
Exploration and evaluation (NOTE 6 & 8)	27,123	27,696
Right of use asset (NOTE 9)	1,622	1,709
TOTAL ASSETS	**505,594**	**478,831**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 5)	31,190	22,625
Operating loan (NOTE 11)	2,775	2,303
Derivative liability (NOTE 16)	228	-
Lease liability (NOTE 10)	307	304
Decommissioning liability (NOTE 12)	3,685	3,929
TOTAL CURRENT LIABILITIES	**38,185**	**29,161**
Long term debt (NOTE 11)	24,880	14,843
Lease liability (NOTE 10)	1,372	1,419
Decommissioning liability (NOTE 12)	18,031	18,165
Deferred income tax liability	48,838	47,020
TOTAL LIABILITIES	**131,306**	**110,608**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 13)	154,894	154,894
Contributed surplus (NOTE 13)	35,386	34,816
Accumulated earnings	184,008	178,513
TOTAL SHAREHOLDERS' EQUITY	**374,288**	**368,223**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**505,594**	**478,831**

COMMITMENTS (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 $000s, except per share amounts)	For the three months ended Mar. 31, 2024	Mar. 31, 2023
REVENUE		
Petroleum and natural gas sales (NOTE 19)	50,095	59,659
Royalties	(5,934)	(7,539)
PETROLEUM AND NATURAL GAS SALES, NET OF ROYALTIES	44,161	52,120
Other income (NOTE 14)	881	1,172
(Loss) gain on financial derivative contracts (NOTE 16)	(228)	154
TOTAL REVENUE AND OTHER INCOME	44,814	53,446
EXPENSES		
Operating	16,410	16,998
Transportation	1,351	1,085
General and administration	2,553	2,317
Depletion, depreciation and amortization (NOTE 8 & 9)	15,194	15,415
Financing (NOTE 11)	479	631
Accretion (NOTE 12)	663	651
Share-based compensation (NOTE 15)	570	603
Exploration and evaluation - expiries (NOTE 8)	282	339
TOTAL EXPENSES	37,502	38,039
NET INCOME BEFORE TAX EXPENSE	7,312	15,407
TAX EXPENSE		
Deferred income tax expense	1,817	3,684
NET INCOME AND COMPREHENSIVE INCOME	5,495	11,723
INCOME PER SHARE ($) (NOTE 13)		
Basic	0.04	0.08
Diluted	0.03	0.07

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Canadian $000s)	For the three months ended Mar. 31, 2024	Mar. 31, 2023
SHARE CAPITAL		
Balance, beginning of period	**154,894**	**175,973**
BALANCE, END OF PERIOD	**154,894**	**175,973**
CONTRIBUTED SURPLUS		
Balance, beginning of period	34,816	32,483
Share-based compensation (NOTE 15)	570	603
BALANCE, END OF PERIOD	**35,386**	**33,086**
EARNINGS		
Balance, beginning of period	178,513	121,691
Net income and comprehensive income	5,495	11,723
BALANCE, END OF PERIOD	**184,008**	**133,414**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian $000s)	For the three months ended Mar. 31, 2024	Mar. 31, 2023
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income and comprehensive income	5,495	11,723
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 8 & 9)	15,194	15,415
Accretion expense (NOTE 12)	663	651
Exploration and evaluation (NOTE 8)	282	339
Unrealized loss on foreign exchange	-	1
Share-based compensation (NOTE 15)	570	603
Unrealized loss (gain) on financial derivatives (NOTE 16)	228	(485)
Deferred income tax expense	1,817	3,684
Non-cash financing expense (NOTE 11)	59	62
Decommissioning expenditures (NOTE 12)	(1,055)	(650)
FUNDS FLOW FROM OPERATIONS	**23,253**	**31,343**
Change in non-cash working capital (NOTE 19)	(2,765)	(2,568)
CASH FLOW FROM OPERATING ACTIVITIES	**20,488**	**28,775**
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 8)	(136)	(251)
Property, plant and equipment (NOTE 8)	(38,861)	(38,264)
Change in non-cash working capital (NOTE 19)	8,103	3,728
CASH FLOW USED FOR INVESTING ACTIVITIES	**(30,894)**	**(34,787)**
FINANCING ACTIVITIES		
Operating line (NOTE 11)	472	89
Financing lease expense (NOTE 10)	(66)	(77)
Increase in long term debt (NOTE 11)	20,000	8,000
Repayment of long term debt (NOTE 11)	(10,000)	(2,000)
CASH FLOW USED FOR FINANCING ACTIVITIES	**10,406**	**6,012**
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**-**	**-**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements are as at and for the three months ended March 31, 2024 and 2023. 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 interim 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 consolidated financial statements (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim consolidated financial statements, including International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These interim consolidated financial statements have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2023. 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, 2023. Certain comparative figures may have been reclassified to conform to the current year presentation.

The financial statements were approved and authorized for issue by Karve’s Board of Directors on May 16, 2024.

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, 2023 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.

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, 2023 audited annual consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Amendments to IAS 1 *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 did not have a material impact on the financial statements.

3. TRADE AND OTHER RECEIVABLES

($000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Trade	19,845	16,506
Joint venture	1,699	1,424
Allowance for doubtful accounts	(316)	(316)
TRADE AND OTHER RECEIVABLES	**21,228**	**17,614**

Of the Company's accounts receivable at March 31, 2024, approximately 68% was receivable from three oil marketers (32%, 20% and 16%). At December 31, 2023, approximately 62% was receivable from two oil marketers (37% and 25%). Accounts receivable outstanding greater than ninety days at March 31, 2024 was $525,000 (December 31, 2023 - $648,000).

4. PREPAIDS AND DEPOSITS

($000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Prepaids	4,830	5,241
Deposits	173	148
PREPAIDS AND DEPOSITS	**5,003**	**5,389**

Included in prepaids are deposits on production casing and other oilfield equipment for the 2024 capital program.

5. TRADE AND OTHER PAYABLES

($000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Trade	19,906	11,213
Accrued	7,662	8,253
Royalties	2,088	2,039
GST	-	696
Joint venture	1,534	424
TRADE AND OTHER PAYABLES	**31,190**	**22,625**

6. ACQUISITIONS

On September 28, 2023, the Company acquired assets in the Evi area of Alberta targeting the Clearwater formation (the "Acquisition") for a total purchase price of $6.2 million. The Acquisition included three producing wells with net production of approximately 100 boe/d.

The following table summarizes the fair value of the net assets acquired:

($000s)	
Exploration and evaluation assets	2,824
Property, plant and equipment	3,486
Decommissioning liabilities	(149)
FAIR VALUE OF NET ASSETS ACQUIRED	**6,161**

CONSIDERATION	
Cash	6,161
TOTAL PURCHASE PRICE	**6,161**

7. DISPOSITIONS

On December 6, 2023, the Company completed the sale of its remaining fee title land interests effective October 1, 2023, for net proceeds of $13.5 million (after closing adjustments). The disposed assets included 44 gross sections of fee title lands. The carrying value of the assets disposed was $nil, resulting in a gain on disposition of $13.5 million.

8. CAPITAL ASSETS

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

COST ($000s)	Petroleum and Natural Gas Assets	Corporate Assets	Total Property, Plant and Equipment	Exploration & Evalutation Assets
BALANCE AT DECEMBER 31, 2022	666,707	1,100	667,807	15,999
Additions	90,656	888	91,544	10,157
Transfers to (from) P&NG/E&E assets	588	-	588	(588)
Change in decommissioning provision (NOTE 12)	3,652	-	3,652	-
Expiries	-	-	-	(696)
Acquisitions (NOTE 6)	3,337	-	3,337	2,824
Decommissioning liabilities acquired through acquisitions	149	-	149	-
BALANCE AT DECEMBER 31, 2023	**765,089**	**1,988**	**767,077**	**27,696**
Additions	38,595	266	38,861	136
Transfers to (from) P&NG/E&E assets	427	-	427	(427)
Change in decommissioning provision (NOTE 12)	14	-	14	-
Expiries	-	-	-	(282)
BALANCE AT MARCH 31, 2024	**804,125**	**2,254**	**806,379**	**27,123**
ACCUMULATED DD&A ($000s)				
BALANCE AT DECEMBER 31, 2022	277,801	829	278,630	-
Depletion, depreciation and amortization	61,788	236	62,024	-
BALANCE AT DECEMBER 31, 2023	**339,589**	**1,065**	**340,654**	**-**
Depletion, depreciation and amortization	14,991	116	15,107	-
BALANCE AT MARCH 31, 2024	**354,580**	**1,181**	**355,761**	**-**
NET CARRYING AMOUNT, DECEMBER 31, 2023	**425,500**	**923**	**426,423**	**27,696**
NET CARRYING AMOUNT, MARCH 31, 2024	**449,545**	**1,073**	**450,618**	**27,123**

Petroleum and Natural Gas Assets

At March 31, 2024, future development and production costs of $525.9 million (December 31, 2023 - $550.5 million) are included in costs subject to depletion.

General and administration costs capitalized by the Company during the three months ended March 31, 2024 were $544,000 (three months ended March 31, 2023 - $827,000).

The Company assessed for indicators of impairment and there were no indicators of impairment at March 31, 2024 or December 31, 2023.

Exploration and Evaluation

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

The Company assessed for indicators of impairment and there were no indicators of impairment at March 31, 2024 or December 31, 2023.

9. RIGHT OF USE ASSETS

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

($000s)	
Balance at December 31, 2023	3,050
Additions	-
BALANCE AT MARCH 31, 2024	**3,050**
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2023	(1,341)
Depreciation and amortization	(87)
BALANCE AT MARCH 31, 2024	**(1,428)**
NET CARRYING AMOUNT, MARCH 31, 2024	**1,622**

10. LEASE LIABILITY

The Company has lease liabilities for an office lease agreement effective December 1, 2023 to November 30, 2028. 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 December 1, 2023.

($000s)	
Balance at December 31, 2023	1,723
Interest expense	22
Lease payments	(66)
BALANCE AT MARCH 31, 2024	**1,679**

	As at Mar. 31, 2024	As at Dec. 31, 2023
Lease liability - current	307	304
Lease liability - long term	1,372	1,419
TOTAL LEASE LIABILITY AT END OF PERIOD	**1,679**	**1,723**

Undiscounted cash outflows related to lease liabilities are:

($000s)	Within 1 year	1 to 5 years	Total
Lease payments	390	1,527	1,917

11. OPERATING LOAN AND LONG TERM DEBT

As at March 31, 2024, 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 Banker's Acceptance rate 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 March 31, 2024, the Company is in compliance with all covenants. The next review date is May 31, 2024.

As at March 31, 2024, $24.9 million (net of unamortized debt issue costs) (December 31, 2023 - $14.8 million) was drawn on the credit facility and $2.8 million (December 31, 2023 - $2.3 million) was drawn on the operating loan.

The Company has issued letters of credit of $400,000 as at Mach 31, 2024 (December 31, 2023 - $400,000), thereby reducing the available bank credit facility by this amount.

Bank debt as at March 31, 2024 and December 31, 2023 is as follows:

($000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Credit facility	25,000	15,000
Less: unamortized debt issue costs	(120)	(157)
LONG TERM DEBT	**24,880**	**14,843**
Operating loan	2,775	2,303
TOTAL BANK DEBT	**27,655**	**17,146**

Financing expense for the three months ended March 31, 2024 and March 31, 2023 is comprised of the following:

	For the three months ended	
($000s)	Mar. 31, 2024	Mar. 31, 2023
Credit facility interest and charges	341	523
Operating loan interest and charges	79	46
Amortization of debt issue costs	37	58
Interest on lease liability (NOTE 10)	22	4
FINANCING EXPENSES	**479**	**631**

For the three months ended March 31, 2024, the effective interest rate on the bank credit facility was 9.7% (March 31, 2023 – 8.3%).

12. DECOMMISSIONING LIABILITY

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

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability at approximately $192.0 million ($111.6 million undiscounted, uninflated) (December 31, 2023 - $189.6 million and $110.6 million respectively), which will be incurred over the remaining life of the assets between 2024 and 2065. The estimated future cash flows have been discounted using a credit adjusted rate of 12% (December 31, 2023 – 12%) and an inflation rate of 2% (December 31, 2023 – 2%). The change in estimate for the year ended December 31, 2023 relates to an increase in costs of abandonment for 2025, and acceleration of abandonment timing.

The following table shows changes in the decommissioning liability:

($000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Balance, beginning of period	22,094	20,019
Decommissioning liabilities incurred during the period	14	45
Decommissioning liabilities acquired through acquisitions (NOTE 6)	-	149
Decommissioning liabilities settled during the period	(1,055)	(4,332)
Accretion expense during the period	663	2,606
Change in estimate	-	3,607
BALANCE - END OF PERIOD	**21,716**	**22,094**
Decommissioning liability - current	3,685	3,929
Decommissioning liability - long term	18,031	18,165
TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD	**21,716**	**22,094**

13. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

b) Issued and Outstanding Common Shares

($000s except for share amounts)	Number	Amount
Common Shares		
BALANCE AT DECEMBER 31, 2022	**140,529,665**	**175,973**
Return of capital	-	(21,079)
BALANCE AT DECEMBER 31, 2023 AND MARCH 31, 2024	**140,529,665**	**154,894**

On November 17, 2023, 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 of $0.15 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 December 1, 2023, and the Return of Capital was paid on December 15, 2023.

c) Contributed Surplus

($000s)	As at Mar. 31, 2024	As at Dec. 31, 2023
Balance, beginning of period	34,816	32,483
Share-based compensation - options	63	308
Share-based compensation - warrants	507	2,025
BALANCE, END OF PERIOD	**35,386**	**34,816**

d) Per Share Amounts

($000s except per share amounts)	For the three months ended Mar. 31, 2024	Mar. 31, 2023
Net income for the period	5,495	11,723
Weighted average number of shares - basic	140,529,665	140,529,665
Dilutive impact of share-based compensation plans	18,185,672	16,472,508
Weighted average number of shares - diluted	**158,715,337**	**157,002,173**
Net income per share - basic	**0.04**	**0.08**
Net income per share - diluted	**0.03**	**0.07**

14. 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	
($000s)	Mar. 31, 2024	Mar. 31, 2023
Processing fee income	835	948
Royalty income	-	111
Other	46	113
TOTAL OTHER INCOME	**881**	**1,172**

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

Royalty income includes freehold royalties, gross overriding royalties, royalties on fee title lands, and net profit interests. On December 6, 2023, the Company completed the sale of its remaining fee title land interests effective October 1, 2023, for net proceeds of $13.5 million (after closing adjustments).

15. SHARE-BASED COMPENSATION

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

	For the three months ended	
($000s)	Mar. 31, 2024	Mar. 31, 2023
Share-based compensation - options	63	101
Share-based compensation - performance warrants	507	502
TOTAL SHARE-BASED COMPENSATION	**570**	**603**

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 a maximum of up to nine 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 stock 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 months ended March 31, 2024 was $63,000 (three months ended March 31, 2023 - $101,000).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2022 through to March 31, 2024:

	Number	Wtd. Avg. Exercise Price ($) (1)
BALANCE AT DECEMBER 31, 2022	**13,952,760**	**1.32**
Granted	100,000	2.35
Forfeited	(170,000)	1.74
BALANCE AT DECEMBER 31, 2023 AND MARCH 31, 2024	**13,882,760**	**1.32**

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

There were no stock options issued or exercised during the three months ended March 31, 2024. As at March 31, 2024 there were 13,584,422 options vested and exercisable. There were no stock options exercised during the year ended December 31, 2023 and there were 13,517,755 options vested and exercisable as at December 31, 2023.

The range of exercise prices of the outstanding stock options and weighted average contractual life remaining as at March 31, 2024 were as follows:

Exercise Price Range [1]	Wtd. Avg. Contractual Life	Number of options outstanding	Number of options exercisable
$0.35	1.10	2,320,976	2,320,976
$0.36 - $1.49	1.28	1,667,357	1,667,357
$1.50 - $2.94	3.22	9,894,427	9,596,089
	2.63	**13,882,760**	**13,584,422**

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

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 year ended Dec. 31, 2023
Weighted average fair value of options granted	1.37
Risk-free Interest rate (%)	3.38%
Expected life (years)	5.0
Estimated volatility of underlying common shares (%)	60%
Weighted average grant date share price	2.50
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 three months ended March 31, 2024 (year ended December 31, 2023 – 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 months ended March 31, 2024 was $507,000 (three months ended March 31, 2023 - $502,000).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2022 through to March 31, 2024:

	Number	Wtd. Avg. Exercise Price ($) (1)
BALANCE AT DECEMBER 31, 2022	**31,831,500**	**2.36**
Forfeited	(20,000)	3.30
BALANCE AT DECEMBER 31, 2023 AND MARCH 31, 2024	**31,811,500**	**2.36**

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

There were no performance warrants exercised during the three months ended March 31, 2024 (year ended December 31, 2023 - nil) and 6,460,000 performance warrants were vested and exercisable at March 31, 2024 and December 31, 2023.

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at March 31, 2024 were as follows:

Exercise Price Range (1)	Wtd. Avg. Contractual Life	Number of warrants outstanding	Number of warrants exercisable
\$1.00 to \$2.49	1.20	15,700,000	6,460,000
\$2.50 to \$3.49	2.21	9,666,900	-
\$3.50 to \$4.10	2.21	6,444,600	-
	1.71	**31,811,500**	**6,460,000**

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

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 are comprised of 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 and foreign exchange contracts used for risk management are 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 March 31, 2024:

($000s)	Amortized cost	Total fair value
Assets		
Trade and other receivables (NOTE 3)	21,228	21,228
Deposits (NOTE 4)	173	173
	21,401	**21,401**
Liabilities		
Operating loan (NOTE 11)	2,775	2,775
Trade and other payables (NOTE 5)	31,190	31,190
Derivative liability (NOTE 16)	228	228
Long term debt (NOTE 11)	24,880	24,880
	59,073	**59,073**

The following table summarizes Karve's financial instruments at December 31, 2023:

($000s)	Amortized cost	Total fair value
Assets		
Trade and other receivables (NOTE 3)	17,614	17,614
Deposits (NOTE 4)	148	148
	17,762	**17,762**
Liabilities		
Operating loan (NOTE 11)	2,303	2,303
Trade and other payables (NOTE 5)	22,625	22,625
Long term debt (NOTE 11)	14,843	14,843
	39,771	**39,771**

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 (loss) gain on financial derivative contracts is as follows:

	For the three months ended	
($000s)	Mar. 31, 2024	Mar. 31, 2023
Unrealized (loss) gain financial derivative contracts	(228)	485
Realized (loss) on financial derivative contracts	-	(331)
(LOSS) GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**(228)**	**154**

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 through the use of financial derivative contracts. The Company does not apply hedge accounting to these contracts.

At March 31, 2024, 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]	Liability ($000s)
Collar	Apr. 1/24 - Jun. 30/24	WTI	1,000	95.00	120.00	228

(1) Nymex WTI monthly average in $CAD.

At March 31, 2024, the fair value of the commodity derivative contracts outstanding was in a current liability position of $228,000 resulting in an unrealized loss of $228,000 (December 31, 2023 - $nil current liability). The fair value, or mark-to-market value, of these contracts are based on the estimated amount that would have been received or paid to settle the contracts as at March 31, 2024 and may be different from what will eventually be realized. At March 31, 2023, the Company recorded an unrealized gain of $204,000 and a realized loss of $331,000.

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.

At March 31, 2024, the Company did not have any foreign exchange contracts outstanding. At March 31, 2023, the Company recorded an unrealized gain of $281,000 on a foreign exchange contract.

Subsequent to March 31, 2024, the Company entered into Average Rate Collars for the notional amount of $3.5 million USD for the period April 2024 to December 2024 with an average floor of 1.3350 and average ceiling of 1.3850.

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 Banker's Acceptance rate 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 March 31, 2024, $25.0 million (December 31, 2023 - $15.0 million) was drawn on the credit facility ($24.9 million – net of amortized debt issue costs). Currently the Company has not entered into any agreements to manage this risk. An increase (decrease) in the interest rate by 1% would result in an increase (decrease) to net income before tax of $41,000 for the three months ended March 31, 2024 (three months ended March 31, 2023 - $68,000).

Liquidity Risk

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

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

($000s)	Within 1 year	1 to 5 years	Total
Operating loan	2,775	-	2,775
Trade and other payables	31,190	-	31,190
Derivative liability	228	-	228
Lease liabilities	390	1,527	1,917
Long term debt	-	24,880	24,880
TOTAL	**34,583**	**26,407**	**60,990**

A contractual maturity analysis for the Company's financial liabilities as at December 31, 2023 is as follows:

($000s)	Within 1 year	1 to 5 years	Total
Operating loan	2,303	-	2,303
Trade and other payables	22,625	-	22,625
Lease liabilities	390	1,593	1,983
Long term debt	-	14,843	14,843
TOTAL	**25,318**	**16,436**	**41,754**

17. CAPITAL MANAGEMENT

a) Capital Base

In order to continue the Company's future exploration and development program, the Company must maintain a strong capital base to enable access to equity and debt markets. The Company continually monitors the risk/reward profile of its exploration and development projects and the economic indicators in the market including commodity prices, interest rates and foreign exchange rates. After considering these factors, revisions to the Company's capital budget are made upon the approval of the Board of Directors.

The Company considers shareholders' capital and net debt 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 Mar. 31, 2024	As at Dec. 31, 2023
Shareholders' Equity	374,288	368,223
Total current assets	26,231	23,003
Trade and other payables	(31,190)	(22,625)
Operating loan	(2,775)	(2,303)
Long term debt	(24,880)	(14,843)
NET DEBT	**(32,614)**	**(16,768)**
CAPITAL BASE	**341,674**	**351,455**

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 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 March 31, 2024, the Company had net debt of $32.6 million (December 31, 2023 – $16.8 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 March 31, 2024, the Company is in compliance with all covenants and management expects to comply with all terms during the subsequent 12-month period.

18. COMMITMENTS

During the three months ended March 31, 2024, the Company entered into a farm-in agreement with a third party where Karve is committed to drilling three multilateral test wells in the Cold Lake area with an estimated cost of $4.5 million by December 31, 2024. Karve will earn a 50% working interest in the 6.5 sections of the farm-in lands upon completion of the commitment.

19. 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	
($000s)	Mar. 31, 2024	Mar. 31, 2023
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 3)	(3,613)	(124)
Prepaids and deposits (NOTE 4)	386	1,027
Trade and other payables (NOTE 5)	8,565	257
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**5,338**	**1,160**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	(2,765)	(2,568)
Investing activities	8,103	3,728
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**5,338**	**1,160**

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, 2022	19,795	349
Increase in long term debt	41,339	1,738
Repayment of long term debt	(46,500)	(364)
Amortization of debt issuance costs	209	-
BALANCE AT DECEMBER 31, 2023	**14,843**	**1,723**
Increase in long term debt	20,000	-
Repayment of long term debt	(10,000)	(44)
Amortization of debt issuance costs	37	-
BALANCE AT MARCH 31, 2024	**24,880**	**1,679**

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

	For the three months ended	
($000s)	Mar. 31, 2024	Mar. 31, 2023
Crude oil	44,288	53,202
Natural gas liquids	1,831	2,119
Natural gas	3,976	4,338
TOTAL PETROLEUM AND NATURAL GAS SALES	**50,095**	**59,659**