KARVE ENERGY INC

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016

AND DECEMBER 31, 2015

March 29, 2017

Independent Auditor's Report

To the Directors of Karve Energy Inc.

We have audited the accompanying consolidated financial statements of Karve Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Karve Energy Inc. as at December 31, 2016 and December 31, 2015, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Canadian $000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	21,905	19,015
Trade and other receivables (NOTE 5)	1,922	2
Prepaids and deposits (NOTE 6)	9,303	76
TOTAL CURRENT ASSETS	33,130	19,093
Assets held for sale (NOTES 9 AND 16)	-	2,811
Property, plant and equipment (NOTE 10)	32,275	38
Exploration and evaluation (NOTE 11)	8,478	200
Deferred income tax asset (NOTE 15)	4,634	-
TOTAL ASSETS	**78,517**	**22,142**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 7)	9,861	96
TOTAL CURRENT LIABILITIES	**9,861**	**96**
Liabilities associated with assets held for sale (NOTES 9 AND 16)	-	328
Deferred lease liability (NOTE 17)	108	-
Decommissioning liability (NOTE 12)	7,154	-
TOTAL LIABILITIES	**17,123**	**424**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 13)	73,006	32,649
Contributed surplus (NOTE 13)	6,657	2,385
Accumulated deficit	(18,269)	(13,316)
TOTAL SHAREHOLDERS' EQUITY	**61,394**	**21,718**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**78,517**	**22,142**

COMMITMENTS (NOTE 17)
SUBSEQUENT EVENTS (NOTE 22)

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

Approved on behalf of the Board of Directors:

Signed "Donald A. Engle" *Signed "James C. Lough"*

Donald A. Engle
Chairman of the Board

James C. Lough
Director

CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS

(Canadian $000s, except per share amounts)	For the year ended Dec. 31, 2016	Dec. 31, 2015
REVENUE		
Petroleum and natural gas sales (NOTE 20)	4,647	-
Royalties	(274)	-
NET REVENUE	4,373	-
EXPENSES		
Operating	3,529	-
Transportation	216	-
General and administration (NOTE 20)	3,812	1,505
Depletion, depreciation and amortization (NOTE 10)	1,795	4
Accretion (NOTE 12)	247	-
Share-based compensation (NOTE 14)	4,272	1,567
Exploration and evaluation - expiries (NOTE 11)	57	-
Impairment (recovery) of exploration and evaluation assets (NOTE 11)	(247)	1,652
Transaction costs (NOTE 8)	106	-
LOSS BEFORE OTHER ITEMS	(9,414)	(4,728)
FINANCE INCOME		
Interest income	256	196
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(9,158)	(4,532)
TAX EXPENSE		
Deferred income tax recovery (NOTE 15)	(4,187)	-
NET LOSS AND COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS	(4,971)	(4,532)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (NOTE 16)	18	(4,039)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(4,953)	(8,571)
LOSS PER SHARE ($) (NOTE 13)		
Basic and diluted - continuing operations (NOTE 13)	(0.11)	(0.17)
Basic and diluted - discontinued operations (NOTE 13)	-	(0.16)
TOTAL BASIC AND DILUTED (NOTE 13)	**(0.11)**	**(0.33)**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Canadian $000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
SHARE CAPITAL		
Balance, beginning of year	32,649	32,649
Issuance of share capital, net of issue costs (NOTE 13)	40,357	-
BALANCE, END OF YEAR	73,006	32,649
CONTRIBUTED SURPLUS		
Balance, beginning of year	2,385	427
Share-based compensation (NOTE 14)	4,272	1,958
BALANCE, END OF YEAR	6,657	2,385
DEFICIT		
Balance, beginning of year	(13,316)	(4,745)
Net loss and comprehensive loss for the year	(4,953)	(8,571)
BALANCE, END OF YEAR	(18,269)	(13,316)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Canadian $000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss and comprehensive loss from continuing operations	(4,971)	(4,532)
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 10)	1,795	4
Accretion expense (NOTE 12)	247	-
Exploration and evaluation (NOTE 11)	57	-
Deferred lease expense	108	-
General and administration (NOTE 20)	90	-
Share-based compensation (NOTE 14)	4,272	1,567
Impairment (recovery) of exploration and evaluation assets (NOTE 11)	(247)	1,652
Deferred income tax recovery (NOTE 15)	(4,187)	-
Decommissioning expenditures (NOTE 12)	(60)	-
FUNDS FLOW USED FOR OPERATIONS	**(2,896)**	**(1,309)**
Change in non-cash working capital (NOTE 20)	6,867	11
CASH FLOW FROM (USED FOR) CONTINUING OPERATIONS	3,971	(1,298)
Cash flow from (used for) discontinued operations (NOTE 20)	18	(2,554)
CASH FLOW FROM (USED FOR) OPERATING ACTIVITIES	**3,989**	**(3,852)**
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 11)	(149)	-
Property, plant and equipment (NOTE 10 AND NOTE 20)	(11,262)	(5)
Acquisitions (NOTE 8 AND NOTE 20)	(23,585)	-
Discontinued operations (NOTE 20)	2,486	(221)
Change in non-cash working capital (NOTE 20)	(8,252)	-
CASH FLOW USED FOR INVESTING ACTIVITIES	**(40,762)**	**(226)**
FINANCING ACTIVITIES		
Issue of shares on exercise of put-call option, net of issue costs (NOTE 13)	6,615	-
Issue of shares, net of issue costs (NOTE 13)	33,048	-
CASH FLOW FROM FINANCING ACTIVITIES	**39,663**	**-**
Increase (decrease) in cash and cash equivalents	2,890	(4,078)
Cash and cash equivalents, beginning of year	19,015	23,093
CASH AND CASH EQUIVALENTS, END OF YEAR	**21,905**	**19,015**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015. (Tabular amounts in thousands of Canadian dollars, unless otherwise stated. Amounts in text are in Canadian dollars unless otherwise stated).

1. REPORTING ENTITY

Karve Energy Inc. ("Karve" or the "Company") is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and gas properties in western Canada.

The Company was incorporated under the laws of the Province of Alberta on January 30, 2014, under the name "1799380 Alberta Ltd.". On June 16, 2014, the Company changed its name to "Bruin Oil & Gas Inc." ("Bruin") and on September 15, 2016, the Company changed its name to "Karve Energy Inc.".

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

Karve's head office is located at Suite 1700, 205 5 Avenue SW, Calgary Alberta, T2P 2V7.

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved and authorized for issue by the Board of Directors on March 29, 2017.

Basis of Measurement

These consolidated 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 and described in the accounting policies in NOTE 3. The consolidated financial statements are measured and presented in Canadian dollars as the functional currency of the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of Karve and its subsidiaries. Subsidiaries are entities controlled by the Company. 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 December 31, 2016, the Company has one wholly-owned subsidiary, DTC Energy Inc. The financial statements of subsidiaries are prepared for the same reporting period as Karve, using uniform accounting policies. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. 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 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. The most significant areas subject to estimate include:

a) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and petroleum and natural gas assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill purchase price allocation. Future net earnings can be affected as a result of changes in future depletion and depreciation, asset impairment, decommissioning liability or goodwill impairment. See NOTE 8 for further details.

b) Reserve Estimates

Reserve estimates impact a number of key areas, in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation. Petroleum and natural gas assets are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Reserve estimates, although not reported as part of the Company's financial statements, can have a significant effect on net income (loss), assets and liabilities as a result of their impact on depletion and depreciation, decommissioning liabilities, deferred taxes, asset impairments and business combinations. Independent reservoir engineers perform evaluations of the Company's oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgment. Estimates of economically recoverable oil and natural gas reserves are based upon a number of variables and assumptions such as geoscientific interpretation, production forecasts, commodity prices, costs and related future cash flows, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available or as economic conditions change. See NOTE 10 for further details.

c) Technical Feasibility and Commercial Viability of Exploration and Evaluation Assets

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves, results in the transfer of assets from exploration and evaluation assets to petroleum and natural gas assets. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgement. Thus any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets. See NOTE 10 and NOTE 11 for further details.

d) Impairment Indicators and Discount Rate

For purposes of impairment testing, petroleum and natural gas assets are aggregated into cash-generating units ("CGU's"), based on separately identifiable and largely independent cash inflows. The determination of the Company's CGU's is subject to judgment. The Company currently has three CGUs – Consort and Hamilton Lake, Alberta and Fiske, Saskatchewan.

The recoverable amount of CGU's and individual assets have been determined based on the higher of the value-in use calculations and fair value less costs of disposal. These calculations require the use of estimates and assumptions, including the discount rate. It is possible that the commodity price assumptions may change, which may impact the estimated life of the field and economical reserves recoverable and may require an adjustment to the carrying value of petroleum and natural gas assets. The Company monitors internal and external indicators of impairment relating to its assets and records adjustments, if necessary, at each reporting period date. See NOTE 10 for further details.

e) Decommissioning Liabilities

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. Estimates of these costs are subject to uncertainty associated with the method, timing and extent of future decommissioning activities. The liability, the related asset and the expense are impacted by estimates with respect to the costs and timing of decommissioning. See NOTE 12 for further details.

f) Measurement of Share-Based Compensation

Share-based compensation amounts are determined based on compensation plans in effect and are subject to estimated fair values, volatility, expected life, discount rate, forfeiture rates and the future attainment of performance criteria. The Company is not listed for trading on a public exchange and share prices and trading volatility are based on limited activity and information available from peer companies. The Company was formed in 2014 and has little experience upon which to base estimates of option and warrant life and forfeiture rates. See NOTE 14 for further details.

g) Income Taxes

The Company recognizes the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operation and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could change the ability of the Company to obtain tax deductions in future periods. See NOTE 15 for further details.

3. SIGNIFICANT ACCOUNTING POLICIES

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method in accordance with IFRS 3, *Business Combinations*. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given up, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the assets or acquiree. Goodwill is recognized when the consideration paid exceeds the aggregate fair values of the assets and liabilities acquired. Acquisition-related transaction costs are recognized in the consolidated statement of net loss and comprehensive loss as incurred.

Joint Arrangements

The Company conducts a substantial amount of their activities by taking 100% ownership interest but conducts some of its activities jointly with others through jointly controlled operations which involve the use of assets and other resources of the Company and other venturers rather than the establishment of a corporation, partnership or other entity. The financial statements include only the Company's proportionate share of jointly controlled sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Property, Plant and Equipment, Exploration and Evaluation Assets

The Company's property, plant and equipment primarily consists of oil and natural gas development and production assets. Property, plant and equipment is stated at cost, less accumulated depletion, depreciation, amortization and accumulated impairment losses. Development and production assets represent the cost of developing the commercial reserves and initiating production and are accumulated into major area cost centres for purposes of determining depletion, depreciation, impairment decommissioning and other financial measurements.

Capitalization, Recognition and Measurement

The capital cost of an asset is the aggregate of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning provision, and for qualifying assets, borrowing costs. For acquired assets or businesses, the purchase price is the aggregate amount paid and the fair value of any other consideration given up to acquire the asset or business. Expenditures on major maintenance, inspections or overhauls and well workovers are capitalized when the item enhances the life or performance of an asset above its original standard. Where an asset or part of an asset that was separately depreciated is replaced and it is probable that future economic benefits associated with the replacement item will flow to the Company, the replacement expenditure is capitalized and the carrying amount of the replaced asset is charged to the consolidated statement of net loss and comprehensive loss.

When an item of property, plant and equipment is disposed of or when there are no net future economic benefits expected from the continued use of the asset, the asset is removed from the accounts (derecognized), and any gain or loss arising on derecognition (calculated as the difference between the net disposal proceeds and the carrying amount of the item), is recognized in the consolidated statement of net loss and comprehensive loss.

Exploration and Evaluation Expenditures

Pre-license costs are recognized in the consolidated statement of net loss and comprehensive loss as incurred. All exploratory costs incurred subsequent to acquiring the right to explore for oil and natural gas are capitalized. Such costs can typically include costs to acquire land rights in areas with no proved or probable reserves assigned, geological and geophysical costs, and exploration wells. Exploration and evaluation costs initially are capitalized as either tangible or intangible exploration or evaluation assets according to the nature of the assets acquired. Exploration costs are accumulated in areas by exploration area, field or well pending determination of technical feasibility and commercial viability. If, upon review of the technical feasibility and/or commercial viability data, the facts and circumstances suggest that the carrying amount of the exploration expenditures exceeds the recoverable amount, an impairment charge is recognized in the consolidated statement of net loss and comprehensive loss in the current period. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource from exploration and evaluation assets is considered when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to development and production assets within property and equipment. If the well or exploration project did not encounter potentially economic oil and gas quantities, the cumulative costs are expensed and reported in exploration and evaluation expense in the current period.

Expired land leases included as undeveloped land in exploration and evaluation are charged to exploration and evaluation expense in the consolidated statement of net loss and comprehensive loss upon expiry.

Development and Production Expenditures

Property, plant and equipment, which includes petroleum and natural gas development and production assets, is measured at cost (including directly attributable general and administrative costs) less accumulated depletion and depreciation and accumulated impairment losses. Cost includes lease acquisition, drilling and completion, production facilities, decommissioning costs, geological and geophysical costs and directly attributable costs related to development and production activities, net of any government incentive programs.

Depletion, Depreciation and Amortization

The costs related to area cost centres for petroleum and natural gas properties, including related pipelines and facilities, are depleted using a unit-of-production method based on the commercial proved and probable reserves allocated to its CGU.

The net carrying value of oil and gas properties is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves as per the most recent reserve reports prior to the reporting date, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves as per the most recent reserve reports prior to the reporting date. Proved and probable reserves are estimated using reserve reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Petroleum and natural gas assets are not depleted until production commences in the CGU that they are allocated to.

The Company records corporate capital assets at cost and provides depreciation on a straight-line basis over five years which is designed to amortize the cost of the assets over their estimated useful lives. Depreciation methods, useful and residual values are reviewed at each financial year end and adjustments relating to changes in estimates are recorded prospectively.

Impairment

At each reporting period the Company assesses whether there are impairment indicators for its property, plant and equipment. If indicators exist, the Company determines if the recoverable amount of the asset or CGU is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGU's. If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in the consolidated statement of net loss and comprehensive loss. The recoverable amount is the greater of the value in use or fair value less costs of disposal. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs of disposal considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the CGU's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in the consolidated statement of net loss and comprehensive loss. The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset not been impaired.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs of disposal, with impairments recognized in the consolidated statement of net loss and comprehensive loss in the period measured. Assets held for sale are not depleted or depreciated.

FINANCIAL INSTRUMENTS

Financial Assets and Liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions that define the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Financial assets and financial liabilities are initially recognized at fair value. For those at amortized cost this amount is normally the transaction price plus directly attributable transaction costs. All other transaction costs are expenses as incurred.

The subsequent measurement of the Company's financial instruments depends on their classification determined by the purpose for which the instruments were acquired, as follows:

Trade and Other Receivables

Accounts receivable and deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's accounts receivable are comprised of trade and other receivables which are included in current assets due to their short-term nature as are deposits, cash and cash equivalents.

Other Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost include trade and other payables. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest rate method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are classified as non-current liabilities.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held with banks and other short-term highly liquid investments with maturities of three months or less from inception.

Share Capital

Common shares and are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Decommissioning Liabilities

A decommissioning liability is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reasonably estimated, and it is probable that a future outflow of economic benefits will be required to settle the obligation. Decommissioning liabilities are determined by discounting the expected future cash flows at a credit-adjusted risk-free rate at the reporting date. The obligation is recorded as a liability on a discounted basis using the relevant credit-adjusted risk-free rate, with a corresponding increase to the carrying amount of the related asset. Over time, the liabilities are accreted for the change in their present value and the capitalized costs are depleted on a unit-of-production basis over the life of the asset. Revisions to the discount rate, estimated timing or amount of future cash flows would also result in an increase or decrease to the decommissioning liability and related asset and the related earnings impact reported in current and future periods.

Revenue Recognition

Revenue associated with the sales of crude oil, natural gas, and natural gas liquids ("NGLs") owned by the Company is recognized when title passes from the Company to its customer, the price is determinable, and collection of the sales price is reasonably assured. This generally occurs when product is physically transferred into a vessel, pipeline or other delivery mechanism.

Share-based Compensation and Other Compensation Plans

The Company follows the fair value method of valuing stock option grants and warrants. Share-based compensation amounts are determined based on the estimated fair value of shares on the date of grant of the option or warrant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeiture realized. The expense is recognized over the service period, with a corresponding increase to contributed surplus.

The fair value of shares issued to officers and employees of the Company at a discount to market prices are recognized as a share based compensation expense over the service period, with a corresponding increase to contributed surplus.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when the deferred tax asset or liability is settled based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The effect of a change in income tax rates on deferred income taxes is recognized in net income in the period in which the change occurs.

Discontinued Operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of net loss and comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative year.

Earnings per Share

Basic and diluted earnings per share ("EPS") is computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding during the reporting period.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all the pronouncements will be adopted in the Company's accounting policies in the annual period in which they are first required.

IFRS 9 – Financial Instruments – The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the consolidated financial statements and provide more opportunities to apply hedge accounting. The mandatory effective date of this standard has tentatively been set to January 1, 2018. Management is currently assessing the potential impact of the adoption of IFRS 9 on the Company's consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers – This new standard specifies recognition requirements for revenue as well as requiring more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue related interpretations. This standard comes in effect January 1, 2018. Management is currently assessing the potential impact of adoption of this standard on the Company's consolidated financial statements.

IFRS 16 – Leases – This new standard replaces IAS 17 and will require all leases to be recorded on the Company's consolidated statement of financial position except those that meet the limited exception criteria. The expense associated with operating leases will be removed and be replaced with the recording of depreciation and finance expense, consistent with how finance leases are treated. This standard comes in effect January 1, 2019. Management is currently assessing the potential impact of adoption of this standard on the Company's consolidated financial statements.

5. TRADE AND OTHER RECEIVABLES

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Trade	1,304	109
Joint venture	175	23
Reclassified as assets held for sale	-	(132)
GST	443	2
TRADE AND OTHER RECEIVABLES	**1,922**	**2**

In determining the recoverability of receivables, the Company considers the age of the outstanding receivable and the credit worthiness of the counterparties. The Company did not record an allowance for any of its' receivables at December 31, 2016 as it determined all receivables are collectible (December 31, 2015 write-off - $231,000).

6. PREPAIDS AND DEPOSITS

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Prepaids	220	76
Deposits	9,083	-
PREPAIDS AND DEPOSITS	**9,303**	**76**

The Company has an irrevocable letter of credit in favor of the Alberta Energy Regulator in the amount of $9.0 million related to the assets acquired in the Alberta Viking formation (NOTE 8). The letter of credit bears interest at 1.25% and requires a security deposit in accordance with the Alberta Energy Regulator's licensee liability rating program. The letter of credit is securitized through non-redeemable guaranteed investment certificate's earning between 0.85% and 0.95% with maturities of four months or less.

7. TRADE AND OTHER PAYABLES

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Trade	8,575	160
Royalties	67	-
Joint venture	63	-
Accrued	1,156	71
Reclassified as liabilities associated with assets held for sale	-	(135)
TRADE AND OTHER PAYABLES	**9,861**	**96**

8. ACQUISITIONS

The Company accounts for business combinations using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

Viking Acquisition

On June 15, 2016, the Company closed an acquisition of oil and gas assets located in the Alberta Viking formation (the "Viking Acquisition") for a total purchase price of $22.7 million, subject to customary closing adjustments. The assets acquired consisted of producing properties, reserves, facilities, and undeveloped land. The effective date of the acquisition was April 1, 2016.

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

($000s)	
Exploration and evaluation assets	7,889
Property, plant and equipment	20,692
Decommissioning liabilities	(5,872)
FAIR VALUE OF NET ASSETS ACQUIRED (1)	**22,709**
CONSIDERATION	
Cash	22,709
TOTAL PURCHASE PRICE	**22,709**

(1) The Company recorded the final statement of adjustments and reviewed the fair values of identifiable assets and liabilities acquired. Revisions to estimates over the measurement period resulted in a net decrease to exploration and evaluation assets and decommissioning liabilities of $0.7 million, compared to the amounts initially estimated and previously reported in Karve's consolidated interim financial statements as at September 30, 2016.

During the year ended December 31, 2016, the Company incurred $106,000 of transaction costs related to the Viking Acquisition which were recorded as "transaction costs" in the Company's consolidated statement of net loss and comprehensive loss.

The Company's consolidated statement of net loss and comprehensive loss includes the results of the operations for the period following closing of the Viking Acquisition on June 15, 2016. The Company's net loss and comprehensive loss for the year ended December 31, 2016 includes $4.0 million of revenue and $300,000 of operating income relating to the acquired assets. If the acquisition had closed on January 1, 2016, pro-forma revenue and operating income are estimated to be $7.3 million and $1.0 million respectively for the year ended December 31, 2016. Operating income is defined as revenue, net of royalties less operating and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been in effect on the date indicated, or the results that may be obtained in the future.

Other Miscellaneous Acquisitions

Throughout the year ended December 31, 2016, the Company acquired various working interests, land, light oil producing properties, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

($000s)	
Exploration and evaluation assets	391
Property, plant and equipment	847
Decommissioning liabilities	(212)
FAIR VALUE OF NET ASSETS ACQUIRED	**1,026**

CONSIDERATION	
Cash	876
Shares	150
TOTAL PURCHASE PRICE	**1,026**

Consideration paid consists of $876,000 cash and 150,000 common shares at a prescribed value of $1.00 per common share.

9. PROPERTY DISPOSITION

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske cash generating unit ("CGU") for proceeds of $2.5 million after closing adjustments. These assets were classified as held for sale on the December 31, 2015 consolidated statement of financial position (NOTE 16).

The carrying value of assets and associated decommissioning liabilities disposed during the year ended December 31, 2016 are summarized below.

($000s)	
Property, plant and equipment	2,679
Decommissioning liabilities	(193)
CARRYING VALUE OF NET ASSETS DISPOSED	**2,486**
Cash proceeds, after closing adjustments	2,486
GAIN (LOSS) ON SALE OF ASSETS	-

Subsequent to year end, the remaining undeveloped land in the Fiske CGU was disposed of for $451,000 (NOTE 22).

10. PROPERTY, PLANT AND EQUIPMENT

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Petroleum and natural gas assets at cost	34,014	23
Corporate assets at cost	61	20
Property, plant and equipment at cost	34,075	43
Accumulated depletion and depreciation	(1,800)	(5)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	**32,275**	**38**

Petroleum and Natural Gas Assets

The following table reconciles movement of property, plant and equipment ("PP&E") during the period:

COST ($000s)	
Balance at December 31, 2014	10,480
Refund on drilling deposits	(249)
Transfer from exploration and evaluation assets (NOTE 11)	2,187
Change in decommissioning provision (NOTE 12)	(417)
Transfer to assets held for sale	(11,978)
BALANCE AT DECEMBER 31, 2015	**23**
Additions	11,228
Acquisitions (NOTE 8)	21,539
Transfer from exploration and evaluation assets (NOTE 11)	341
Change in decommissioning provision (NOTE 12)	883
BALANCE AT DECEMBER 31, 2016	**34,014**

ACCUMULATED DEPLETION ($000s)	
Balance at December 31, 2014	4,653
Depletion, depreciation and amortization	1,121
Impairment loss	3,525
Transfer to assets held for sale	(9,299)
BALANCE AT DECEMBER 31, 2015	**-**
Depletion	1,787
BALANCE AT DECEMBER 31, 2016	**1,787**
NET CARRYING AMOUNT, DECEMBER 31, 2016	**32,227**

At December 31, 2016, future development and production costs of $12.3 million (December 31, 2015 - $40,000) are included in costs subject to depletion. There were no indicators of impairment at December 31, 2016.

During the previous year ended December 31, 2015, the Company signed an agreement to dispose of all its producing oil and natural gas properties which were located in the Fiske CGU (NOTE 9 AND NOTE 16). The Company recorded an impairment charge on the assets held for sale of $3.5 million on the re-measurement of the property to the lower of its carrying amount and its fair value less costs of disposal which has been included within income (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss. The carrying value of these assets, after impairment, was classified as assets held for sale (NOTE 16).

11. 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. There were no indicators of impairment at December 31, 2016.

($000s)	
Balance at December 31, 2014	2,778
Additions	1,261
Transfers to petroleum and natural gas assets (NOTE 10)	(2,187)
Impairment of exploration and evaluation assets	(1,652)
BALANCE AT DECEMBER 31, 2015	**200**
Additions	149
Acquisitions (NOTE 8)	8,280
Transfers to petroleum and natural gas assets (NOTE 10)	(341)
Expiries	(57)
Recovery of exploration and evaluation assets previously impaired	247
BALANCE AT DECEMBER 31, 2016	**8,478**

There was no capitalized stock based compensation included in exploration and evaluation additions during the year ended December 31, 2016 (year ended December 31, 2015 - $391,000).

During the previous year ended December 31, 2015, the Company impaired $1.7 million of undeveloped land, seismic, and geological and geophysical assets as the Company did not have intentions to develop the undeveloped lands to which these assets relate. During the year ended December 31, 2016 impairment expense of $247,000 was reversed based on management's estimate of the Fiske, Saskatchewan land value which was disposed of subsequent to year end (NOTE 22).

Corporate Assets

COST ($000s)	
Balance at December 31, 2014	15
Additions	5
BALANCE AT DECEMBER 31, 2015	**20**
Additions	41
BALANCE AT DECEMBER 31, 2016	**61**

ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2014	1
Depreciation and amortization	4
BALANCE AT DECEMBER 31, 2015	**5**
Depreciation and amortization	8
BALANCE AT DECEMBER 31, 2016	**13**
NET CARRYING AMOUNT, DECEMBER 31, 2016	**48**

12. DECOMMISSIONING LIABILITY

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

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $54.6 million (December 31, 2015 - $668,000), which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2056. The estimated future cash flows have been discounted using a credit adjusted rate of approximately 8% and an inflation rate of 2% (December 31, 2015 – 1.5%). At December 31, 2016, a 1% decrease in the discount rate used would create approximately a $1.9 million increase in the decommissioning liability, and a 1% increase in the discount rate used would create approximately a $1.4 million decrease in the decommissioning liability. During the year ended December 31, 2016, the Company abandoned one well for $60,000 (December 31, 2015 - $nil). In the prior period ended December 31, 2015, decommissioning liabilities associated with assets held for sale of $193,000 were reclassified to Liabilities associated with assets held for sale.

The current year change in estimate relates to an increase in inflation rate from 1.5% to 2%. The following table shows changes in the decommissioning liability:

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Balance, beginning of year	-	597
Decommissioning liabilities incurred during the year	58	-
Decommissioning liabilities acquired through acquisitions (NOTE 8)	6,084	-
Decommissioning liabilities settled during the year	(60)	-
Accretion expense during the year	247	13
Change in estimate	825	(417)
Reclassified as liabilities associated with assets held for sale	-	(193)
BALANCE, END OF YEAR	**7,154**	**-**

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, 2014	25,789,280	32,649
BALANCE AT DECEMBER 31, 2015	**25,789,280**	**32,649**
Issued for cash	38,963,324	40,530
Share issue costs, net of deferred tax ($447,000)	-	(173)
BALANCE AT DECEMBER 31, 2016	**64,752,604**	**73,006**

On June 14, 2016, the remaining put-call option was exercised for $7.0 million ($6.6 million net of share issuance costs) resulting in the issuance of 4,375,000 common shares and the cancellation of 4,375,000 special voting preferred shares. In connection with the put-call option exercise, the Company incurred $385,000 of share issuance costs ($281,000 net of deferred tax).

In June 2016, the Company completed a series of private placement financings, issuing 28,058,824 common shares for gross proceeds of $27.0 million less $216,000 in share issuance costs ($158,000 net of deferred tax). The financings were comprised of:

(i) 7,058,824 common shares issued to certain members of the Karve management team at $0.85 per share for gross proceeds of $6.0 million.

(ii) 21,000,000 common shares issued to other investors at $1.00 per share for gross proceeds of $21.0 million.

In July and August 2016, the Company completed a series of private placement financings, issuing 6,239,500 common shares at a price of $1.00 per share for gross proceeds of $6.2 million less $19,000 in share issuance costs ($14,000 net of deferred tax).

In August 2016, the Company issued 43,000 common shares at $1.00 per common share to a related party (NOTE 21).

In August 2016, the Company issued a total of 247,000 common shares at a price of $1.00 per share as purchase consideration for asset acquisitions and consulting services provided.

Concurrent to the equity issuances (not including the put-call option or equity issued as consideration for asset acquisitions and consulting services) that closed during the year ended December 31, 2016, 34,298,324 share purchase warrants were issued. Each share purchase warrant entitles the holder to purchase one common share of the Company for a nominal amount in the event of a loss incurred by the Company in excess of $450,000 which relates to a condition that existed prior to the June 15, 2016 recapitalization date. The share purchase warrants expire on June 15, 2017.

In the prior period, the Company had not recorded deferred income tax assets in relation to its' share issue costs due to the uncertainty related to the realization of such assets. During the year ended December 31, 2016, the Company recognized deferred income tax assets on total share issuance costs of $1.7 million as it is probable that the tax benefit can be utilized in the future to offset income subject to tax (NOTE 15).

c) Contributed Surplus

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Balance, beginning of year	2,385	427
Share-based compensation - options (capitalized)	-	339
Share-based compensation - options (expense)	2,146	1,287
Share-based compensation - warrants (capitalized)	-	52
Share-based compensation - warrants (expense)	1,491	280
Share-based compensation - founder shares	635	-
BALANCE, END OF YEAR	**6,657**	**2,385**

d) Issued and Outstanding Preferred Shares and Put-Call Options

	Preferred Shares		Put-Call Options	
($000s except for share amounts)	Number	Amount	Number	Amount
Balance, December 31, 2014	4,375,000	-	4,375,000	-
BALANCE AT DECEMBER 31, 2015	**4,375,000**	**-**	**4,375,000**	**-**
Exercised	(4,375,000)	-	(4,375,000)	-
BALANCE AT DECEMBER 31, 2016	**-**	**-**	**-**	**-**

In December 2014, the Company issued 4,375,000 series 1 special voting preferred shares and 4,375,000 put–call options on the Company's common shares, for a nominal fee. The preferred shareholders are not eligible to participate in dividends of the Company. Each preferred share issued and outstanding entitles the holder to one vote at meetings of the shareholders of the Company.

Each put–call option may be exercised by either the Company or the preferred shareholder with 30 days notice. If a put–call option is exercised by either party, the preferred shareholder will pay $1.60 and will receive a common share of the Company, and a series 1 special voting preferred share owned by the preferred shareholder will be canceled.

On June 14, 2016, the remaining put-call option was exercised for $7.0 million ($6.6 million net of share issuance costs) resulting in the issuance of 4,375,000 common shares and the cancellation of 4,375,000 special voting preferred shares. In connection with the put-call option exercise, the Company incurred $385,000 of share issuance costs ($281,000 net of deferred tax).

e) Per Share Amounts

	For the year ended	
($000s except per share amounts)	Dec. 31, 2016	Dec. 31, 2015
Net loss from continuing operations	(4,971)	(4,532)
Net income (loss) from discontinued operations	18	(4,039)
Net loss for the year	(4,953)	(8,571)
Weighted average number of shares - basic and diluted	**46,090,237**	**25,789,280**
Basic and diluted net loss per share - continuing operations	**(0.11)**	**(0.17)**
Basic and diluted net loss per share - discontinued operations	**-**	**(0.16)**
Basic and diluted net loss per share	**(0.11)**	**(0.33)**

At December 31, 2016, 6,365,000 stock options and 16,125,000 performance warrants were excluded from the fully diluted calculation as they have not vested and are anti-dilutive.

14. SHARE-BASED COMPENSATION

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

	For the year ended	
($000s)	Dec. 31, 2016	Dec. 31, 2015
Share-based compensation - options	1,297	1,626
Share-based compensation - cancelled options	849	-
Share-based compensation - performance warrants	1,317	332
Share-based compensation - cancelled performance warrants	174	-
Share-based compensation - founder shares	635	-
Capitalized share-based compensation	-	(391)
TOTAL SHARE-BASED COMPENSATION	**4,272**	**1,567**

a) Stock Options

All 2,731,000 issued and outstanding stock options to the previous Bruin management team were cancelled on June 15, 2016, and a new stock option plan has been put in place for the Karve management team.

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 five 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. The number of stock options and the exercise price is set by the Board of Directors at the time of granting.

During the year ended December 31, 2016, 6,365,000 stock options were approved for issuance by the Board of Directors (year ended December 31, 2015 – 150,000). Subsequent to year end, 110,000 stock options were approved for issuance by the Board of Directors (NOTE 22).

Share-based compensation related to stock options during the year ended December 31, 2016 was $2.1 million (year ended December 31, 2015 – $1.6 million). Of this amount, all $2.1 million (year ended December 31, 2015 – $1.3 million) was included in share-based compensation expense and $nil was included in exploration and evaluation assets as part of capitalized administration costs relating to development and production activities (year ended December 31, 2015 – $0.3 million).

Of the total $2.1 million share-based compensation expense recognized during the year ended December 31, 2016, $849,000 relates to accelerated vesting of the stock options issued to the previous Bruin management team that were cancelled on June 15, 2016.

The following table sets forth a reconciliation of the stock option plan activity through to December 31, 2016:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2014	2,581,000	1.38
Granted	150,000	1.60
BALANCE AT DECEMBER 31, 2015	**2,731,000**	**1.39**
Cancelled	(2,731,000)	1.39
Granted	6,365,000	0.91
BALANCE AT DECEMBER 31, 2016	**6,365,000**	**0.91**

There were no stock options exercised during the year ended December 31, 2016 (year ended December 31, 2015 – nil) and no stock options were exercisable at December 31, 2016.

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at December 31, 2016 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
$0.85	4.46	3,722,310	-
$1.00	4.56	2,642,690	-
	4.50	**6,365,000**	-

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 year ended Dec. 31, 2016	Dec. 31, 2015
Weighted average fair value of options	0.57	1.06
Risk-free Interest rate (%)	0.57%	1.00%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	66%	101%
Weighted average grant date share price	1.00	1.60
Forfeiture rate	-	-
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

All 1,951,000 issued and outstanding performance warrants to the previous Bruin management team were cancelled on June 15, 2016 and a new performance warrant plan has been put in place for the Karve management team.

During the year ended December 31, 2016, 16,125,000 performance warrants were approved for issuance by the Board of Directors (year ended December 31, 2015 – 100,000). The performance warrants entitle the holder to purchase one common share of the Company and have the following vesting dates and exercise prices:

- Issue date $1.50
- First anniversary $1.70
- Second anniversary $1.90
- Third anniversary $2.10
- Fourth anniversary $2.30

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 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.

Share-based compensation related to performance warrants during the year ended December 31, 2016 was $1.5 million (year ended December 31, 2015 - $0.3 million). Of this amount, $1.5 million (year ended December 31, 2015– $0.2 million) was included in share-based compensation expense and $nil was included in exploration and evaluation assets as part of capitalized administration costs relating to development and production activities (year ended December 31, 2015, $0.1 million).

Of the total $1.5 million share-based compensation expense recognized during the year ended December 31, 2016, $174,000 relates to accelerated vesting of the performance warrants issued to the previous Bruin management team that were cancelled on June 15, 2016.

The following table sets forth a reconciliation of performance warrant activity through to December 31, 2016:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2014	1,851,000	2.16
Granted	100,000	3.10
BALANCE AT DECEMBER 31, 2015	**1,951,000**	**2.21**
Cancelled	(1,951,000)	2.21
Granted	16,125,000	1.90
BALANCE AT DECEMBER 31, 2016	**16,125,000**	**1.90**

There were no performance warrants exercised during the year ended December 31, 2016 (year ended December 31, 2015 – nil) and no performance warrants were exercisable at December 31, 2016.

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at December 31, 2016 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
$1.50	4.55	3,225,000	-
$1.70	4.55	3,225,000	-
$1.90	4.55	3,225,000	-
$2.10	4.55	3,225,000	-
$2.30	4.55	3,225,000	-
	4.55	**16,125,000**	**-**

The fair value of each performance warrant 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 year ended Dec. 31, 2016	Dec. 31, 2015
Weighted average fair value of performance warrants	0.40	1.06
Risk-free interest rate (%)	0.63%	1.00%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	66%	101%
Weighted average grant date share price	1.00	1.60
Forfeiture rate	-	-
Expected dividend yield (%)	-	-

The expected volatility of the performance warrants 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.

c) Shares Issued at Discount to Market

On June 15, 2016, 7,058,824 common shares were issued to certain members of the Karve management team at $0.85 per share which were issued at a discount to the market price of the shares issued later in June 2016. This offering was contemplated as part of the reorganization of the Company and the implementation of a new management team. A portion of the implied value represents a share-based compensation expense to the Company. Share-based compensation related to founder shares during the year ended December 31, 2016 was $635,000 (year ended December 31, 2015 - $nil).

15. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined basic federal and provincial statutory income tax rates for Canada at December 31, 2016 at 27% (December 31, 2015 – 26.5%). A reconciliation to the differences is as follows:

	For the year ended	
($000s)	Dec. 31, 2016	Dec. 31, 2015
Net loss before taxes	(9,140)	(8,571)
Combined federal and provincial tax rate	27.0%	26.5%
Computed "expected" tax recovery	(2,468)	(2,271)
Increase (decrease) in taxes due to:		
Permanent differences	1,158	421
Amortization of share issue costs	-	(92)
Recognition of unrecognized deferred tax asset	(4,432)	-
True-up of tax pools	1,555	-
Change in tax rate	-	(85)
Amount for which no deferred tax asset was recognized	-	2,027
TOTAL INCOME TAX RECOVERY	**(4,187)**	**-**
Current income tax	-	-
Deferred income tax recovery	(4,187)	-
TOTAL INCOME TAX RECOVERY	**(4,187)**	**-**

In the prior period, the Company had not recorded deferred income tax assets in relation to its' non-capital losses, tax pools, and share issue costs due to the uncertainty related to the realization of such assets. During the year ended December 31, 2016, the Company recognized deferred income tax assets on these non-capital losses, tax pools, and share issue costs as it is probable that the tax benefit can be utilized in the future to offset income subject to tax. The following table summarizes Karve's net deferred income tax asset at December 31, 2016:

	Balance at Jan. 1, 2016	Recognized in Loss	Recognized in Statement of Financial Position	Balance at Dec. 31, 2016
Non-capital losses	2,320	2,313	-	4,633
Share issue costs	280	-	41	321
Property, plant and equipment and exploration and evaluation assets	1,830	(2,150)	-	(320)
Unrecognized deferred tax-assets	(4,430)	4,024	406	-
TOTAL DEFERRED INCOME TAX ASSET	**-**	**4,187**	**447**	**4,634**

The following table summarizes Karve's net deferred income tax asset at December 31, 2015:

	Balance at Jan. 1, 2015	Recognized in Loss	Recognized in Statement of Financial Position	Balance at Dec. 31, 2015
Non-capital losses	916	1,404	-	2,320
Share issue costs	360	-	(80)	280
Property, plant and equipment and exploration and evaluation assets	30	1,800	-	1,830
Unrecognized deferred tax-assets	(1,306)	(3,204)	80	(4,430)
TOTAL DEFERRED INCOME TAX ASSET	-	-	-	-

As at December 31, 2016, the Company had the following income tax pools available for deduction:

($000s)	As at Dec. 31, 2016
Non-capital losses	17,163
Property, plant and equipment and exploration and evaluation assets	32,412
Share issue costs	1,188
TOTAL TAX POOLS AVAILABLE FOR DEDUCTION	**50,763**

The Company's non-capital losses expire between 2034 and 2036. The Company expects all deferred income tax assets to be recovered after more than 12 months.

16. DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske CGU for proceeds of $2.5 million after closing adjustments (NOTE 9). The comparative consolidated statement of net loss and comprehensive loss has been re-presented to show the discontinued operation separately from continuing operations.

	For the year ended	
($000s)	Dec. 31, 2016	Dec. 31, 2015
Petroleum and natural gas sales	31	1,616
Royalties	(2)	(126)
	29	1,490
Operating expense	11	639
Accretion expense	-	13
Depletion, depreciation and amortization	-	1,121
Bad debt expense	-	231
Impairment of property, plant and equipment	-	3,525
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**18**	**(4,039)**

The assets presented as Assets held for sale on the consolidated statement of financial position are comprised of the following:

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Trade and other receivables	-	132
Property, plant and equipment	-	2,679
ASSETS HELD FOR SALE	**-**	**2,811**

The liabilities presented as Liabilities associated with assets held for sale on the consolidated statement of financial position are comprised of the following:

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Trade and other payables	-	135
Decommissioning liabilities	-	193
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	**-**	**328**

For the year ended December 31, 2015, decommissioning liabilities included in liabilities associated with assets held for sale related to the Company's net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The key assumptions, on which the carrying amount of the decommissioning liability is based, include a credit adjusted risk-free rate of approximately 8% and an inflation rate of 1.5%. The undiscounted amount of the estimated cash flows required to settle the obligations is $668,000 which will be incurred over the next 20 years. All decommissioning liabilities were associated with assets held for sale at December 31, 2015.

17. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2016 are as follows:

	2017	2018	2019	2020	2021	Therafter	Total
Operating leases	191,355	329,432	497,523	596,984	164,145	-	1,779,439
Pipeline transportation	61,359	11,689	-	-	-	-	73,048
Total annual commitments	**252,714**	**341,121**	**497,523**	**596,984**	**164,145**	**-**	**1,852,487**

Karve has a five-year office lease with an option to both Karve and the lessor to terminate the lease at any time after July 19, 2019. The lessor has the right to terminate the office lease with 6 months written notice at any point after July 30, 2019. There is no compensation to Karve should Karve terminate the lease after this date.

Karve has the right to terminate the lease if there is a sale of Karve. If Karve terminates the lease, there is a $600,000 penalty. Should Karve terminate the lease prior to July 30, 2019, Karve is required to pay lease payments up to July 30, 2019 with no payment required for lease payments after July 30, 2019.

The “Deferred lease liability” of $108,000 presented on the consolidated statement of financial position represents the difference between cash lease payments and accounting operating lease payments which are recognized on a straight-line basis over the life of the lease. In the early years of the lease, the cash outflow is less than the accounting operating lease payment which gives rise to the deferred lease liability.

18. FINANCIAL INSTRUMENTS

The Company has exposure to credit, liquidity 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.

Fair Value of Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, deposits, and trade and other payables.

There are three levels of fair value by which a financial instrument can be classified:

Level 1 - Quoted prices in active markets for identical assets and liabilities such as traded securities on a registered exchange where there are a sufficient frequency and volume of transactions to provide ongoing pricing information.

Level 2 - Inputs other than quoted prices that are observable for the asset and liability either directly and indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and

Level 3 - Inputs that are not based on observable market data.

The fair value of cash and cash equivalents, trade and other receivables, deposits, and trade and other payables approximate their carrying amounts due to their short-term maturities.

The following table summarizes Karve’s financial instruments at December 31, 2016:

($000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents	-	21,905	-	21,905
Trade and other receivables	-	1,922	-	1,922
Deposits	-	9,083	-	9,083
	-	**32,910**	**-**	**32,910**
Liabilities				
Trade and other payables	-	-	9,861	9,861
	-	**-**	**9,861**	**9,861**

The following table summarizes Karve's financial instruments at December 31, 2015:

($000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents	-	19,015	-	19,015
Trade and other receivables [(1)]	-	134	-	134
	-	**19,149**	**-**	**19,149**
Liabilities				
Trade and other payables [(1)]	-	-	231	231
	-	**-**	**231**	**231**

(1) For the year ended December 31, 2015, $132,000 of accounts receivable was reclassified as assets held for sale and $135,000 of accounts payable was reclassified as liabilities associated with assets held for sale.

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. At December 31, 2016, the Company considers itself to be well-capitalized, with working capital in excess of current commitments. The Company's financial liabilities include trade and other payables of $9.9 million (year ended December 31, 2015 - $231,000). All financial liabilities have contractual maturities of less than one year.

Subsequent to year end, the Company entered into a $1 million revolving operating demand facility with a Canadian chartered bank (NOTE 22).

19. CAPITAL MANAGEMENT

a) Capital Base

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are:

(a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders; and

(b) to facilitate the acquisition or development of oil and gas projects consistent with the growth strategy of the Company.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential acquisitions, in addition to preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results.

The Company funds its share of expenditures of all commitments from existing cash and cash equivalents received primarily from issuances of shareholders' equity and entered into a $1 million revolving operating demand facility with a Canadian chartered bank subsequent to year end (NOTE 22). The Company is not subject to any externally imposed capital requirements.

The Board of Directors regularly reviews the Company's cash flow analysis and assesses the timing and need for additional equity financing. The Company's results will impact its access the capital necessary to meet these expenditure commitments. There can be no assurance that equity financing will be available or sufficient to meet those commitments, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company.

The Company considers the following items capital:

(a) shareholders' capital

(b) positive working capital

The following table represents the net capital of the Company:

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Shareholders' capital	61,394	21,718
Positive working capital	23,269	18,997
CAPITAL BASE	**84,663**	**40,715**

The Company’s share capital is not subject to external restrictions and the Company has no bank debt. Subsequent to year end, the Company entered into a $1.0 million revolving operating demand facility with a Canadian chartered bank (NOTE 22).

20. 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 year ended Dec. 31, 2016	Dec. 31, 2015
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 5)	(1,788)	2,871
Prepaids and deposits (NOTE 6)	(9,227)	(7)
Trade and other payables (NOTE 7)	9,630	(5,627)
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**(1,385)**	**(2,763)**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	6,867	11
Investing activities	(8,252)	-
Financing activities	-	-
Discontinued operations	-	(2,774)
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**(1,385)**	**(2,763)**

In the “Operating Activities – General and administration” line in the consolidated statement of cash flows, non-cash general and administration expenses of $90,000 relate to third party consulting fees and software licenses of $90,000 where consideration paid was 90,000 common shares of Karve at a prescribed value of $1.00 per common share (NOTE 21).

In the “Investing Activities – Property, plant and equipment” line in the consolidated statement of cash flows, cash investing activities are $7,000 less than total property, plant and equipment additions in NOTE 10 due to non-cash additions where consideration paid was 7,000 common shares of Karve at a prescribed value of 1.00 per common share (NOTE 21).

In the “Investing Activities - Acquisitions” line in the consolidated statement of cash flows, cash investing activities are $150,000 less than total acquisitions in NOTE 8 due to non-cash additions where consideration paid was 150,000 common shares of Karve at a prescribed value of 1.00 per common share.

The following tables present the composition of cash flows from (used for) discontinued operations:

Discontinued Operating Activities

CASH FLOW FROM (USED FOR) DISCONTINUED OPERATIONS	For the year ended Dec. 31, 2016	Dec. 31, 2015
Net income (loss) from discontinued operations	18	(4,039)
Accretion expense	-	13
Depletion, depreciation and amortization	-	1,121
Impairment of property, plant and equipment and exploration and evaluation assets		3,525
Change in non-cash working capital	-	(3,174)
CASH FLOW FROM (USED FOR) DISCONTINUED OPERATIONS	**18**	**(2,554)**

Discontinued Investing Activities

CASH FLOW FROM (USED FOR) DISCONTINUED INVESTING ACTIVITIES	For the year ended Dec. 31, 2016	Dec. 31, 2015
Refund of drilling deposit		249
Purchases of property, plant and equipment	-	(870)
Disposal of property, plant and equipment	2,486	-
Change in non-cash working capital	-	400
CASH FLOW FROM (USED FOR) DISCONTINUED INVESTING ACTIVITIES	**2,486**	**(221)**

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

($000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Crude oil	4,207	1,616
Natural gas liquids	63	-
Natural gas	408	-
Reclassified to gain (loss) from discontinued operations	(31)	(1,616)
TOTAL PETROLEUM AND NATURAL GAS SALES	**4,647**	**-**

The following table presents the amount of total employee compensation costs included in the general and administration and operating expense categories, and share-based compensation recognized for the vesting of stock options and performance warrants granted to employees:

($000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
General and administration	2,219	797
Operating	29	-
Share-based compensation	3,274	930
TOTAL EMPLOYEE COMPENSATION COSTS	**5,522**	**1,727**

For the year ended December 31, 2016, termination benefits of $1.1 million are included in general and administration expense relating to the termination of all employees of the previous Bruin management team without cause.

21. RELATED PARTY DISCLOSURES

a) Key Management Personnel

Key management is defined as the Board of Directors and Officers of the Company. The table below summarizes the fair value of compensation and other fees paid to key management including the previous Bruin management team:

($000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Salaries and benefits	993	494
Consulting fees	62	120
Termination benefits	997	-
Share-based compensation benefit	3,725	1,733
TOTAL KEY MANAGEMENT COMPENSATION	**5,777**	**2,347**

During the year ended December 31, 2016, termination benefits of $997,000 were paid on the termination of all executive officers of the previous Bruin management team without cause.

b) Other Related Party Transactions

A previous Director of the Company, until June 15, 2016, was a Director of a company which received office rental payments of $80,000 (year ended December 31, 2015 - $112,000) from Karve. The Company also incurred a total of $317,000 (December 31, 2015 -$101,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at December 31, 2016, $72,000 in fees for these legal services are included in accounts payable (December 31, 2015 - $nil).

On August 17, 2016, Karve signed a purchase and sale agreement with a company owned by certain members of the Karve management team, wherein the Company purchased $7,000 of office equipment, reimbursed the related company for incurred third party consulting fees and software licenses of $90,000 and issued 43,000 common shares at $1.00 per share to the related company in return for a payment of $43,000. All payments resulted in a total issuance of 140,000 common shares at $1.00 per share. This transaction has been reviewed and approved by the Board of Directors.

22. SUBSEQUENT EVENTS

Stock Option Grant

On February 1, 2017 and March 29, 2017, a total of 110,000 stock options were granted to certain employees and consultants of the Company at an exercise price of $1.65 per share under the Company's stock option plan.

Revolving Operating Demand Facility

On February 1, 2017, the Company entered into a $1.0 million revolving operating demand facility with a Canadian chartered bank. The facility has a standby fee of 0.50% per annum on the undrawn portion of the facility and bears interest at prime plus 1.00% per annum. The facility requires that the Company maintain a working capital ratio (as defined) of not less than 1 to 1.

Asset Sale

On February 8, 2017, the Company disposed of all its' undeveloped lands in Fiske, Saskatchewan for proceeds of $451,000. There was no gain or loss on this sale.

Hedging Contract

On March 3, 2017, the Company entered into a sell side crude oil commodity contract with a Canadian chartered bank. The effective date of the contract is April 1, 2017. The contract is for 300 barrels per day of oil at a fixed price of $72.25 CAD per barrel. This contract terminates September 30, 2017.