AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017

AND DECEMBER 31, 2016

March 28, 2018

Independent Auditor's Report

To the Shareholders of Karve Energy Inc.

We have audited the accompanying consolidated financial statements of Karve Energy Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of net income (loss) and comprehensive income (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 consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Karve Energy Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Canadian $000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	11,524	21,905
Trade and other receivables (NOTE 5)	18,614	1,922
Prepaids and deposits (NOTE 6)	6,030	9,303
Derivative assets (NOTE 19)	54	-
TOTAL CURRENT ASSETS	36,222	33,130
Property, plant and equipment (NOTE 10)	198,573	32,275
Exploration and evaluation (NOTE 11)	23,281	8,478
Deferred income tax (NOTE 17)	2,607	4,634
TOTAL ASSETS	**260,683**	**78,517**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 7)	25,059	9,861
Decommissioning liability (NOTE 13)	3,945	-
TOTAL CURRENT LIABILITIES	**29,004**	**9,861**
Deferred lease liability (NOTE 18)	339	108
Decommissioning liability (NOTE 13)	20,266	7,154
TOTAL LIABILITIES	**49,609**	**17,123**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 14)	216,061	73,006
Contributed surplus (NOTE 14)	12,215	6,657
Accumulated deficit	(17,202)	(18,269)
TOTAL SHAREHOLDERS' EQUITY	**211,074**	**61,394**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**260,683**	**78,517**

COMMITMENTS (NOTE 18)
SUBSEQUENT EVENTS (NOTE 23)

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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Canadian $000s, except per share amounts)	For the year ended Dec. 31, 2017	Dec. 31, 2016
REVENUE		
Petroleum and natural gas sales (NOTE 21)	72,750	4,647
Royalties	(4,294)	(274)
NET REVENUE	68,456	4,373
Other income (NOTE 15)	2,564	-
Gain on financial derivative contracts (NOTE 19)	582	-
Interest income	144	256
TOTAL REVENUE AND OTHER INCOME	71,746	4,629
EXPENSES		
Operating	27,321	3,529
Transportation	2,957	216
General and administration	7,200	3,812
Depletion, depreciation and amortization (NOTE 10)	21,044	1,795
Accretion (NOTE 13)	1,004	247
Share-based compensation (NOTE 16)	5,938	4,272
Exploration and evaluation - expiries (NOTE 11)	604	57
Recovery of exploration and evaluation assets (NOTE 11)	-	(247)
Transaction costs (NOTE 8)	2,016	106
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAX EXPENSE	3,662	(9,158)
TAX EXPENSE		
Deferred income tax expense (recovery) (NOTE 17)	2,595	(4,187)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS	1,067	(4,971)
INCOME FROM DISCONTINUED OPERATIONS	-	18
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	1,067	(4,953)
INCOME (LOSS) PER SHARE ($) (NOTE 14)		
Basic	0.01	(0.11)
Diluted	0.01	(0.11)

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, 2017	Dec. 31, 2016
SHARE CAPITAL		
Balance, beginning of year	73,006	32,649
Issuance of share capital, net of issue costs (NOTE 14)	141,966	40,357
Issue of common shares under option plans (NOTE 16)	1,089	-
BALANCE, END OF YEAR	**216,061**	**73,006**
CONTRIBUTED SURPLUS		
Balance, beginning of year	6,657	2,385
Share-based compensation (NOTE 16)	5,938	4,272
Options and performance warrants exercised (NOTE 16)	(380)	-
BALANCE, END OF YEAR	**12,215**	**6,657**
DEFICIT		
Balance, beginning of year	(18,269)	(13,316)
Net income (loss) and comprehensive income (loss) for the year	1,067	(4,953)
BALANCE, END OF YEAR	**(17,202)**	**(18,269)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Canadian $000s)	For the year ended Dec. 31, 2017	Dec. 31, 2016
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss) from continuing operations	1,067	(4,971)
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 10)	21,044	1,795
Accretion expense (NOTE 13)	1,004	247
Exploration and evaluation (NOTE 11)	604	57
Deferred lease expense	231	108
General and administration	-	90
Share-based compensation (NOTE 16)	5,938	4,272
Recovery of exploration and evaluation assets (NOTE 11)	-	(247)
Unrealized gain on financial derivatives (NOTE 19)	(54)	-
Deferred income tax expense (recovery) (NOTE 17)	2,595	(4,187)
Decommissioning expenditures (NOTE 13)	(945)	(60)
FUNDS FLOW FROM (USED FOR) OPERATIONS	**31,484**	**(2,896)**
Change in non-cash working capital (NOTE 21)	(16,912)	6,867
CASH FLOW FROM CONTINUING OPERATIONS	14,572	3,971
Cash flow from discontinued operations	-	18
CASH FLOW FROM OPERATING ACTIVITIES	**14,572**	**3,989**
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 11)	(136)	(149)
Property, plant and equipment (NOTE 10)	(71,405)	(11,262)
Acquisitions (NOTE 8)	(120,882)	(23,585)
Property, plant and equipment dispositions (NOTE 10)	229	-
Discontinued operations (NOTE 9)	451	2,486
Change in non-cash working capital (NOTE 21)	24,892	(8,252)
CASH FLOW USED FOR INVESTING ACTIVITIES	**(166,851)**	**(40,762)**
FINANCING ACTIVITIES		
Issue of shares on exercise of put-call option, net of issue costs (NOTE 14)	-	6,615
Issue of shares, net of issue costs (NOTE 14)	141,399	33,048
Issue of shares on exercise of options and performance warrants (NOTES 14 & 16)	709	-
Change in non-cash working capital (NOTE 21)	(210)	-
CASH FLOW FROM FINANCING ACTIVITIES	**141,898**	**39,663**
Increase (decrease) in cash and cash equivalents	(10,381)	2,890
Cash and cash equivalents, beginning of year	21,905	19,015
CASH AND CASH EQUIVALENTS, END OF YEAR	**11,524**	**21,905**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016. (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 28, 2018.

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, 2017, 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 consolidated 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 ("E&E")

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 one CGU.

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 13 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. See NOTE 16 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 17 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 Company 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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (loss).

Exploration and Evaluation Expenditures

Pre-license costs are recognized in the consolidated statement of net income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 expensed 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:

Financial Derivative Contracts

Financial Derivative Contracts are included in current assets and liabilities except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets and liabilities. The Company has not designated any of its financial derivative contracts as effective accounting hedges. The Company's financial derivative contracts are classified as financial assets or liabilities at fair value through profit or loss with changes in fair value recorded in the consolidated statement of net income (loss) and comprehensive income (loss).

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of delivery of non-financial items, in accordance with its expected sale requirements. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the consolidated statement of financial position. Realized gains or losses from commodity physical delivery sales contracts are recognized in petroleum and natural gas sales as the contracts are settled.

Trade and Other Receivables

Accounts receivable 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.

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.

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 – In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments ("IFRS 9"). The standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity’s own credit risk is recorded in other comprehensive income rather than the statement of income. The Company has determined that adoption of IFRS 9 will result in changes to the classification of the Company’s financial assets but will not change the classification of the Company’s financial liabilities. The Company has also determined there will not be any material changes in the measurement and carrying values of the Company’s financial instruments as a result of the adoption of IFRS 9.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. The Company has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), will be applied on a retrospective basis by the Company on January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers – This new standard specifies recognition requirements for revenue to reflect the transfer of goods and services for the amounts it expects to receive when control is transferred to the purchaser 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. The Company is currently evaluating its contracts with customers and the impact of the standard on the Company's consolidated financial statements. Additional disclosures including, but not limited to, contracts with customers, disaggregation of revenue and contract balances may be required to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from its contracts with customers.

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, 2017	As at Dec. 31, 2016
Trade	16,907	1,304
Joint venture	1,744	175
GST	143	443
Allowance for doubtful accounts	(180)	-
TRADE AND OTHER RECEIVABLES	**18,614**	**1,922**

In determining the recoverability of receivables, the Company considers the age of the outstanding receivable and the credit worthiness of the counterparties. The Company recorded an allowance for doubtful accounts of $180,000 at December 31, 2017 as it determined certain joint venture receivables were uncollectible (December 31, 2016 - nil).

6. PREPAIDS AND DEPOSITS

($000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
Prepaids	5,957	220
Deposits	73	9,083
PREPAIDS AND DEPOSITS	**6,030**	**9,303**

During the year ended December 31, 2017, the $9.0 million letter of credit in favor of the Alberta Energy Regulator and related security deposit was fully refunded as a result of an increase in the Company's licensee liability ratio to greater than one. This resulted in a reduction to prepaids and deposits and an increase in cash and cash equivalents of $9.0 million.

Prepaids as at December 31, 2017 include $1.2 million for prepaid option premiums (NOTE 19).

7. TRADE AND OTHER PAYABLES

($000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
Trade	18,887	8,575
Accrued	4,987	1,156
Royalties	991	67
Joint venture	194	63
TRADE AND OTHER PAYABLES	**25,059**	**9,861**

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.

Provost Acquisition

On August 15, 2017, the Company closed an acquisition of certain oil and gas assets in the Provost area of Alberta (the "Provost Acquisition") for a total purchase price of $120.1 million. The assets acquired in the Provost Acquisition complement Karve's existing assets at Consort and Hamilton Lake and the Company believes the nature and characteristics of the assets are complementary to Karve's light oil focused strategy in the Viking formation. The assets acquired consist of producing oil and gas properties, reserves, facilities, undeveloped land, and seismic. The effective date of the acquisition was January 1, 2017.

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

($000s)	
Net working capital	5,991
Exploration and evaluation assets	16,723
Property, plant and equipment	116,394
Decommissioning liabilities	(19,042)
FAIR VALUE OF NET ASSETS ACQUIRED (1)	**120,066**

CONSIDERATION	
Cash	120,066
TOTAL PURCHASE PRICE	**120,066**

(1) The fair values allocated to the net assets acquired were estimated based on information at the time of the preparation of these financial statements. Amendments may be made as amounts subject to estimates are finalized.

The Company received the preliminary statement of adjustments and is in the process of reviewing the fair values of identifiable assets and liabilities acquired. Revisions to estimates over the measurement period resulted in a net decrease to cash consideration and exploration and evaluation assets of $0.4 million, compared to the amounts previously estimated and reported in Karve's consolidated interim financial statements as at September 30, 2017.

During the year ended December 31, 2017, the Company incurred $2.0 million of transaction costs for the Provost Acquisition which were recorded as "Transaction costs" in the Company's consolidated statement of net income (loss) and comprehensive income (loss). For the period ended December 31, 2016, the Company incurred $106,000 of transaction costs related to the Viking Acquisition.

The Company's consolidated statement of net income (loss) and comprehensive income (loss) includes the results of the operations for the period following closing of the Provost Acquisition on August 15, 2017 to December 31, 2017. The Company's net income (loss) and comprehensive income (loss) for the year ended December 31, 2017 includes $26.6 million of revenue and $7.3 million of operating income relating to the acquired assets. If the acquisition had closed on January 1, 2017, pro-forma revenue and operating income are estimated to have been $122.2 million and $53.4 million respectively for the year ended December 31, 2017. 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, 2017, the Company acquired various working interests, land, light oil producing properties, royalty interests, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

($000s)	
Property, plant and equipment	999
Decommissioning liabilities	(183)
FAIR VALUE OF NET ASSETS ACQUIRED	**816**

CONSIDERATION	
Cash	816
TOTAL PURCHASE PRICE	**816**

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. The assets acquired consist 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	**22,709**
CONSIDERATION	
Cash	22,709
TOTAL PURCHASE PRICE	**22,709**

9. PROPERTY DISPOSITION

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in Fiske, Saskatchewan for proceeds of $2.5 million after closing adjustments. The carrying value of assets and associated decommissioning liabilities disposed during the previous 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	-

During the year ended December 31, 2017, the remaining undeveloped land in Fiske, Saskatchewan was disposed of for $451,000 (NOTE 11). As a result of this disposition, the Company no longer has operations in Saskatchewan.

10. PROPERTY, PLANT AND EQUIPMENT

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

($000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
Petroleum and natural gas assets at cost	221,202	34,014
Corporate assets at cost	215	61
Property, plant and equipment at cost	221,417	34,075
Accumulated depletion and depreciation	(22,844)	(1,800)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	**198,573**	**32,275**

Petroleum and Natural Gas Assets

COST ($000s)	
Balance at December 31, 2015	23
Additions	11,228
Acquisitions (NOTE 8)	21,539
Transfers from exploration and evaluation assets (NOTE 11)	341
Change in decommissioning provision (NOTE 13)	883
BALANCE AT DECEMBER 31, 2016	**34,014**
Additions	71,251
Acquisitions (NOTE 8)	117,393
Transfers from exploration and evaluation assets (NOTE 11)	1,001
Change in decommissioning provision (NOTE 13)	(2,228)
Dispositions	(229)
BALANCE AT DECEMBER 31, 2017	**221,202**

ACCUMULATED DEPLETION ($000s)	
Balance at December 31, 2015	-
Depletion	1,787
BALANCE AT DECEMBER 31, 2016	**1,787**
Depletion	21,020
BALANCE AT DECEMBER 31, 2017	**22,807**

NET CARRYING AMOUNT, DECEMBER 31, 2016	**32,227**
NET CARRYING AMOUNT, DECEMBER 31, 2017	**198,395**

At December 31, 2017, future development and production costs of $102.5 million (December 31, 2016 - $12.3 million) are included in costs subject to depletion.

There were no indicators of impairment at December 31, 2017.

General and administration costs capitalized by the Company during the year ended December 31, 2017 were $1.9 million (year ended December 31, 2016 - $205,000).

Corporate Assets

COST ($000s)	
Balance at December 31, 2015	20
Additions	41
BALANCE AT DECEMBER 31, 2016	**61**
Additions	154
BALANCE AT DECEMBER 31, 2017	**215**

ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2015	5
Depreciation and amortization	8
BALANCE AT DECEMBER 31, 2016	**13**
Depreciation and amortization	24
BALANCE AT DECEMBER 31, 2017	**37**

NET CARRYING AMOUNT, DECEMBER 31, 2016	**48**
NET CARRYING AMOUNT, DECEMBER 31, 2017	**178**

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.

($000s)	
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	247
BALANCE AT DECEMBER 31, 2016	**8,478**
Additions	136
Acquisitions (NOTE 8)	16,723
Disposals (NOTE 9)	(451)
Transfers to petroleum and natural gas assets (NOTE 10)	(1,001)
Expiries	(604)
BALANCE AT DECEMBER 31, 2017	**23,281**

On February 8, 2017, the Company disposed of all undeveloped land in Fiske, Saskatchewan for total proceeds of $451,000. There was no gain or loss on this sale. During the previous year ended December 31, 2016, impairment expense of $247,000 was reversed related to this land.

There were no indicators of impairment at December 31, 2017.

12. BANK DEBT

On September 27, 2017, the Company's revolving operating demand facility with a Canadian chartered bank (the "facility") was increased from $13.0 million to $25.0 million. As at December 31, 2017, nil was drawn on the facility. The facility bears interest at rates ranging from prime plus 1.00 % to 2.50 %, depending on the net debt to cash-flow ratio in the previous quarter, and is subject to an annual standby fee on the undrawn portion of between 0.20 % to 0.50 %. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts.

13. 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 $238.5 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2037 and 2057. The estimated future cash flows have been discounted using a credit adjusted rate of 8 % and an inflation rate of 2 %. During the year ended December 31, 2017, the Company recorded a revision to its estimated decommissioning liability as a result of a decrease in the costs estimates, based on recent actual decommissioning costs incurred. At December 31, 2017, a 1 % decrease in the discount rate used would create approximately a $5.8 million increase in the decommissioning liability, and a 1 % increase in the discount rate used would create approximately a $4.3 million decrease in the decommissioning liability. The following table shows changes in the decommissioning liability:

($000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
Balance, beginning of year	7,154	-
Decommissioning liabilities incurred during the year	311	58
Decommissioning liabilities acquired through acquisitions (NOTE 8)	19,225	6,084
Decommissioning liabilities settled during the year	(945)	(60)
Accretion expense during the year	1,004	247
Change in estimate	(2,538)	825
BALANCE, END OF YEAR	**24,211**	**7,154**
Decommissioning liability - current	3,945	-
Decommissioning liability - long term	20,266	7,154
TOTAL DECOMMISSIONING LIABILITY - END OF YEAR	**24,211**	**7,154**

14. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

($000s except for share amounts)	Number	Amount ($)
Common Shares		
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**
Issued for cash	71,750,000	143,500
Issued on exercise of options and performance warrants	696,666	709
Allocation of contributed surplus - exercise of options and performance warrants	-	380
Share issue costs, net of deferred tax ($568,000)	-	(1,534)
BALANCE AT DECEMBER 31, 2017	**137,199,270**	**216,061**

b) Issued and Outstanding Common Shares

During the year ended December 31, 2017, the Company issued 71,750,000 shares at a price of $2.00 per share for proceeds of $143.5 million less share issuance costs of $2.1 million ($1.5 million net of tax).

During the year ended December 31, 2017, 596,666 vested stock options were exercised at a weighted average exercise price of $0.92 per share for gross and net proceeds of $549,000 and 100,000 vested performance warrants were exercised at a weighted average exercise price of $1.60 per share for gross and net proceeds of $160,000.

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.

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 previous 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 expired on June 15, 2017 without being exercised.

c) Contributed Surplus

($000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
Balance, beginning of year	6,657	2,385
Share-based compensation - options	2,653	2,146
Share-based compensation - warrants	3,285	1,491
Transfer to share capital on exercise of options and performance warrants	(380)	-
Share-based compensation - founder shares	-	635
BALANCE, END OF YEAR	**12,215**	**6,657**

d) Per Share Amounts

($000s except per share amounts)	For the year ended Dec. 31, 2017	Dec. 31, 2016
Net income (loss) from continuing operations	1,067	(4,971)
Net income from discontinued operations	-	18
Net income (loss) for the year	1,067	(4,953)
Weighted average number of shares - basic	91,719,252	46,090,237
Dilutive impact of share based compensation plans	15,353,334	-
Weighted average number of shares - diluted	**107,072,586**	**46,090,237**
Net income (loss) per share - basic	**0.01**	**(0.11)**
Net income (loss) per share - diluted	**0.01**	**(0.11)**

15. OTHER INCOME

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

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
Processing fee income	1,247	-
Royalty income	1,148	-
Other	169	-
TOTAL OTHER INCOME	**2,564**	**-**

Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities which were acquired in the Provost Acquisition (NOTE 8).

16. SHARE-BASED COMPENSATION

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

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
Share-based compensation - options	2,653	1,297
Share-based compensation - cancelled options	-	849
Share-based compensation - performance warrants	3,285	1,317
Share-based compensation - cancelled performance warrants	-	174
Share-based compensation - founder shares	-	635
TOTAL SHARE-BASED COMPENSATION	**5,938**	**4,272**

a) Stock Options

All 2,731,000 issued and outstanding stock options to the previous Bruin management team were cancelled on June 15, 2016.

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 grant.

During the year ended December 31, 2017, 7,496,593 stock options were approved for issuance by the Board of Directors (year ended December 31, 2016 – 6,365,000).

Share-based compensation related to stock options during the year ended December 31, 2017 was $2.7 million (year ended December 31, 2016 – $2.1 million).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2016 through to December 31, 2017:

	Number	Wtd. Avg. Exercise Price ($)
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
Granted	7,496,593	2.01
Exercised	(596,666)	0.92
Forefeited	(50,000)	1.00
BALANCE AT DECEMBER 31, 2017	**13,214,927**	**1.54**

There were 596,666 stock options exercised during the year ended December 31, 2017 (year ended December 31, 2016 – nil) and 1.6 million stock options were exercisable at December 31, 2017 (year ended December 31, 2016 – nil).

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at December 31, 2017 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
$0.85	3.46	3,405,644	990,771
$1.00 - $1.99	3.58	2,422,690	600,897
$2.00 - $2.25	4.75	7,386,593	-
	4.17	**13,214,927**	**1,591,668**

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, 2017	Dec. 31, 2016
Weighted average fair value of options	0.89	0.57
Risk-free Interest rate (%)	1.77%	0.57%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	49%	66%
Weighted average grant date share price	2.01	1.00
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.

Subsequent to December 31, 2017, 225,000 stock options were granted to certain employees of the Company at exercise prices ranging between $2.25 and $2.50 per share under the Company's Stock Option Plan.

b) Performance Warrants

All 1,951,000 issued and outstanding performance warrants to the previous Bruin management team were cancelled on June 15, 2016.

During the year ended December 31, 2017, 17,937,500 performance warrants were approved for issuance by the Board of Directors (year ended December 31, 2016 – 16,125,000). The performance warrants entitle the holder to purchase one common share of the Company and have the following vesting dates and exercise prices:

	2016 Issuance	2017 Issuance
Warrants granted	16,125,000	17,937,500
Issue date	$1.50	$3.00
First anniversary	$1.70	$3.40
Second anniversary	$1.90	$3.80
Third anniversary	$2.10	$4.20
Fourth anniversary	$2.30	$4.60

The right to exercise the performance warrants is subject to a performance event taking place which includes the occurrence of any of the following (i) the Company raising a minimum of $25 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, 2017 was $3.3 million (year ended December 31, 2016 - $1.5 million).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2016 through to December 31, 2017:

	Number	Wtd. Avg. Exercise Price ($)
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**
Granted	17,937,500	3.80
Exercised	(100,000)	1.60
Forfeited	(150,000)	2.10
BALANCE AT DECEMBER 31, 2017	**33,812,500**	**2.90**

There were 100,000 performance warrants exercised during the year ended December 31, 2017 (year ended December 31, 2016 – nil) and 6.5 million performance warrants were exercisable at December 31, 2017 (December 31, 2016 – nil).

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at December 31, 2017 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
$1.50 to $2.99	3.77	15,875,000	6,530,000
$3.00 to $3.99	4.75	10,762,500	-
$4.00 to $5.00	4.75	7,175,000	-
	4.19	**33,812,500**	**6,530,000**

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, 2017	Dec. 31, 2016
Weighted average fair value of performance warrants	0.54	0.40
Risk-free interest rate (%)	1.78%	0.63%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	49%	66%
Weighted average grant date share price	2.00	1.00
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

During the prior year ended December 31, 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 prior year ended December 31, 2016 was $635,000.

17. 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, 2017 at 27% (December 31, 2016 – 27%). A reconciliation to the differences is as follows:

($000s)	For the year ended Dec. 31, 2017	Dec. 31, 2016
Net income (loss) before taxes	3,662	(9,140)
Combined federal and provincial tax rate	27.0%	27.0%
Computed "expected" tax expense (recovery)	989	(2,468)
Increase (decrease) in taxes due to:		
Permanent differences	1,615	1,158
Recognition of unrecognized deferred tax asset	-	(4,432)
True-up of tax pools	(9)	1,555
TOTAL INCOME TAX EXPENSE (RECOVERY)	**2,595**	**(4,187)**
Current income tax	-	-
Deferred income tax expense (recovery)	2,595	(4,187)
TOTAL INCOME TAX EXPENSE (RECOVERY)	**2,595**	**(4,187)**

During the year ended December 31, 2017, the Company recognized deferred income tax assets on 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, 2017:

	Balance at Jan. 1, 2017	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2017
Non-capital losses	4,633	1,208	-	5,841
Share issue costs	321	(241)	568	648
PP&E and E&E assets	(320)	(3,547)	-	(3,867)
Derivative assets	-	(15)	-	(15)
TOTAL DEFERRED INCOME TAX ASSET	**4,634**	**(2,595)**	**568**	**2,607**

The following table summarizes Karve's net deferred income tax asset at December 31, 2016:

	Balance at Jan. 1, 2016	Recognized in Income (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
PP&E and E&E 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 income tax pools available for deduction:

($000s)	As at Dec. 31, 2017
Non-capital losses	21,636
Property, plant and equipment and exploration and evaluation assets	183,320
Share issue costs	2,399
TOTAL TAX POOLS AVAILABLE FOR DEDUCTION	**207,355**

The Company's non-capital losses expire between 2034 and 2037.

18. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2017 are as follows:

($000s)	2018	2019	2020	2021	Therafter	Total
Operating leases	341	503	597	164	-	1,605
Pipeline transportation	1,271	1,156	60	-	-	2,487
Total annual commitments	**1,612**	**1,659**	**657**	**164**	**-**	**4,092**

Deferred lease liability of $339,000 presented on the consolidated statement of financial position represents the difference between cash lease payments and accounting operating lease payments on the Company's office lease 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.

On February 15, 2018, the Company entered into a five year take or pay commitment with a major midstream company wherein a pipeline will be constructed and paid for by the midstream company with an expected on stream date of Q2 2019.

19. 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.

a) Fair Value of Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other receivables, deposits, derivative assets, 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, 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, 2017:

($000s)	Loans and receivables	Financial liabilities	Total carrying value
Assets			
Cash and cash equivalents	11,524	-	11,524
Trade and other receivables	18,614	-	18,614
Deposits	73	-	73
Derivative assets (level 2)	54	-	54
	30,265	**-**	**30,265**
Liabilities			
Trade and other payables	-	25,059	25,059
	-	**25,059**	**25,059**

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

($000s)	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**

b) Risk Associated with Financial Assets and Liabilities

Commodity Price Risk

Due to the volatile nature of natural gas and oil commodity prices, the Company is potentially 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. 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 December 31, 2017, the Company had the following commodity contracts in place:

WTI CRUDE OIL DERIVATIVE CONTRACTS

Type	Term	Basis[(1)]	Volume (Bbl/d)	Swap Price ($CAD/Bbl)[(1)]	Current Liability ($000s)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	300	70.55	(419)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	200	71.10	(239)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**500**	**70.77**	**(658)**

(1) Nymex WTI monthly average in $CAD.

Type	Term	Basis[(1)]	Volume (Bbl/d)	Sold Put Price ($CAD/Bbl)[(1)]	Current Asset ($000s)
Put option	Jan. 1/18 - Dec. 31/18	WTI	1,500	64.00	712
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,500**	**64.00**	**712**

(1) Nymex WTI monthly average in $CAD.

The Company prepaid the put option premium of $1.2 million which is included in prepaids and deposits on the consolidated statement of financial position (NOTE 6).

Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $1.0 million decrease in the unrealized gain and a $5.00 USD decrease in WTI would result in a $1.2 million increase in the unrealized gain.

The following financial derivative contract was entered into subsequent to year end:

Type	Term	Basis[(1)]	Volume (Bbl/d)	Sold Put Price ($CAD/Bbl)[(1)]
Put option	Mar. 1/18 - Dec. 31/18	WTI	1,000	70.00
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,000**	**70.00**

(1) Nymex WTI monthly average in $CAD.

The components of the gain on the financial derivative contract is as follows:

($000s)	For the year ended Dec. 31, 2017	Dec. 31, 2016
Realized gain on financial derivative contracts	528	-
Unrealized gain on financial derivative contracts	54	-
GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**582**	**-**

Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. The Company offsets derivative assets and liabilities when the counterparty, commodity, current and timing of settlement are the same. The following table summarizes the gross asset and liability positions of the Company's financial derivatives by counterparty that are offset on the consolidated statement of financial position at December 31, 2017:

($000s)	Asset	Liability	Net
Gross amount	712	(658)	54
Amount offset	(658)	658	-
NET AMOUNT	**54**	**-**	**54**

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the operating demand facility interest is based on prime interest rates plus interest rates ranging from prime plus 1.00 to 2.50 %, depending on the net debt to cash-flow ratio in the previous quarter. As at December 31, 2017, nil was drawn on the operating demand facility.

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, 2017, the Company considers itself to be well-capitalized and has working capital in excess of current commitments. The Company's financial liabilities include trade and other payables of $25.1 million (year ended December 31, 2016 - $9.9 million). All trade and other payables have contractual maturities of less than one year.

20. 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 is made upon the approval of the Board of Directors.

The Company considers shareholders' capital and adjusted positive working capital (excluding derivative assets and current portion decommissioning liability) as components of its capital base. The Company can access or increase capital through the issuance of shares, through bank borrowings (based on reserves) and by building cash reserves by reducing its capital expenditure program.

The following table represents the net capital of the Company:

($000s)	As at Dec. 31, 2017	As at Dec. 31, 2016
Shareholders' capital	211,074	61,394
Adjusted positive working capital	11,109	23,269
CAPITAL BASE	**222,183**	**84,663**

The Company monitors its capital based primarily on its adjusted positive working capital to annualized funds flow ratio. Adjusted positive working capital and annualized funds flow are non-GAAP measures. Adjusted positive working capital is defined as working capital excluding derivative assets and current portion decommissioning liability. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital for the Company's most recent quarter, multiplied by four. To facilitate the management and control its' capital base, the Company prepares annual operating and capital expenditure budgets. The budgets are updated when critical factors change. These include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and Company specific factors or assumptions such as the Company's drilling results and its production profile. The Company's Board of Directors approves the budget and changes thereto. At December 31, 2017, the Company had adjusted positive working capital of $11.1 million (December 31, 2016 - $23.3 million).

The Company's share capital is not subject to external restrictions but the Company does have financial covenants with regards to its' revolving operating demand facility. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts. The Company would be considered to be in breach of its credit agreement if the minimum working capital ratio was not maintained, unless consented to by the lender. As at December 31, 2017 the Company is in compliance with all covenants.

21. 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 year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 5)	(16,692)	(1,788)
Prepaids and deposits (NOTE 6)	9,877	(9,227)
Trade and other payables (NOTE 7)	14,585	9,630
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**7,770**	**(1,385)**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	(16,912)	6,867
Investing activities	24,892	(8,252)
Financing activities	(210)	-
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**7,770**	**(1,385)**

In the "Operating Activities" line in the consolidated statement of cash flows, non-cash deferred lease expense of $231,000 relates to 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 (NOTE 18).

Changes in non-cash working capital per the table above are different than the balance sheet movement due to working capital acquired in the Provost acquisition (NOTE 8). As part of the Provost acquisition, $6.6 million of prepaid expenditures and $613,000 of accounts payable were acquired which are presented as investing activities in the consolidated statement of cash flows.

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

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
Crude oil	64,081	4,207
Natural gas liquids	3,094	63
Natural gas	5,575	408
Reclassified to income from discontinued operations	-	(31)
TOTAL PETROLEUM AND NATURAL GAS SALES	**72,750**	**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:

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
General and administration	5,801	2,219
Operating	3,561	29
Share-based compensation	5,809	3,274
TOTAL EMPLOYEE COMPENSATION COSTS	**15,171**	**5,522**

22. 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:

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
Share-based compensation benefit	4,337	3,725
Salaries and benefits	2,560	993
Consulting fees	-	62
Termination benefits	-	997
TOTAL KEY MANAGEMENT COMPENSATION	**6,897**	**5,777**

During the previous 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

The Company incurred a total of $445,000 (year ended December 31, 2016 -$317,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at December 31, 2017, $57,000 in fees for these legal services are included in accounts payable (year ended December 31, 2016 - $72,000). In the comparative year ended December 31, 2016, a previous Director of the Company was a Director of a company which received office rental payments of $80,000 from Karve.

23. SUBSEQUENT EVENTS

WTI Crude Oil Derivative Contracts

Subsequent to December 31, 2017, the Company entered into the following derivative contract:

Type	Term	Basis(1)	Volume (Bbl/d)	Sold Put Price ($CAD/Bbl)(1)
Put option	Mar. 1/18 - Dec. 31/18	WTI	1,000	70.00
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,000**	**70.00**

(1) Nymex WTI monthly average in $CAD.

Stock Option Grant

Subsequent to December 31, 2017, 225,000 stock options were granted to certain employees of the Company at exercise prices ranging between $2.25 and $2.50 per share under the Company's Stock Option Plan.

Oil Pipeline Commitment

On February 15, 2018, the Company entered into a five year take or pay commitment with a major midstream company wherein a pipeline will be constructed and paid for by the midstream company with an expected on stream date of Q2 2019.