MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2017

AND DECEMBER 31, 2016

March 28, 2018

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our November 29, 2017 letter to shareholders.

The Company went through two transformations in 2017. We started the year closely monitoring the results from the initial 10 horizontal wells drilled in late 2016 while continuing to drill on the Consort/Hamilton Lake asset in 2017. Over the year, we grew the Consort/Hamilton Lake asset from 450 BOE/d to over 2,500 BOE/d by the end of the year. The second transformation was the Provost asset acquisition that closed on August 15, 2017. For a purchase price of $120.1 million, we acquired 6,500 BOE/d (45% liquids) with over 1.1 million acres of land including ~173,000 acres of fee title acreage. Due to Q4 2017 drilling on the acquired lands, the Provost asset is currently producing 9,000 BOE/d, up from the original 6,500 BOE/d acquired.

In total, Karve is currently producing approximately 11,500 BOE/d (62% liquids). In the fourth quarter of 2017 we produced an average of 10,078 BOE/d (61% liquids), up from 596 BOE/d (78% liquids) in the fourth quarter of 2016, showing growth in production of 1,591%. On a per share basis, we increased oil production 489% per share with barrel of oil equivalent production increasing 698% per share over the same period. While production has increased year over year, operating expenses have decreased 51% from $29.74 in the fourth quarter of 2016 to $14.64 in the fourth quarter of 2017.

From inception to March 28, 2018, we have brought a total of 101 horizontal Viking oil wells on production, including 10 wells in 2016, 67 wells in 2017 and 24 wells to date in 2018. To date, the drilling has been split fairly evenly between the original Consort/Hamilton Lake assets and the acquired Provost lands. We continue to be encouraged by the results on both the original Consort/Hamilton Lake property as well as the Provost properties.

Sproule Associates Limited, our independent reserves evaluator, completed the Karve reserve report dated December 31, 2017. Proved plus probable reserve volumes have increased from 2.4 to 29.6 MMBOE and the BT NPV 10 reserves value has increased from $43.9 to $385.6 million, an increase year over year of 778%. On a per share basis, reserve volumes increased 474% per share with reserve value increasing 314% on a per share basis. In the attached management's discussion and analysis (MD&A) we have included a summary of the Karve Sproule Report.

As at December 31, 2017 we were in a positive working capital position of $11.1 million with an undrawn $25.0 million credit facility adding to our financial flexibility.

Our 2018 capital program consists of spending a total of $127.4 million which includes the drilling of 100 gross (97 net) horizontal Viking wells for $99.1 million and waterflood, facility and abandonment capital of $25.3 million. In 2018, we are planning to reactivate and implement a waterflood on 6 sections of land while abandoning 121 wells throughout the year. To support our 2018 capital program, we have hedged oil volumes of 500 bbl/d at an average price of Cdn $70.77 WTI and have purchased floors at an average of Cdn $66.40 WTI for 2,500 bbl/d of production.

We will hold our Annual General Meeting ("AGM") on Wednesday May 9, 2018 at 2:00PM at our offices located at Suite 1700, 205 5 AVE SW, Calgary, Alberta. At the AGM, among other items, we will provide an update. All shareholders and stakeholders are welcome to attend the AGM.

You will find enclosed the Karve Energy Inc. audited consolidated financial statements and MD&A for the years ended December 31, 2017 and December 31, 2016. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the years ended December 31, 2017 and December 31, 2016. It is dated March 28, 2018 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and the audited consolidated financial statements for the year ended December 31, 2016. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

Karve is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and natural 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 information of the Company is comprised of Karve and its wholly owned subsidiary "DTC Energy Inc.".

OPERATIONAL AND FINANCIAL SUMMARY

	For the year ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Dec. 31, 2017	Dec. 31, 2016
Net income (loss) from continuing operations	1,067	(4,971)
Per basic and diluted shares	0.01	(0.11)
Net income from discontinued operations	-	18
Funds flow from (used for) operations (1)	31,484	(2,896)
Per share - basic (1)	0.34	(0.06)
Per share - diluted (1)	0.29	(0.06)
Adjusted funds flow from (used for) operations (1)	34,445	(2,730)
Per share - basic (1)	0.38	(0.06)
Per share - diluted (1)	0.32	(0.06)
Capital expenditures	71,541	11,418
Acquisitions	120,882	23,735
Dispositions	(680)	(2,486)
Total net capital expenditures	191,743	32,667
Adjusted positive working capital (1)	11,109	23,269
Total assets	260,683	78,517
Shares outstanding, weighted average (000s)	91,719	46,090
Shares outstanding, end of year (000s)	137,199	64,753
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	3,006	217
NGLs (bbl/d)	164	3
Natural gas (mcf/d)	9,603	415
Total (boe/d)	**4,771**	**289**
Average sales prices (excludes hedging gains and losses)		
Oil ($/bbl)	58.40	52.95
NGLs ($/bbl)	51.68	55.11
Natural gas ($/mcf)	1.59	2.69
Boe basis ($/boe)	**41.78**	**44.17**
Field netback ($/boe)		
Sales price	41.78	44.17
Royalties	(2.47)	(2.61)
Operating expense	(15.69)	(33.43)
Transportation expense	(1.70)	(2.04)
Field netback (1)	**21.92**	**6.09**

(1) Non-GAAP measure, see page 18 for details.

RESERVES SUMMARY

The following is a summary of reserves for the Company's total reserves which are located in the Provost area as at December 31, 2017 as evaluated by Karve's independent reserve engineers, Sproule Associated Limited ("Sproule"). The reserves have been reviewed and approved by Karve's Reserve Committee. No provision for general and administration expenses has been made in the reserve evaluation and it should not be assumed that the net present value estimates made by Sproule represent fair market value of the assets.

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta.

GROSS RESERVES SUMMARY[1,2]					For the year ended Dec. 31, 2017
Karve interest	% Liquids	Oil Mbbl	NGLs Mbbl	Natural Gas MMcf	6:1 MBOE
Proved developed producing	46%	6,675	977	53,350	16,543
Proved non-produding and undeveloped	95%	3,695	20	1,100	3,899
TOTAL PROVED	**56%**	**10,370**	**997**	**54,450**	**20,442**
Probable	53%	4,382	468	25,593	9,116
TOTAL PROVED PLUS PROBABLE	**55%**	**14,752**	**1,465**	**80,043**	**29,558**

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2017. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

The reserves comparison compares the December 31, 2017 reserve report to the December 31, 2016 reserve report:

GROSS RESERVES COMPARISON[1,2]	Dec. 31, 2017	Dec. 31, 2016	% Change
Karve interest	MBOE	MBOE	
Proved developed producing	16,543	1,255	1219%
Proved non-produding and undeveloped	3,899	340	1047%
TOTAL PROVED	**20,442**	**1,595**	**1182%**
Probable	9,116	837	989%
TOTAL PROVED PLUS PROBABLE	**29,558**	**2,432**	**1115%**

(1) Sproule Associates Limited estimated reserves as at December 31, 2017 and December 31, 2016. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

The reserve life index is based on production of approximately 10,500 BOE/d as of December 31, 2017 and 11,500 BOE/d as of March 28, 2018:

RESERVE LIFE INDEX	For the year ended Dec. 31, 2017[1]	Dec. 31, 2017[2]
Total proved	5.3	4.9
Total proved plus probable	7.7	7.0

(1) Based on production of approximately 10,500 BOE/d as of December 2017.

(2) Based on production of approximately 11,500 BOE/d as of March 2018.

The future development capital as at December 31, 2017 is as follows:

FUTURE DEVELOPMENT CAPITAL ($000s)	As at Dec. 31, 2017
Total proved plus probable	102,536

Net present values are based on Sproule December 31, 2017 forecast pricing assumptions.

NET PRESENT VALUE, BEFORE TAX[1,2]				For the year ended Dec. 31, 2017
Karve interest ($000s)	Undiscounted	5%	10%	15%
Proved developed producing	256,700	233,159	206,156	183,244
Proved non-produding and undeveloped	85,697	68,186	53,684	42,201
TOTAL PROVED	**342,397**	**301,345**	**259,840**	**225,445**
Probable	215,321	164,862	125,735	100,274
TOTAL PROVED PLUS PROBABLE	**557,718**	**466,207**	**385,575**	**325,719**

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2017. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

The net present value comparison compares the value attributed to Karve's reserves as of December 31, 2017 as compared to the value attributed to Karve's reserves as of December 31, 2016. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2017 and December 31, 2016 price deck, respectively), the table below should be used for directional purposes only.

NET PRESENT VALUE COMPARISON, BEFORE TAX[1,2]	Dec. 31, 2017	Dec. 31, 2016	% Change
Karve interest ($000s)	10%	10%	
Proved developed producing	206,156	25,704	702%
Proved non-produding and undeveloped	53,684	3,623	1382%
TOTAL PROVED	**259,840**	**29,327**	**786%**
Probable	125,735	14,596	761%
TOTAL PROVED PLUS PROBABLE	**385,575**	**43,923**	**778%**

(1) Sproule Associates Limited estimated reserves as at December 31, 2017 and December 31, 2016. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

The net present value, after tax, is based on Sproule December 31, 2017 pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2017.

NET PRESENT VALUE, AFTER TAX[1,2]				For the year ended Dec. 31, 2017
Karve interest ($000s)	Undiscounted	5%	10%	15%
Proved developed producing	236,337	216,745	192,653	171,941
Proved non-produding and undeveloped	60,283	46,637	35,005	25,723
TOTAL PROVED	**296,620**	**263,382**	**227,658**	**197,664**
Probable	160,917	123,242	92,316	72,420
TOTAL PROVED PLUS PROBABLE	**457,537**	**386,624**	**319,974**	**270,084**

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2017. Table may not add due to rounding.

(2) Karve working interest reserves, before royalty interests.

FINDING, DEVELOPMENT & ACQUISTION COSTS ($000s, except per boe amounts)	For the year ended Dec. 31, 2017	Dec. 31, 2016
Capital expenditures (exluding acquisitions) [1]	72,486	11,377
Change in future development costs (FDC) [2]	90,263	12,273
TOTAL	**162,749**	**23,650**
Acquistions (net of dispositions)	120,202	23,735
TOTAL CAPITAL EXPENDITURES INCLUDING FDC	**282,951**	**47,385**

(1) Capital expenditures for the year ended December 31, 2017 include decommissioning expenditures of $945,000.

(2) FDC as at December 31, 2017 was $102.5 million.

RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)	For the year ended Dec. 31, 2017	Dec. 31, 2016
Reserve additions (net of production) [1]	10,246	1,019
Acquistion reserve additions	20,310	1,413
RESERVE ADDITIONS INCLUDING ACQUISTIONS	**30,556**	**2,432**

(1) Reserve additions include infrill drilling and extensions, technical revisions, and production.

COMPANY METRICS - PROVED PLUS PROBABLE	For the year ended Dec. 31, 2017	Dec. 31, 2016
Finding & development costs (F&D) ($/boe)	15.88	19.64
Finding, development & acquisition costs ($/boe) [1]	9.26	18.11
Operating netback ($/boe) [2]	24.04	27.63
Recycle ratio - F&D	1.5x	1.4x
Recycle ratio - FD&A	2.6x	1.5x

(1) Non-GAAP measure, see page 18 for details

(2) Recycle ratio is based on January 2018 operating netback of $24.04/boe.

RESERVES RECONCILATION (MBOE)	Total Proved	Total Proved plus Probable
December 31, 2016	1,595	2,432
Infill drilling and extensions	5,772	8,669
Acquisitions	14,558	20,310
Technical revisions	232	(138)
Production	(1,715)	(1,715)
DECEMBER 31, 2017	**20,442**	**29,558**

SALES VOLUMES

Sales volumes averaged 4,771 boe/d during the year ended December 31, 2017 compared to 289 boe/d for the year ended December 31, 2016. The increase in sales volumes is due to the Provost acquisition which closed on August 15, 2017 and bringing 67 gross (66.1 net) horizontal wells on production during 2017 whereas the comparative period includes the results from the Viking property acquisition which closed on June 15, 2016 and 10 gross (9.9 net) horizontal wells on production from the fourth quarter of 2016.

The property acquired in the Provost Acquisition was approximately 45% liquids weighted at the time of acquisition and therefore the Company's corporate year over year product mix has decreased from 76% liquids to 66% liquids. It is management's intention to increase the liquids weighting of the acquired property through horizontal drilling of Viking light oil wells.

The 2017 exit rate, representing December 2017 average monthly production was 10,500 boe/d.

	For the year ended	
	Dec. 31, 2017	Dec. 31, 2016
Sales volumes		
Oil (bbl/d)	3,006	217
NGLs (bbl/d)	164	3
Natural gas (mcf/d)	9,603	415
Total (boe/d)	**4,771**	**289**

SALES PRICES AND REVENUE

For the year ended December 31, 2017, the Company generated revenue of $72.8 million (year ended December 31, 2016 - $4.7 million) on average sales volumes of 4,771 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the year ended December 31, 2017 was $41.78 compared to $44.17 for the year ended December 31, 2016. The decrease relates to higher benchmark oil pricing offset by a change in the Company's sales product mix due to the property acquired in the Provost acquisition being approximately 45% liquids weighted at the time of acquisition. This change in sales product mix resulted in the Company being more gas weighted and realizing a lower corporate total price per boe than in the prior year when the Company was 76% liquids weighted. It is management's intention to increase the liquids weighting of the acquired property through horizontal drilling of Viking light oil wells.

	For the year ended	
($000s, except per boe amounts) (1)	Dec. 31, 2017	Dec. 31, 2016
Crude oil	64,081	4,207
Natural gas liquids	3,094	63
Natural gas	5,575	408
TOTAL PETROLEUM AND NATURAL GAS SALES	**72,750**	**4,678**
Processing fee income	1,247	-
Royalty income	1,148	-
Other	169	-
TOTAL PETROLEUM AND NATURAL GAS SALES AND OTHER INCOME	**75,314**	**4,678**

(1) Revenue for the year ended December 31, 2016 includes $31,000 presented as income from discontinued operations in the consolidated statement of net income (loss) and comprehensive income (loss).

	For the year ended	
KARVE AVERAGE REALIZED PRICE (1)	Dec. 31, 2017	Dec. 31, 2016
Revenue ($000s)	72,750	4,678
Oil ($/bbl)	58.40	52.95
NGLs ($/bbl)	51.68	55.11
Natural gas ($/mcf)	1.59	2.69
Karve realized price ($/boe)	**41.78**	**44.17**
AVERAGE BENCHMARK PRICES (2)		
Crude oil - WTI ($US/bbl)	50.80	43.32
Crude oil - Canadian light sweet ($CDN/bbl)	61.84	52.79
Natural gas - AECO-C spot ($CDN/mcf)	2.20	2.18
Exchange Rate - ($US/$CAD)	0.77	0.76

(1) Excludes hedging gains and losses.

(2) Average benchmark pricing obtained from U.S. Energy Information Administration and Sproule Associates Limited.

DERIVATIVE CONTRACTS

It is the Company's policy to hedge a portion of its crude oil sales through the use of financial derivative contracts. In accordance with standard industry practice, derivative contracts are marked to market.

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.

Subsequent to December 31, 2017, the Company entered into the following commodity 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.

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

	For the year ended	
($000s)	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**	**-**

At December 31, 2017, the fair value of the financial derivative contract was a current asset position of $54,000 resulting in an unrealized gain of $54,000. The fair value, or mark-to-market value, of this contract is based on the estimated amount that would have been received or paid to settle the contract as at December 31, 2017 and may be different from what will eventually be realized. The Company recognized a realized gain of $528,000 for the year ended December 31, 2017 (year ended December 31, 2016 – nil).

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 unrealized loss on March 27, 2018 (day prior to financial statement release) was $1.1 million.

ROYALTIES

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Royalties (1)	4,294	276
Royalties as a % of revenue	5.9%	5.9%
Per boe ($)	2.47	2.61

(1) Royalties for the year ended December 31, 2016 includes $2,000 presented as income from discontinued operations in the consolidated statement of net income (loss) and comprehensive income (loss).

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2017 was $4.3 million ($2.47 per boe) compared to $276,000 ($2.61 per boe) for the year ended December 31, 2016. For the year ended December 31, 2017, the Company's royalty rate was 5.9% of revenues (year ended December 31, 2016 – 5.9%). Royalty rates are expected to remain low due to the high percentage of Crown lands and the Alberta Governments Crown royalty incentive program including gas cost allowance.

OPERATING EXPENSE

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Operating expense (1)	27,321	3,540
Per boe ($)	15.69	33.43

(1) Operating expense for the year ended December 31, 2016 includes $11,000 presented as income from discontinued operations in the consolidated statement of net income (loss) and comprehensive income (loss).

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process and in-field trucking of production. Operating expenses were $27.3 million ($15.69 per boe) during the year ended December 31, 2017 and $3.5 million ($33.43 per boe) for the year ended December 31, 2016. Operating expenses per boe decreased during the year ended December 31, 2017 compared to the year ended December 31, 2016 due to new horizontal oil wells brought on production and efficiencies in operating the assets over time.

TRANSPORTATION EXPENSE

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Transportation expense	2,957	216
Per boe ($)	1.70	2.04

Transportation expense includes costs paid to third parties for transporting clean oil, sales gas, and associated liquids to the pipeline or processing plant point of sale. Transportation expenses were $3.0 million ($1.70 per boe) during the year ended December 31, 2017 and $216,000 ($2.04 per boe) for the year ended December 31, 2016. The decrease in transportation expense per boe in the current period is due to higher natural gas production as a result of the Provost Acquisition which costs less to transport, whereas the majority of oil sales were trucked to sales points in the comparative year ended December 31, 2016.

FIELD NETBACK

The components of field netbacks are summarized in the following table:

	For the year ended December 31, 2017		For the year ended December 31, 2016	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	72,750	41.78	4,678	44.17
Royalties	(4,294)	(2.47)	(276)	(2.61)
Operating expense	(27,321)	(15.69)	(3,540)	(33.43)
Transportation expense	(2,957)	(1.70)	(216)	(2.04)
FIELD NETBACK ($) (1)	**38,178**	**21.92**	**646**	**6.09**

(1) Non-GAAP measure, see page 18 for details.

OTHER INCOME

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Processing fee income	1,247	-
Royalty income	1,148	-
Other	169	-
Total other income	2,564	-
Per boe ($)	1.47	-

Other income for the year ended December 31, 2017 was $2.6 million ($1.47 per boe) and nil for the year ended December 31, 2016. The other income streams relate to processing fee income and royalty income from the Provost Acquisition. 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. Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests which were acquired in the Provost Acquisition.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the year ended December 31, 2017 and December 30, 2016:

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Staff and consulting costs	6,434	2,350
Professional fees	689	1,164
Office and rent costs	1,141	518
Other	789	157
General and administration expense (Gross)	9,053	4,189
Capitalized G&A and overhead recovery	(1,853)	(377)
General and administration expense (Net)	7,200	3,812
Per boe ($)	4.13	36.00

General and administrative expenses (net) for the year ended December 31, 2017 were $7.2 million ($4.13 per boe) and $3.8 million for the year ended December 31, 2016. The increase in gross G&A during the year ended December 31, 2017 compared to the prior year relates to additional head office staff hired as a result of the Provost acquisition. The decrease in G&A (net) per boe relates to increased sales volumes in the current period.

Included in the G&A is non-cash deferred lease expense of $231,000 relating 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. The table below reconciles cash G&A expenditures:

	For the year ended	
	Dec. 31, 2017	Dec. 31, 2016
General and administration expense (Net)	7,200	3,812
Non-cash deferred lease expense	(231)	(108)
Cash general and administration expense (Net)	6,969	3,704
Per boe ($)	4.00	34.98

INTEREST INCOME

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Interest income	144	256
Per boe ($)	0.08	2.42

Interest income relates to interest earned on bank deposits and short-term investments. Interest income decreased to $144,000 for the year ended December 31, 2017 compared to $256,000 due to lower cash balances held on deposit. During the year ended December 31, 2017, no amounts were drawn on the Company’s operating demand facility and therefore the Company did not pay interest expense related to this facility.

SHARE-BASED COMPENSATION EXPENSE (“SBC”)

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Share-based compensation - options	2,653	1,297
Share-based compensation - cancelled options	-	849
Share-based compensation - performance warrants	3,285	1,317
Share-based compensation - cancelled performance warrants	-	174
Share-based compensation - founder shares	-	635
Share based compensation expense	5,938	4,272
Per boe ($)	3.41	40.34

Share-based compensation (“SBC”) is an estimate of the fair value of the share options and performance warrants granted by the Company using the Black-Scholes valuation methodology at the grant date. The Black-Scholes pricing model requires the Company to make assumptions including share volatility, a risk-free rate, and expected life of the options and performance warrants.

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

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 (December 31, 2016 – nil exercises).

During the year ended December 31, 2017, 7,496,593 stock options were approved for issuance by the Board of Directors at a weighted average exercise price of $2.01 per option (year ended December 31, 2016 – 6,365,000). The weighted average fair value of options granted during the year ended December 31, 2017 is $0.89 per option. During the year ended December 31, 2017, 17,937,500 performance warrants were approved for issuance by the Board of Directors at a weighted average exercise price of $3.80 per warrant (year ended December 31, 2016 – 16,125,000). The weighted average fair value of warrants granted during the year ended December 31, 2017 is $0.54 per warrant.

SBC expense related to stock options for the year ended December 31, 2017, was $2.7 million (year ended December 31, 2016 - $2.1 million) and SBC expense related to performance warrants for the year ended December 31, 2017, was $3.3 million (year ended December 31, 2016 - $1.5 million) using the graded vesting method.

As at December 31, 2017, 13.2 million stock options and 33.8 million performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.54 per option and $2.90 per warrant. The weighted average fair value of stock options and performance warrants outstanding was $0.74 per option and $0.47 per warrant.

At December 31, 2017, 1,591,668 stock options and 6,530,000 performance warrants were exercisable.

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.

DEPLETION, DEPRECIATION AND AMORTIZATION

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2017	Dec. 31, 2016
Depletion	21,020	1,787
Depreciation and amortization	24	8
Total DD&A ($)	21,044	1,795
Per boe ($)	12.09	16.95

Depletion, depreciation and amortization ("DD&A") are associated with Viking zone production assets in the Alberta Viking and also include the depreciation and amortization of corporate assets such as computer equipment. The net carrying value of production assets is depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves and estimated future development costs necessary to bring those reserves into production.

During the year ended December 31, 2017 depletion expense was $21.0 million (year ended December 31, 2016, $1.8 million) due to increases in production, net carrying value, and future development costs from Provost assets acquired during the year ended December 31, 2017. Depletion expense per boe decreased during the year ended December 31, 2017, due to an increase in the reserve base from the acquired Provost assets.

INCOME TAX

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:

	For the year ended	
($000s)	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	**2,595**	**(4,187)**
Current income tax	-	-
Deferred income tax expense (recovery)	2,595	(4,187)
TOTAL INCOME TAX	**2,595**	**(4,187)**

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 anticipates it will be in a current tax payable position in the second half of 2018.

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the year ended December 31, 2017 consisted of the following.

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
Acquisitions	120,882	23,735
Dispositions	(680)	(2,486)
Drilling	25,420	3,511
Completions	29,038	5,496
Facilities and well equipment	16,611	2,221
Land acquisitions	318	149
Office equipment	154	41
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS ($000s)	**191,743**	**32,667**

During the year ended December 31, 2017 the Company drilled 70 (68.7 net) and completed 67 (66.1 net) horizontal Viking oil wells. The Company also performed facilities upgrades to increase the processing capacity at two major oil batteries.

The following table outlines total gross and net wells drilled, completed and brought on production during the year ended December 31, 2017:

For the quarter ended	For the year ended Dec. 31, 2017	For the quarter ended Dec. 31, 2017	For the quarter ended Sept. 30, 2017	For the quarter ended Jun. 30, 2017	For the quarter ended Mar. 31, 2017
Drilled	70 (68.7)	23 (22.1)	25 (24.8)	8 (7.9)	14 (13.9)
Completed	67 (66.1)	23 (22.4)	30 (29.8)	5 (5.0)	9 (8.9)
On production	67 (66.1)	24 (23.4)	29 (28.8)	5 (5.0)	9 (8.9)

ACQUISITION OF OIL AND GAS ASSETS

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 this MD&A. 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**

PROPERTY DISPOSITION AND DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located 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. There was no gain or loss in this sale. As a result of this disposal the Company no longer has operations in Saskatchewan.

DECOMMISSIONING LIABILITY

At December 31, 2017, the Company recorded a decommissioning liability of $24.2 million for the future abandonment and reclamation of Karve's properties (December 31, 2016 – $7.2 million). On the consolidated statement of financial position, $3.9 million is presented as a current liability as managements intends to decommission the wells within the next 12 months and the remaining $20.3 million is presented as a long term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. 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.

REVOLVING OPERATING DEMAND FACILITY

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.

SHARE CAPITAL

($000s except for share amounts)	Number	Amount ($)
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**

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.

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended ($000s)	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016
Petroleum and natural gas sales	38,464	18,133	10,017	6,136	2,601	1,756
Funds flow from (used for) operations (1)	19,022	4,654	4,728	3,080	(340)	(652)
AVERAGE SALES VOLUMES						
Oil (bbl/d)	5,700	3,283	1,874	1,114	457	341
Natural gas liquids (bbl/d)	412	226	7	6	7	5
Natural gas (Mcf/d)	23,792	12,553	1,037	744	792	747
TOTAL PRODUCTION (BOE/d)	**10,078**	**5,602**	**2,054**	**1,244**	**596**	**470**
AVERAGE BENCHMARK PRICES						
Crude oil - WTI ($US/bbl)	55.27	48.18	48.27	51.90	49.29	44.94
Crude oil - Canadian light sweet ($CDN/bbl)	65.68	57.15	59.72	64.74	60.76	54.19
Natural gas - AECO-C spot ($CDN/mcf)	1.72	1.61	2.79	2.69	3.11	2.36
Exchange Rate - ($US/$CAD)	0.79	0.80	0.74	0.76	0.75	0.77
FIELD NETBACK ($/BOE)						
Revenue	41.49	35.18	53.61	54.82	47.45	40.59
Royalties	(2.31)	(2.37)	(3.03)	(3.23)	(2.80)	(2.47)
Operating expense	(14.64)	(17.29)	(14.72)	(18.66)	(29.74)	(38.14)
Transportation expense	(1.30)	(1.60)	(3.09)	(3.07)	(2.34)	(2.03)
FIELD NETBACK ($/BOE) (1)	**23.24**	**13.92**	**32.77**	**29.86**	**12.57**	**(2.05)**
General and administration	(3.77)	(3.50)	(7.84)	(3.45)	(23.43)	(14.12)
Other income	1.97	1.43	-	-	-	-
Interest income	0.03	0.06	0.14	0.54	1.81	1.50
Realized hedging	-	0.64	1.06	-	-	-
CASHFLOW NETBACK ($/BOE)	**21.47**	**12.55**	**26.13**	**26.95**	**(9.05)**	**(14.67)**

(1) Non-GAAP measure, see page 18 for details.

During the quarter ended December 31, 2017, the Company's daily production increased due to a full quarter of production from the Provost acquisition which closed on August 15, 2017 and successfully bringing 24 horizontal Viking wells on production. The increase in field netback relates to higher realized pricing due to higher benchmark commodity pricing and a change in product mix from the successful drilling of horizontal Viking oil wells which has increased the liquids weighting of the acquired Provost assets from 45% at time of acquisition to 55% during the quarter ended December 31, 2017.

It is management's intention to increase the liquids weighting of the acquired property through future horizontal drilling of Viking light oil wells.

NET INCOME SUMMARY

($000s, except per boe amounts)	For the year ended December 31, 2017 $	$/boe	For the year ended December 31, 2016 $	$/boe
Petroleum and natural gas sales	72,750	41.78	4,678	44.17
Royalties	(4,294)	(2.47)	(276)	(2.61)
NET REVENUE	**68,456**	**39.31**	**4,402**	**41.56**
Gain on financial derivative contracts	582	0.33	-	-
Other income	2,564	1.47	-	-
Interest income	144	0.08	256	2.42
TOTAL REVENUE AND OTHER INCOME	**71,746**	**41.19**	**4,658**	**43.98**
Operating	27,321	15.69	3,540	33.43
Transportation	2,957	1.70	216	2.04
General and administration	7,200	4.13	3,812	36.00
Depletion, depreciation and amortization	21,044	12.09	1,795	16.95
Accretion	1,004	0.58	247	2.33
Share-based compensation	5,938	3.41	4,272	40.34
Exploration and evaluation - expiries	604	0.35	57	0.54
Recovery of exploration and evaluation assets	-	-	(247)	(2.33)
Transaction costs	2,016	1.16	106	1.00
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	**3,662**	**2.08**	**(9,140)**	**(86.32)**
Deferred income tax expense (recovery)	2,595	1.49	(4,187)	(39.54)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**1,067**	**0.59**	**(4,953)**	**(46.78)**

(1) For all financial statement line items above, amounts presented as income from discontinued operations in the consolidated statement of net loss and comprehensive loss have been presented in their original revenue or expense line item for comparison purposes within this MD&A.

CONTRACTUAL OBLIGATIONS AND 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.

RELATED PARTY DISCLOSURES

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.

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at December 31, 2017, there were 137,199,270 common shares outstanding (December 31, 2016 - 64,752,604).

As at March 28, 2018, the date of this MD&A, there were 137,199,270 common shares, 133,724,927 stock options and 33,812,500 performance warrants outstanding.

LIQUIDITY

The Company relies on operating cash flows, debt, and equity issuances to fund its capital requirements and provide liquidity. From time to time, the Company expects to access capital markets to meets its capital programs. Future liquidity depends primarily on cash flow generated from operations and the ability to access equity markets.

SUBSEQUENT EVENTS

Derivative Contracts

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

WTI CRUDE OIL DERIVATIVE CONTRACTS

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.

OFF BALANCE SHEET ARRANGEMENTS

Karve has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the "Contractual Obligations and Commitments" section above.

All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at December 31, 2017.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ materially from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Company to implement its strategic initiatives, the availability and price of energy commodities, government and regulatory decisions, plant availability, competitive factors in the oil and gas industry and prevailing economic conditions in the regions the Company operates. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements are as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Company has relied upon in the past will continue to be available to the Company on terms favorable to the Company and that future economic and operating conditions will not limit the Company's access to debt and equity markets. Forward-looking statements in respect of the costs anticipated being associated with the acquisition of oil and gas properties are based upon assumptions that future acquisition costs will not significantly increase from past acquisitions. Many of these factors, expectations and assumptions are based on management's knowledge and experience in the industry and on public disclosure of industry participants and analysts related to anticipated exploration and development programs, the effect of changes to regulatory, taxation and royalty regimes. The Company believes that the material factors, expectations and assumptions reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

Forward-looking statements involving significant risks and uncertainties should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements. The Company cannot assure investors that actual results will be consistent with the forward-looking statements and readers are cautioned not to place undue reliance on them.

The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of the risk factors set forth below and elsewhere in this document; general economic conditions in Canada; changes in the level of capital expenditures, volatility in market prices for oil and natural gas, risks inherent in the Company's ability to acquire any economic interest in certain oil and gas assets and then to generate sufficient cash flow from operations to meet its current and future obligations, the Company's ability to access external sources of debt and equity capital, changes in legislation and the regulatory environment, including uncertainties with respect to uncertainties in weather and temperature affecting the duration of the oilfield drilling activities, competition, sourcing, pricing and availability of oil field services, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel, liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations, credit risk to which the Company is exposed in the conduct of its business, and changes to the royalty regimes applicable to entities.

Although forward-looking statements contained in this MD&A are based upon what the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are expressly qualified by this cautionary statement. Unless otherwise required by law, Karve does not intend, or assume any obligation, to update these forward-looking statements.

BARRELS OF OIL EQUIVALENT

The term referred to herein in respect of barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this MD&A are derived from converting gas to oil in the ratio of six thousand cubic feet to one barrel of oil. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

NON-GAAP MEASUREMENTS

The MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. The reconciliation between cash flow from operating activities and funds flow from operations can be found in the statement of cash flows in the annual financial statements and is presented before the change in non-cash operating working capital. The Company reconciles funds flow from (used for) operations and adjusted funds flow from (used for) operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:

	For the year ended	
($000s)	Dec. 31, 2017	Dec. 31, 2016
Cash flow from continuing operations	14,572	3,971
Change in non-cash working capital from operating activities	16,912	(6,867)
FUNDS FLOW FROM (USED FOR) OPERATIONS	**31,484**	**(2,896)**
Transaction costs	2,016	106
Decommissioning expenditures	945	60
ADJUSTED FUNDS FLOW FROM (USED FOR) OPERATIONS	**34,445**	**(2,730)**

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The MD&A contains other terms such as field netback and adjusted positive working capital which are not recognized measures under IFRS. Management believes these measures are useful supplemental information. Field netback is the amount of revenues received on a per unit of production basis after the royalties, operating costs, and transportation costs are deducted and used to assess profitability on a per boe basis. Adjusted positive working capital represents current assets less current liabilities (excluding derivative assets and current portion decommissioning liability) and is used to assess efficiency, liquidity and the general financial strength of the Company. Adjusted funds flow represents funds flow from (used for operations) excluding transaction costs and decommissioning expenditures and is used to assess cash flows adjusted for non-routine, discretionary expenditures. Readers are cautioned however, that these measures should not be construed as an alternative to other terms such as current and long-term debt or net earnings in accordance with IFRS as measures of performance. The Company's method of calculating these measures may differ from other companies, and accordingly, such measures may not be comparable to measures used by other companies.

CORPORATE INFORMATION

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Karve Energy Inc.

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Independent Businessman

James (Pep) Lough[A C]
Independent Businessman

Steven Smith[A]
Independent Businessman

Daryl Gilbert[R]
JOG Capital Corp.

Dave Pearce[R C]
Azimuth Capital Management

Mitch Putnam[R C]
32 Degrees Capital

OFFICERS
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Derek Kreba
President

Ken McNeill
Executive Vice President, Corporate Development

Shane Helwer
Vice President, Finance & Chief Financial Officer

Silas Ehlers
Vice President, Exploration

Justin Crawford
Vice President, Operations

Clifford Brown
Vice President, Engineering

Sony Gill
Corporate Secretary

[A] Denotes member of the Audit Committee.
[R] Denotes member of the Reserves Committee.
[C] Denotes member of the Compensation Committee.

FOR MORE INFORMATION, PLEASE CONTACT:

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